2015

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Guernsey Financial Services Commission

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

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

CHAIRMAN'S STATEMENT

In 2013, the Commission agreed a three-year plan, which it has been following ever since. It therefore seems right to take stock of where we are, as not many plans survive for more than three years in the current, turbulent environment.

Our plan comprised seven key goals which were to: -

- enhance and maintain good relationships with the government and the business community;
- raise the bar in terms of the Commission's professionalism and performance;
- control our expenses;
- address the backlog in enforcement cases;
- ensure that "business as usual" is conducted to a high standard;
- recruit a new, highly-qualified Director General;
- and, last but not least, maintain a strong team of Commissioners.

Whilst the Commission was established as an independent body and today, more than ever, needs to be demonstrably seen as such, it is important that good relations are maintained with Guernsey's government. That relationship manifests itself through regular contact with the Chief Minister and those Ministers who, together, comprise the Policy Council's Fiscal and Economic Policy Group (FEPG), which is a sub-group of the Policy Council. The Commission also takes part in the regular meetings of the Finance Sector Forum, which includes representatives from government and industry. We also hold regular meetings with the Guernsey International Business Association (GIBA) and other industry and professional bodies.

We put great value on our consultations with industry, generally ensuring that everyone with an interest is able to contribute their views and always considering carefully the contributions we receive which help shape regulatory developments. A good example of this was the consultation the Commission led on the Revision of Laws project where we endeavoured to promote an inclusive approach to how those laws might be most appropriately updated so that the best interests of the Bailiwick can continue to be served. In other policy areas, such as the project for reviewing and updating the Bailiwick's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Handbooks, we have invited government and industry representation on the respective working group and project board.

The Commission's senior management team has been strengthened considerably over the last three years, both through internal promotion and external recruitment. The management team and the individuals who comprise that team are well placed to deal with the many challenges which continue to confront us, both on the regulatory front and elsewhere. Together with the Commissioners, they will continue to ensure that the Bailiwick remains a good place to do business, both for consumers and the industry. In this era of often complex financial products, the Commission continues to focus on consumer protection. However, there is also a gradually increasing realisation that regulation can only take us so far and that greater emphasis on the culture and conduct of firms is required. Boards should be aware of the culture within their firms and ensure it is appropriate. A good culture will lead to good conduct; rules only take you so far in the field of consumer protection.

When I took up my role as Chairman, there was considerable unease about the growth in the Commission's cost base. The Commission therefore committed to cap average fee increases to 2% or less for a three-year period from 2013; we have again limited the average fee increase to 2% for 2016. During that period we took some difficult, but necessary, decisions to reduce our costs, including closing the Commission's defined benefit pension scheme to new accruals and implementing a general pay freeze in 2014.

The past three-years have seen a major effort to increase our effectiveness through the introduction of a new approach to risk-based supervision and by investing more in training for our staff. More recently, the Commission successfully implemented a major IT project which was delivered within budget and is designed to enable firms to access the Commission's services online, allowing for the efficient submission and analysis of information. With the considerable pressure on our management and staff, it was also vital to upgrade the tools available to the Commission's staff to assist them in their daily task of prudential supervision. We completed, during 2015, the roll out of a supervisory tool called PRISM which assists our staff in assessing and addressing risk within firms and helps to ensure a focus on important issues thereby improving the quality of our engagement with firms.

Enforcement action, of course, remains an essential part of a regulator's armoury. The Commission recognises that it is important to strike the right balance between ensuring that, on the one hand, the Bailiwick's regulatory regime is underpinned by an effective and proportionate approach to enforcement, and on the other hand, that good-quality candidates are not deterred from seeking positions in firms as directors and officers. Where appropriate, the Commission will address contraventions or misconduct by agreement with the licensee or individual(s) concerned through ordinary supervisory processes and by endeavouring to agree the implementation of a remedial action plan to restore that licensee or individual to compliance as soon as possible.

Our approach to enforcement has been substantially upgraded since 2013 through, inter alia, the establishment of a dedicated Enforcement Division with prime responsibility for the handling of enforcement cases. The Commission has also increased its legal capability and capacity to handle those cases to the highest legal standards by the introduction, in 2014, of a Panel of leading Queen's Counsel to act as Senior Decision Makers who, individually, hear cases under delegated authority from the Commission. Where a case is proven, the Senior Decision Maker will determine what penalties should be imposed upon the licensee and / or directors including the level of fine to be paid, any period of prohibition from practising in the industry and the contents of any public statement that is to be issued by the Commission. This approach delivers an independent assessment of enforcement cases and has allowed us to substantially address some long-running cases.

Another key part of the plan which Commissioners agreed in 2013, was the requirement to appoint a suitable replacement for the former Director General following his decision to retire. After undertaking an extensive recruitment process, Commissioners were delighted to have been able to appoint a high quality Director General who leads the Commission's Executive team. He has been instrumental in delivering a significant change programme across all aspects of the Commission and in ensuring that the objectives set by Commissioners are met. In doing so, he is adding substantial value to the work of the Commission and the reputation of the Bailiwick as a good place to do business.

Returning to 2015, the Commission completed the delivery of a number of important projects that started their life in earlier years. I merely highlight them here as you will be able to read more about them under the relevant sections of this annual report. The launch of the online services portal in October has facilitated the electronic data transfer between firms and the Commission which will lead to efficiencies. In addition, as mentioned above, the publication of the Revision of Laws Policy Letter, which had strong support from the business community, was approved by the States of Deliberation also in October 2015 and was another important milestone for the Bailiwick. The Commission is now working with the Law Officers on drafting the detailed legislation which will underpin the Bailiwick's regulatory regime and should ensure we are well placed for the next visit of the International Monetary Fund (IMF).

A major effort was made in 2014 and 2015 by many within industry, government and the Commission, to ensure a good outcome for the Bailiwick following the periodic Moneyval visit in October 2014, when they looked at the Bailiwick's AML/CFT legislative regime, policies and practices. The Commission was pleased to note a satisfactory outcome as set out in Moneyval's report.

In my address to the annual conference last November, I spoke at some length about the forthcoming IMF visit. This will require diligent preparation by all parties involved - the Commission, government and industry. We do have some time to prepare and we must use it well. We are also looking forward to assisting government in undertaking a financial crime-focused National Risk Assessment for the Bailiwick.

Having reviewed the goals the Commission set itself, Commissioners thought it appropriate to undergo an independent board evaluation by a well-qualified outside body to assess its effectiveness and to ensure that we are in the best possible shape to face the future with confidence. The principal observation made by the reviewers was *"We conclude that the Guernsey Financial Services Commission is a well led, organised, and functioning regulatory body whose governance is appropriate to its circumstances."* In 2016, the Commission will be undertaking a wider effectiveness review against international regulatory standards and we will appoint an independent expert in this field to ensure the findings are robust.

Commissioners have again demanded a great deal from management and staff and they have not disappointed us. I thank them for that. I would also take this opportunity to express my gratitude to my fellow Commissioners who have continued to work diligently in the interests of the Bailiwick. Commissioner Susie Farnon retired as our Vice-Chairman in March 2015 and, after a thorough selection process involving government, I was delighted to be able to welcome Wendy Dorey as our new Commissioner.

In 2016, it is anticipated that government will enact new legislation which will allow for an increase in the number of Commissioners thereby providing a better platform for succession planning. It is expected that the number of Commissioners will fluctuate between six and nine over the next few years as current Commissioners decide to retire and we look to replace them in a structured manner. This should allow for knowledge transfer and a smooth transition.

There is always more to be done, but the Commission is now better equipped to deal with the issues that will be coming our way.

Cees Schrauwers
Chairman

DIRECTOR GENERAL'S STATEMENT

Activities in 2015

2015 was a year of organisational consolidation for the Commission, a year which saw us embedding previous reforms rather than embarking on fresh organisation restructuring at the executive level.

That there has not been radical organisational change at the Commission does not mean to say that there was not an evolution at an operational level. July saw the on-time and on-budget delivery of the second major part of the PRISM supervisory system giving us enhanced capabilities in areas such as thematic reviews. Alongside that, our new online returns system saw a fourth quarter launch for most returns. As this system is populated by firms, it will automatically feed data into PRISM, giving supervisors a far more accessible and quantitative overview of each firm and each peer group of firms than has heretofore been possible, thereby enhancing the effectiveness of our supervision.

At a board level, we were sorry to say goodbye to our Vice-Chairman, Susie Farnon, who retired after nine years' service - I much appreciate the huge amount of support she extended to me and my family as we moved to the island. We have been delighted to welcome her replacement, Wendy Dorey, who brings with her a strong background in the funds industry and sense of entrepreneurship from her own business.

Outside of the Commission, we were pleased to see the establishment of the Channel Islands Financial Ombudsman, which is becoming a key partner for us in our consumer protection work. We look forward to continuing to develop a close working relationship during 2016.

PRISM, as I have said before, is not a panacea. The Commission does not seek to run a zero-failure regime - partly because the financial cost 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 for firms 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 averse fashion which would ultimately ensure little other than the impoverishment of the people of the Bailiwick as the financial services 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 can nip more problems in the bud and that those which do arise are, statistically speaking, less frequent and less severe than they might have been were we not using a risk-based system of supervision. Our supervisors are supported in their work by a risk team which is developing analytical approaches to assist with data analysis.

As I write this report in January 2016, the fall in the price of commodities and the recent downwards trend of the main Chinese stock markets, act as a reminder that financial stability is never something about which we can afford to become complacent. Nevertheless, we now have some of the tools in place to make ongoing monitoring of financial stability risks easier. On that same theme, we have been in discussion with the States about the establishment of a Financial Stability Committee as we feel certain that this is something that the IMF will wish to discuss during its next evaluation. The Committee's remit would include contributing to the identification, understanding, monitoring and addressing of systemic risks to the stability of the Bailiwick's financial system. It would also contribute, as appropriate, to the identification, understanding, monitoring and addressing of systemic risks by the Bailiwick's financial system to the financial system outside of the Bailiwick.

Supervision is a very large part of our work and it remains our strong preference to deal with issues at firms through remedial action overseen by firms' boards and our supervisors. Nevertheless, for reasons of fairness and deterrence as well as the rule of law, it is imperative that we take action against firms where there have been serious transgressions of the law.

This year, our Enforcement Division has taken forward a number of cases as well as activity in the Royal Court designed to protect investors. We have taken action against individuals for investment management of an unacceptably low standard and against fiduciaries who have committed serious breaches of the law in relation to anti-money laundering and counter-terrorist finance controls. We have also taken action against intermediaries whose conduct towards their customers was unacceptable. Thankfully, those individuals and firms are the exception, not the rule, in the Bailiwick, but their activity or, in some cases, lack of competent activity, undermines the reputation of the Bailiwick and endangers the prosperity of the vast majority of those employed within the financial services industry who seek to follow the law and conduct their businesses with both competence and integrity.

The Commissioners and I are well aware that there are some people in the Bailiwick who think that we have been, in some way, unkind or unreasonable in taking robust enforcement action. We would merely ask them to reflect on whether they would really wish to live in a society which did not support the rule of law. We think stopping people laundering money, exploiting vulnerable citizens and abusing investors' trust is important. We hope, on reflection, they do too.

We take great care to ensure that only serious enforcement cases are progressed. We have little appetite and lack the resources to take forward cases relating to minor things - these are much better dealt with through supervisory action, assuming we are dealing with a co-operative firm which wants to obey the law. When we take cases forward, we are evidence-based and we will halt a case or reconsider the proposed sanctions if new evidence comes to light which shows us that our initial understanding of matters was incorrect. What we will not do is give up in the face of threats from firms or their legal representatives even if that involves our staff being on the receiving end of abusive letters or defence tactics which we regard as inappropriate. We expect litigators to defend their clients robustly and professionally and in doing so to focus upon the case and the issues we have raised rather than seeking to break the process.

Turning from enforcement to policy development and working with our counterparts in industry and the States, we have had a busy year. Key achievements include:-

- the European Securities and Markets Authority recommending to the European Commission in July, on account of our regulatory strengths, that the Bailiwick should receive an Alternative Investment Fund Managers Directive (AIFMD) passport giving access to the European Single Market for alternative investments;
- the development of the Revision of Laws project - designed to simplify and modernise the Bailiwick's regulatory laws - with the States passing the Policy Letter in October;
- implementation of reformed Retirement Annuity Trust Scheme rules designed to help facilitate lower-cost pension provision in the Bailiwick;
- publication of guidance on the regulation and supervision of captive insurers by the International Association of Insurance Supervisors (IAIS), the Bailiwick having chaired the working group which developed the guidance;
- finishing implementing the Guernsey Financial Advice Standards and publishing new guidance for retail consumers on our website;
- implementation of a new and proportionate risk-based capital regime for the insurance industry ahead of implementation of Solvency II in the European Union; and
- publishing our plans for the implementation of the global Basel III banking solvency standards.

In addition to this policy development, we have continued to work internationally with IAIS, the International Organisation of Securities Commissions (IOSCO), the Financial Crime Action Task Force (FATF), the Group of International Finance Centre Supervisors (GIFCS) (where we chair the Trustee and Company Service Provider Standard development group), the Group of International Insurance Centre Supervisors (GIICS), the European Supervisory Agencies and our British counterparts. We also seconded another Commission officer, on a part-time basis, to the Channel Islands Brussels Office (CIBO) where he has developed a submission on behalf of the Channel Islands relating to the EU's Capital Market Union.

On a bilateral basis, we have provided technical assistance in Malawi, Nevis, the Cook Islands and Turkey. The Commonwealth Secretariat and the European Union have provided funding for much of this valuable work which helps build the Bailiwick's reputation as a valued member of the international financial community as well as helping ensure that other jurisdictions meet the same high standards as the Bailiwick. We have also, of course, been heavily involved with Moneyval where our efforts, and those of other authorities within the Bailiwick and industry, have resulted in an unusually good assessment result - thereby providing evidence that the Bailiwick's defences against terrorism financing and money laundering are robust.

Financial Results

Financial results should not be the primary metric by which a regulator is assessed, nevertheless our financial results for 2015 were satisfactory. We recorded a surplus of over £900,000 following robust revenues where new application income largely offset reductions in income from firms discontinuing their licences. The reasons for this benign outcome include:-

- deciding, on the basis that the functionality of other parts of the Sentinel programme was greater than originally anticipated, to discontinue the planned data warehouse project;
- running with fewer staff than full complement for most of the year;
- income from financial penalties of £250,000;
- underspending our professional services budget by a considerable amount.

Against this good operational result, accounting changes forced upon us by Financial Reporting Standard (FRS) 102 have increased the pension expenses to £409,000 and £359,000 in 2014 and 2015 respectively. However, the impact on the pension deficit is neutral. The other actuarial assumptions made around the, now closed, States-controlled final salary pension scheme have, for once, moved in our favour thereby reducing the size of our pension deficit from £10 million to £8.8 million. Whilst we have taken all reasonable management actions to control the growth of this balance sheet deficit, we must expect that it will fluctuate from year to year given inevitable volatility in market valuations and actuarial assumptions.

Looking ahead, we have seen a number of our high-calibre staff hired by industry in recent months which indicates that industry pay levels for those with regulatory skills are buoyant. This is likely to put upwards pressure on our pay going forwards as our staff turnover rate for 2015, whilst tolerable, was at the upper end of what I and the Commissioners consider acceptable without operational performance being imperilled. Partly to contain this emerging cost pressure, we implemented a reformed appraisal process in 2015 with there being no across-the-board pay rise at the beginning of 2016 as a result of this process. Rather, pay rises were targeted at those whose pay did not equate sufficiently to their performance over the year. We plan to continue this approach in 2016, using a combination of pay and modest end-of-year bonuses to reward staff. We will also continue to put energy into other tools such as continuing professional developments, for all our staff.

2016 Objectives and Challenges

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 continue to work in 2016 to deliver six high level objectives:

(a) 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, developing on line submissions and our data analysis capability. It also includes our work to support innovative authorisation applications as well as meeting our service standards when processing applications; conduct issues - including for customers outside the Bailiwick - are increasingly coming to the fore as an integral part of the Commission's everyday supervisory approach, alongside prudential regulation, in co-operation with the new Channel Islands Financial Ombudsman.

(b) Delivering high-quality regulatory policy. Looking ahead, we have a very busy policy agenda which will include assisting with the legal drafting, and planning the implementation of, the Revision of Laws following its approval by the States in October; developing lending and credit legislation to replace the Non-Regulated Financial Services Business Law; working with the States to develop a banking resolution regime for the Bailiwick; continued work on AIFMD passporting; preparatory work on Markets in Financial Instruments Directive II (MiFID II) and Markets in Financial Instruments Regulation (MiFIR) equivalence although this should be able to proceed at a slower pace following the European Union's decision to delay EU implementation until 2018; and a continued contribution to the EU's Capital Market Union programme from the perspective of the Channel Islands.

In addition to this we will also need to consider what changes we need to make to our regime in the light of the recommendations that Moneyval made in its assessment report. It is possible that this work may be merged to some degree with the work we will be undertaking, alongside other authorities in the States, on a National Risk Assessment for the Bailiwick, something we have to develop in order to be compliant with the 2012 FATF standards which have become the international minimum standard for anti-money laundering and counter-terrorist financing. We hope, where possible, to build on and recycle the work which was done to prepare for Moneyval in undertaking this financial crime-focused National Risk Assessment although it is likely that we will be seeking further contributions from industry as this project proceeds.

(c) Delivering targeted risk-based enforcement. We will seek to ensure that our enforcement activity covers key areas of risk where we discover unacceptable practices.

(d) Protecting and enhancing the Bailiwick's reputation and influence. This involves both our international engagement, working alongside CIBO, the States and the Jersey Financial Services Commission (JFSC) in a European and UK context, and with international regulatory organisations such as IOSCO, GIFCS, the IAIS and GIICS. Clearly, 2016 will see elections for the States and we look forward to working with all those elected.

(e) 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.

(f) Developing staff. This is concerned with recruiting, developing and retaining our staff and ensuring they are well managed.

In terms of the political and economic outlook outside of the Bailiwick, the referendum on whether the UK should leave the EU is probably the most pertinent matter because of the impact it might have on the UK and on ourselves were it to happen. We will track developments closely but will continue to work on the assumption that the UK remains a member state of the EU because we have limited policy resources and a large amount of EU equivalence-related work to undertake where the Bailiwick would be disadvantaged were we to abandon such work on the basis that it might be less useful if the UK left. Further to this, any majority for leaving the EU would merely trigger exit negotiations which would take some time. Were that to occur, we would reassess our policy priorities in short order but we believe we would have sufficient reaction time during any UK exit negotiations to assist the States in securing acceptable continuing terms of trade for our financial services sector from both the UK and EU - both of which would remain valuable strategic and commercial partners.

Further afield, we will continue to work alongside Guernsey Finance to help ensure that those considering investing in the Bailiwick understand the nature of its high-quality regulatory regime. We will also keep an eye on the global economic climate. We will leave predictions to bodies such as the IMF with rather more macro-economists than us but the global political and economic outlook appears, at the time of writing, to be more uncertain than this time last year with there being considerable downside risks. We would urge all firms in the Bailiwick to keep a weather eye on global economic and political developments rather than assuming we will be entirely insulated from them.

William Mason
Director General

Supervision

During 2015, our engagement with High, Medium High and Medium Low impact firms led to us undertaking full risk assessments on 11 firms and holding engagement meetings with 22 different firms. Our engagement with Low impact firms was conducted through the notification regime and reacting as required to events occurring at those firms.

In addition, in early October, the Division commenced its first thematic review looking at the oversight of alternative custody arrangements of open-ended authorised schemes. The Commission has adopted a flexible approach to the application of the Authorised Collective Investment Schemes (Class B) Rules, 2013 and the Collective Investment Schemes (Qualifying Professional Investors Funds) (Class Q) Rules for schemes with certain asset classes and investor types. The review looked in more detail at those instances where waivers had been issued in respect of custody arrangements, for example, where prime brokers or other non-Guernsey custodians have been appointed. In order to issue such waivers, the Commission relied on attestations made by parties to the schemes in respect of the oversight of the alternative custodian and the duties of oversight of the scheme's manager that the rules require. The Commission sought to ascertain that the waivers issued work in practice and effective oversight is executed such that there is no increased risk to investors.

At the time of writing the responses received are being compiled into a report for publication in due course.

Last year we reported on the restructuring of the Division to reflect the then new PRISM impact categories relating to supervised firms and products. Over 2015, the structure of the Division continued to evolve, with a major change in April, when responsibility for the processing of applications for new business moved over to the Authorisations Unit together with two members of the Division. However, the Division is still very much available to speak to applicants or to accompany our colleagues in the Authorisations Unit to meetings with new promoters or indeed to consider new policy questions arising as part of the application process. This connection and collaboration between the two teams is crucial for ensuring we are correctly forming policies and delivering consistency.

Policy

As was the case in 2014, the European Union continued to be an area of major focus throughout 2015. Unsurprisingly, the Alternative Investment Fund Managers Directive (AIFMD), the Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (MiFID II), formed the most significant components of our engagement with the EU Commission and the European Supervisory and Markets Authority (ESMA). We also focused attention on the EU's Capital Market Union with the Division contributing to the Channel Islands Brussels Office's response to the European Commission's Consultation Document on the Review of the European Venture Capital Funds (EuVECA) and the European Social Entrepreneurship Funds (EuSEF) Regulations.

For some time now, the Commission has been working hard to ensure that the Bailiwick's AIFMD regime is well placed particularly with regard to the application of the AIFMD passport. The Commission was therefore pleased to note the successful culmination of that work in the "Advice" which was published by ESMA in July 2015 in relation to the application of the AIFMD passport to non-EU Alternative Investment Fund Managers (AIFMs) and Alternative Investment Funds (AIFs) and its "Opinion" on the functioning of the passport for EU AIFMs and the national private placement regimes (NPPRs). The Advice related to the possible extension of the passport, currently only available to EU entities, to non-EU AIFMs and AIFs which are currently subject to EU NPPRs. ESMA conducted a country-by-country assessment, as this allowed it flexibility to take into account the different circumstances of each non-EU jurisdiction regarding the regulatory issues to be considered i.e. investor protection, competition, potential market disruption and the monitoring of systemic risk.

Of particular note is that the Advice concluded that no obstacles exist to the extension of the passport to Guernsey and Jersey, while Switzerland will remove any remaining obstacles with the enactment of pending legislation. The Advice and Opinion, required under AIFMD, were then considered by the EU's

Commission, Parliament and Council to allow them to decide whether to activate the relevant provision in the AIFMD thereby extending the passport through a Delegated Act. However, ESMA suggested that the EU institutions may wish to consider waiting until it has delivered positive advice on a sufficient number of non-EU countries before introducing the passport, in order to avoid any adverse market impact that a decision to extend the passport to only a few non-EU countries might have.

In the autumn of 2015, we learnt from the scrutiny session held by the European Committee on Economic and Monetary Affairs with Steven Maijoor of ESMA and Sven Gentner of Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), that the Commission had given ESMA until 31 March 2016 to complete the first wave of assessments along with a second wave of a further six jurisdictions. On 17 December 2015, the European Commission responded to ESMA's opinion and advice on the AIFMD passport and, as a result, we were contacted in early 2016 by ESMA to provide further information on the effectiveness of our enforcement regime and the expected inflows of funds in the EU should Guernsey be granted a passport. We will continue to work with ESMA and other EU bodies on these matters in the first half of 2016.

During 2015, we continued with our work around the jurisdiction's response to MiFID II working with government, the Channel Islands Brussels Office and representatives of local regulated firms on the Bailiwick's response. We also responded to HM Treasury's consultation on the Transposition of MIFID II, which sought views on Article 39 of the Directive. This provides that a Member State *"may require that a third country firm [non-EEA firm] intending to provide investment services or perform investment activities to retail clients or to professional clients... in its territory, establish a branch in that Member State".* HM Treasury has yet to publish its conclusions.

ESMA issued its Draft Regulatory and Implementing Technical Standards for MiFID II/MiFIR on 28 September 2015. ESMA also wrote to the EU Commission about its difficulties in meeting the timetable for the work plan. In early 2016, more clarity was provided with a confirmed extension of the application date by one year to 1 January 2018. Despite the known likelihood of a delay and ongoing uncertainty throughout 2015, we continued to focus on planning for the more proactive approach to the regulation of relevant entities which will be required, together with the likely legislative and rule changes, to reflect equivalence considerations for professional investor business.

On 1 January 2015, the Commission's rules and codes in respect of the Guernsey Financial Advice Standards (GFAS) came into effect. Throughout 2015, we continued to work with industry to prepare for the introduction of the requirement for advisors to be appropriately qualified by the end of the year.

Finally, we continued to participate in the International Organisation of Securities Commissions' (IOSCO) Standing Committee 4 on Enforcement and the Exchange of Information and IOSCO's Multilateral Memorandum of Understanding Screening Group, attending three meetings in 2015. Our participation included contributing to the publication, in June 2015, of IOSCO's paper on "Credible Deterrence In the Enforcement of Securities Regulation". This, together with our wider involvement, has helped to develop the Bailiwick's reputation as a meaningful contributor to investment firm regulation issues.

Risk Outlook

ESMA's recommendation for Guernsey to be extended a third-country passport appears to have been interpreted as a green light by the industry with closed ended fund applications seeing a marked increase through the last quarter of 2015.

We will continue to work with industry to ensure that the Guernsey funds structures evolve appropriately and that they are well understood by those seeking to establish funds.

In the current low interest rate environment, the pressure on the wealth management industry to find a reasonable return for their clients may lead to the use of products with higher risk premiums. The Commission will therefore continue to monitor the use of those products to ensure that the risks are suitable for the target market. The Commission will also continue to insist on sufficient disclosure of risk.

Emma Bailey
Director

FIDUCIARY SUPERVISION POLICY AND INNOVATIONS

Supervision

The Fiduciary Supervision Policy and Innovations Division (the Division) supervises 153 full fiduciary licensees, 35 personal fiduciary licensees and 40 Non-Regulated Financial Services Businesses (NRFSBs). Government statistics as at 30 September 2015 highlight that there were 31,869 people employed in Guernsey, of whom just over 10% work in the fiduciary sector.

The Division conducted 21 separate visits to licensees in 2015. These PRISM visits enabled the Division to target its limited resources on licensees' business models, understand their core issues/risks and work together to mitigate potential risks before they crystallise. Generally, themes from our 2015 visits mirror those highlighted in our 2014 Annual Report. Risk Mitigation Programmes (where required) frequently centre around Governance risk, Conduct risk, Operational risk, Insurance risk or Financial Crime risk. Deploying a risk-based approach to supervision, through PRISM (including Key Risk Indicators KRIs), will continue to be a theme in 2016 and beyond.

Our 2015 Thematic review entitled *"Fiduciary decision making in respect of assets under trust"*, specifically sought to explore a key area of responsibility for trustees and a common theme of complaints to us (oversight of assets). The Division issued a questionnaire to all full fiduciary licensees and undertook an analysis of the responses received. This analysis, together with the findings from the eight thematic site visits, resulted in a report, which has been published on our website. The report recognises that some areas for improvement remain, however, it also includes examples of good practice such as well-designed risk profiling and investment-monitoring systems. We commend the report to all of our licensees.

In 2015, we worked with colleagues in the Financial Crime and Enforcement Divisions to take robust action against those few fiduciaries guilty of serious breaches of the law. We would encourage all firms to read the public statements on our website to understand why we took actions. However, in our experience, the vast majority of our licensees are reputable businesses operating compliantly who epitomise why the Bailiwick is a leading international centre of expertise for Trust and Corporate Service Provider (TCSP) business.

The Division works hard to maintain its constructive relationship and open communications with industry and this year we implemented a new initiative - the fiduciary 'drop in' breakfast. During 2015, we held three of these sessions between local fiduciary licensees and staff of the entire Division. They were informal in nature, with no prescribed agenda, and proved to be successful occasions to 'put faces to names', discuss fiduciary trends, understand the challenges our local firms face and share details of what we, as a Division, are focused on. We plan to continue these events on a quarterly basis in 2016.

In common with colleagues across the Commission, we welcomed the launch of the online submissions portal and are grateful to the firms and individuals who assisted with its testing. The Division has built a number of KRIs into the system which will automate alerts following the submission of licensees' Annual Returns and Financial Statements.

Policy

To foster innovation, stakeholder engagement remained high on our agenda throughout the year. The Division represents the Commission as a member of government's Fintech and Digital Oversight Group (FDOG) which convened its first meeting on 7 October 2015 and includes representatives of industry. This forum serves to identify, develop and promote the Bailiwick as a leading jurisdiction for Fintech and digital businesses.

The topics of innovation and Non-Regulated Financial Services Businesses (NRFSB) are undoubtedly related. The NRFSB Law has been typically engaged by "innovative" applications where the proposals do not fall within one of the existing legislative regimes. The Commission remains committed to ensuring that we help to strengthen the Bailiwick's position in respect of innovative business and consumer protection. We have therefore allocated resources in the Division to this important area, focusing attention on developing tools and signposting for potential applicants. In addition, we have invested considerable senior management time in meeting prospective businesses to ensure a clear, consistent and open approach.

Following the launch in October 2014 of the Group of International Finance Centre Supervisors' (GIFCS) Standard ("the Standard") on the regulation of Trust and Corporate Service Providers (TCSPs), the Commission has been working to ensure that, firstly, the Bailiwick's Fiduciary regulations meet this international benchmark, and secondly, that the Standard gains international momentum. As highlighted in our 2014 Annual Report, minor changes identified from our internal gap analysis are being taken forward as part of our Revision of Laws project to enable us to demonstrate compliance with the Standard. In 2015, we have been actively involved in the international forum by drafting a questionnaire on the Standard and leading an exercise to self-assess compliance with it. We expect to continue building momentum in 2016 which we consider is important for our reputation and to reinforce our position as a leading trust jurisdiction.

The revised Retirement Annuity Trust Scheme (RATS) Rules came into force on 31 December 2015. The objective was to reduce the cost of pension provision for Islanders whilst opening up opportunities for the development of self-invested pensions.

2015 also laid the foundation for our future NRFSB policy work. Questionnaires were sent to all the NRFSB firms in the Bailiwick (a population of firms not routinely required to submit data to the Commission). The responses received enabled us to develop a far clearer picture of their activities, to analyse more fully the risks posed by these firms and to determine the appropriateness of the existing legislation. It became apparent that lending activity was dominant within the NRFSB population and, in this respect, the Division has started exploring the possibility of introducing a consumer credit legislative framework for the Bailiwick.

Following the questionnaire survey and as a result of subsequent correspondence with registered NRFSBs, 22 firms de-registered, leaving 36 registered firms. During the year seven new firms became registered and there were three further de-registrations; thus a total of 40 firms currently operate under the NRFSB regime.

Risk Outlook

From data available to the Commission, we observe a sector whose performance, given testing global conditions, remains robust. There are a significant number of fiduciary licensees with healthy turnover and profits and it remains a sector which provides a significant contribution to the Bailiwick's revenue and employs a meaningful percentage of the local population. The competitive environment continues to drive pressures on resources; difficulties in talent retention is a common theme. Consolidation within the sector remains a theme however, whilst it is unwise to generalise too far, we do not consider this to be reducing the substance of fiduciary business in the Bailiwick at present.

New business continues to be drawn internationally, including from China, the Middle East and Asia. Where new business is developed from higher risk jurisdictions, we expect firms to apply a risk-based approach and ensure appropriate and robust AML/CFT arrangements are maintained.

As referred to above, thematically our supervisory activities have resulted in risk mitigation actions mainly focused on Governance risk, Conduct risk, Operational risk, Insurance risk or Financial Crime risk. Going forward, one of the main challenges for the sector continues to be Environmental risk. The global tax narrative, initiatives and legislation continue to pose a challenge to our licensees. Domestically, we have witnessed a number of recent litigation cases arising against licensees as a result of poor or poorly timed tax advice and remedial actions. The measures to rectify the issues may be more costly than having appropriate systems in place as a preventive measure.

The Division will identify its annual thematic topic from a list of current 'hot topics'. As set out in our 2015 Industry Presentation, the potential 2016 thematic topics are: fiduciary duty in respect of tax advice, outsourcing, client money, financial resources requirements, RATS or client take-on.

Our primary objectives for 2016 remain: to execute high-quality risk-based prudential, financial crime and conduct regulation and to deliver high-quality regulatory policy. This we will seek to achieve in collaboration with industry to ensure robust yet pragmatic regulation.

Gillian Browning
Director

Supervision

In its end-2015 economic report, the International Association of Insurance Supervisors (IAIS) summarised the year as benign. The insurance sector generally functioned well, with high capital levels, stable profitability and ongoing inflows of additional capital. Investment yields on the asset side reduced, but only marginally. One feature is that more than 10% of the global reinsurance sector was involved in Mergers and Acquisitions, prompted in part by the pressures resulting from the entrance of alternative capital sources.

In the Bailiwick, 2015 aggregate figures are unavailable, given that many firms have an end-December year-end and do not report until the end of the first quarter of 2016. However, in 2014, gross assets stood at £23.7bn (£22.9bn in 2013), net worth at £11.6bn (10.4bn in 2013), and premiums at £4.9bn (£4.8bn in 2013). 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, after nominal numbers are inflation-adjusted.

In terms of the number of insurers, international insurer licences increased marginally from 797 in 2014 to 804 in 2015. Protected Cell Company (PCC) cells remained the most prominent form of licence, accounting for 55% of all international insurers. A specific highlight was some growth in the general reinsurance sector, albeit from a low base.

As in previous years, in 2015 the domestic Bailiwick market remained stable in terms of licences. In 2015, there were eight licensed domestic insurers dealing with local requirements; the same number as in 2014. There were 19 authorised managers serving the captive market compared to 20 in 2014; with one new authorisation and two surrenders.

Amongst certain recurring themes in insurance supervision in 2015, were key man risk, group outsourcing and the impact of technology on business models.

In 2015, the Commission carried out a thematic review of insurance managers' client take-on procedures. The findings generally revealed good practice although, amongst other pieces of advice, firms were urged not to assume, when a client wishes to switch managers, that the client has no problems, just because he is licensed.

Policy

2015 was a busy year internationally. The Commission was active in supporting an Application paper on captive regulation that was formally adopted in November 2015 by the International Association of Insurance Supervisors (IAIS). The Commission also contributed to IAIS through membership of its Executive Committee and Technical Committee as well as chairmanship of its Audit and Risk Committee. The Commission continued to chair the Group of International Insurance Centre Supervisors (GIICS) and supported its training events in Asia and the Caribbean. The Commission, funded by the Commonwealth Secretariat, supported the development of insurance regulation in the Cook Islands. Finally, the Commission continued to self-assess itself against the Insurance Core Principles, on a timeline set by IAIS.

In May 2015, the Commission implemented its new risk-based approach to solvency, in the wake of extensive and fruitful co-operation with the local insurance industry. The launch was accompanied by further industry training. Since then implementation has gone well, although several firms are still in the process of categorisation. Inevitably, some minor queries have emerged over the period and these will be addressed in the solvency spreadsheet and in new FAQs in 2016.

Risk Outlook

For 2016, Bailiwick insurers need to beware of three risks. First, is the state of the Insurance-Linked Securities (ILS) sector. Investors continue to find the sector attractive, leading in 2015 for example, to longer maturities. In the event of a correction in this sector (for example global catastrophe losses in 2015 were only $23bn compared to a ten-year annual average of $55bn), it is important that direct retail investors are not involved. Second, the search for yield needs to be offset with a view that 2016 may result in a correction of current asset values. Third, the increasing regulatory and societal focus on conduct of business issues, with the aim that retail policy holders get a fair deal, will increasingly bring this area under the spotlight.

Jeremy Quick
Director

Supervision

Although global growth is projected at 3.1% by the IMF, global economic activity remained subdued in 2015. Whilst recovery continued in advanced economies, growth in emerging and developing economies reduced for the fifth consecutive year. The year was dominated by a slowdown and re-balancing of the Chinese economy, significantly lower oil and commodity prices and a tightening of US monetary policy.

As at the end of September 2015 (latest available figures), total liabilities of Bailiwick banks stood at £105bn compared to £107bn a year earlier. However, the best indicator of the size and health of the Bailiwick banking sector is third party deposits, that is deposits other than from banks. This figure, at end September 2015, had fallen to £39bn from £41bn a year previously. Over the same period, full-time equivalent staff fell from 1,515 to 1,488. Two banks with a limited presence in the Bailiwick closed, bringing the number of banks present at the end of December 2015 to 29. These figures suggest that the Bailiwick's banking sector has experienced a modest contraction.

During 2015, the Commission paid particular attention to credit risk exposure (concentrated in the central London area) and to conduct of business issues. Common issues emerged concerning intra-group outsourcing and the effective communication of bank policies and procedures to staff.

Policy

In 2015, the Commission set out its implementation of Basel III capital adequacy and leverage. This requires a minimum regulatory capital ratio in Pillar 1 of 10.5% and at least 0.5% in Pillar 2. All banks will move to this new approach in 2016. A leverage ratio will be used as a risk indicator in Pillar 2.

All three Crown Dependency regulators issued, in 2015, a Discussion Paper on Basel III liquidity. Feedback will be provided in 2016.

The Commission has also been active during 2015 in supporting the Guernsey government as it considers the issue of bank resolution. The Commission is also preparing to play a role in the Bailiwick's forthcoming participation in the Single European Payments Area (SEPA).

In the course of 2015, the Commission has been active internationally, attending regulatory colleges and meetings of the Group of International Finance Centre Supervisors (GIFCS).

Risk Outlook

In global terms, risks are tilted towards the downside for 2016 with continued contraction in the developing world, China's rebalancing, adjustments around lower commodity prices and a potentially less accommodative monetary stance in the USA.

Bailiwick banks should take account, in particular, of a potential general decline in asset prices and, second, the possible knock-on effect on the central London residential and commercial property market.

Jeremy Quick
Director

CONDUCT UNIT

2015 saw the final implementation of the Guernsey Financial Advice Standards (GFAS), with all relevant Financial Advisers needing to be qualified to level 4 standard by end year. The Commission was pleased to note that the vast majority of Financial Advisers were able to meet the level 4 standard and hence continue to provide advice. GFAS, combined with the Commission's thematic work on the long-term life insurance intermediary sector, should result in a material improvement in the quality of long-term life insurance advice given in the Bailiwick.

There were 34 licensed insurance intermediaries at the end of 2015 dealing with local and specialised requirements covering both life and general insurance compared to 38 at the end of the previous year. The decline in number was, in part, a result of regulatory activity.

As part of its commitment to intermediaries, the Commission hosted a one day seminar for Financial Advisers, accessing several off-island speakers for the event. Feedback on this seminar was positive.

At the beginning of 2015, the Commission wrote to all general insurance intermediaries about the sale of general insurance add-ons. During the year, the Commission conducted a thematic on general insurance sales practices. As the result of this thematic, during 2016 the Commission will issue specific directions to the industry on add-on sales.

In 2015, the Commission launched a 'Consumers' section on its website. This section is designed for use primarily by the retail public. It explains general financial terms, sets out the key elements of the local financial sector, gives tips on, for example, how to make an insurance claim, and references hyper-links to other useful sites such as the Guernsey Citizens Advice Bureau.

During the year, Commission staff co-operated with other stakeholders in the public and private sectors. For example, the Commission was one signatory to a 'Stop the Scam' leaflet delivered to all Bailiwick households. The Conduct Unit also helped the Commission interface with the new Channel Islands Financial Ombudsman, which began operations in November 2015.

Looking ahead the Consumer Unit will play its part in developing the Commission's views on the desirability of consumer loan regulation.

Risk Outlook

Guernsey insurance intermediaries in the Bailiwick need to continue to pay particular attention to the need to treat customers fairly, which means being transparent about charges, clear in the coverage of each policy and balanced when dealing with complaints. As 2016 may see a general fall in asset prices, Financial Advisors need to manage consumer expectation and risk appetite with care, given that yields in 'safe' assets are likely to below.

Jeremy Quick
Director

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Supervision

During 2015, the Financial Crime Supervision and Policy Division continued to develop the supervisory tools at its disposal to assist it in assessing the financial crime risks within the firms the Commission supervises. Those developments saw the introduction of an annual return from all firms and the commencement of a programme of meetings with the compliance and risk management representatives of the Bailiwick's larger firms, to review controls, alongside our traditional programme of onsite visits.

Both initiatives bring supervisory benefits. Data from the return provides a platform from which we can apply a consistent baseline level of financial crime monitoring, largely automated, of key data from all firms subject to Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT) supervision, which will also signal whether there have been significant changes in the financial crime risk profile of a firm. The commencement of periodic meetings with the compliance and money laundering reporting officers of larger firms has provided an opportunity to take the temperature on how well a firm is managing its inherent financial crime risks in between our more detailed onsite analysis of how effective its policies, procedures and controls are, in practice, to contain and manage those risks.

The Division recognised it would need assistance from industry on the development of appropriate guidance for a return which would apply to all firms and was grateful for the help we received from many industry representatives. As is the case with the introduction of any new process, we did not anticipate things going entirely smoothly and therefore, during 2016, with the benefit of a year's experience behind us, the Division will be considering what enhancements can be made to the guidance around the return. This will be done in good time for the submission of the 2016 returns which will be requested by 30 October for all firms, with the data being submitted at that point covering the period 1 July 2015 to 30 June 2016.

Our 2015 themed work focused on firms' provision of financial crime training to their directors and staff. This involved 62 firms across the various sectors which, together, employ 2,500 of c.6,000 people employed in the Bailiwick's financial services industry. These firms participated in a detailed survey regarding their training policies and procedures which was followed by focused onsite visits to a number of those firms. General findings will be published in 2016.

The Division made a small number of referrals in 2015 to the Enforcement Division after identifying significant systemic failings in the firms concerned. In particular, in one firm the failings were similar to issues which had been previously raised by the Commission indicating little desire by the firm to make the fundamental changes to its business which it had been advised to make.

Referral to the Enforcement Division is only pursued where it is felt that the deficiencies in a firm are so serious that it would not be appropriate to address them solely through the application of enhanced supervisory measures. Supervisory measures can include the appointment of an independent expert to review a firm or the use of licence or registration conditions to impose requirements to remediate – all of which the Division has previously utilised. Fortunately, in most cases requiring remediation, the Division found that the firms had already identified, and were committed to addressing, the issues or were willing to embrace the measures which had been proposed by the Division.

Policy

Throughout 2013 and much of 2014, the Commission worked hard to prepare thoroughly for the visit of the Moneyval assessors. On 15 January 2016, we saw the conclusion of the Moneyval evaluation with the publication of its report on the Bailiwick's AML/CFT controls. The Commission was pleased to note the extremely positive comments contained in the report which reflected well upon our preparations and those of the Bailiwick's other agencies as well as industry. Moneyval's conclusions, after a comprehensive and lengthy assessment over the last two years, included findings that: -

- there were strong AML/CFT measures in place which were effectively implemented by firms;
- supervision of firms was effective;
- the Bailiwick's agencies and firms were highly competent, knowledgeable and aware of their AML/CFT obligations; and
- substantial resources were dedicated to putting the AML/CFT framework into practice.

The Bailiwick was assessed by Moneyval against 25 of the 49 Recommendations for combating money laundering and terrorist financing issued in 2003 by the Financial Action Task Force. It was found fully compliant with 13 recommendations, largely compliant with 11 recommendations and partially compliant against one recommendation.

Moneyval proposed a number of measures to address deficiencies, the most significant of which relate to the Commission's fining powers which the States have already addressed via a Policy Letter which was passed unanimously at the January 2016 States meeting. The remainder, which were considered less significant by Moneyval, include recommendations relating to provisions in the AML/CFT Handbooks which will form a key aspect of the Division's policy work in 2016.

That work will build upon the discrete changes made to the Handbooks last year to enable the use of technology in the due diligence process and will progress the work already undertaken by a joint working group with industry to update the Handbooks. The timing of this will depend upon the pace of change to the wider legal framework in respect of the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law and the underlying regulations, responsibility for which rests with the States of Guernsey.

Alongside this and the Division's supervisory work, the Bailiwick is due to commence a National Risk Assessment of its money laundering and terrorist financing risks and vulnerabilities. This project is being coordinated by the Policy Council. It will involve the Bailiwick's AML/CFT agencies including the Commission, and importantly, industry, in the identification of the money laundering and terrorist financing risks to which the Bailiwick is exposed.

Risk Outlook

Given events in Syria and Iraq, the international community is likely to continue to focus on combating terrorism, an important part of which will be addressing its funding. Whilst the Bailiwick's track record of not being used for terrorist financing is commendable, a multitude of potential financial crime risks face Bailiwick firms. These include terrorist financing, cyber threats, tax evasion and bribery and corruption. It is imperative that firms remain vigilant to protect not only their businesses but also the Bailiwick's good reputation.

Fiona Crocker
Director

General

Now in existence for two years and with a settled team, the Division is moving forward in a steady fashion with a number of matters either under investigation or having been referred for consideration by Senior Decision Makers.

During 2015, it was widely reported in the international media that Guernsey has been at the forefront of a global investigation involving one particular case. The Commission also embarked on other cases during the year where we had concerns about trust structures as well as conduct relating to the protection of investors involving Insurance Intermediaries, Trust Companies, Fund Administrators and Managers. Other potential wrongdoing investigated during 2015 once again involved severe corporate governance failings, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) failings and unacceptable conduct on the part of individuals working in licensees with regard to investors' money, the suitability of the advice and the product provided, whether using investment vehicles or held in trust.

Matters referred to the Division are often complex and can take considerable time to investigate. The past year has seen the Division conclude nine cases and utilise legislation that has not been used previously, but where it was considered appropriate and reasonable to do so. In that regard, during 2015, the Division sought either to place funds into administration using The Protection of Investors (Administration and Intervention) (Bailiwick of Guernsey) Ordinance, 2008 or to place funds into compulsory liquidation using The Companies (Guernsey) Law, 2008. Such action was taken where there were strong indicators that it was either in the best interests of the investors, in the public interest or for the protection of the Bailiwick as an international finance centre.

Proceedings are often lengthy and it is therefore imperative that the Commission always gives careful consideration to all of the factors when contemplating taking such action. In these particular cases, the Commission concluded that, by swiftly referring the matter for determination by the courts, it would give investors the best opportunity to recover some of their investment.

We have also undertaken some work to learn from early experiences with the QC-led enforcement decision-making. We will continue to make refinements to our processes to ensure that they work and are well understood. The Commission's preferred approach remains to work with licensees and directors to address the issues that have been identified and to review the material on which the Commission's case is based in order to ensure that the facts have been properly understood.

Investment Management

During the course of our investigations, the operation of the investment management of collective investment schemes has come under scrutiny.

The particular structure that has been causing concern is where a fund or principal manager outsources management to an investment manager who may not be domiciled in the Bailiwick. Such a structure is widely used in the fund industry. Where such a structure is used, the Commission expects an active role to be played by the fund's directors and, where appropriate, the principal manager, in supervising investment decisions.

We have also seen inappropriate and ineffective governance, monitoring and oversight of the investment management decisions thereby creating opportunities which have been exploited by individuals and institutions who have conducted themselves in an inappropriate manner. The Commission's focus will be on the licence holder in the Bailiwick and the relevant individuals. They will be assessed against the Bailiwick's rules and regulations.

Cases

Nine cases were dealt with during the course of the year, five of these involving the imposition of financial penalties, prohibitions and/or public statements. The discretionary financial penalties imposed totalled £295,000. The remaining four cases were either returned to the supervisory division to take forward through remediation, or it was decided to take no further action. This latter point is important as it indicates that, just because a matter has been referred to the Enforcement Division, it does not necessarily mean that a licensee is going to be subject to sanctions being brought against it.

One of the five cases which was brought to a conclusion involved breaches of the Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing ("the Handbook") as well as instances of poor conduct. The breaches of the Handbook were primarily regarding significant failings in the systems and controls of the licensee. There was also concern over the level of customer due diligence undertaken with regard to high-risk clients and how the risks were being mitigated.

The remaining cases which were concluded were concerned with a combination of mis-selling of investment products, poor corporate governance and poor conduct. The conduct identified exhibited varying degrees of seriousness and this was reflected within the discretionary financial penalties imposed and the other sanctions that were brought against either the licensee or individuals concerned. In around two-thirds of cases there was an element of corporate governance failings which contributed to either AML/CFT breaches or instances of poor conduct. This highlights the importance of the role of a Board in ensuring that they have adequately resourced and qualified compliance staff and that the systems and controls are fit for purpose. One of the major topics for compliance professionals currently is regarding 'compliance maturity' which clearly needs to be set by the board and encompasses ethics, culture and corporate governance. Cases identified this year once again bring into question many of these issues around those areas and we would ask firms to consider whether the right tone and culture is being set from the top of their organisation.

On four of the five cases that were concluded via enforcement action, settlement was reached with parties and the appropriate discount was given. We believe it is generally helpful for parties being investigated to have early settlement negotiations with the Enforcement Division to assess the potential for sensible outcomes, although we appreciate this will not be feasible on every occasion. There will also be occasions when the Commission deems it inappropriate to consider settlement and it reserves its right to do so. Where settlement could not be reached a Senior Decision Maker came to his or her own conclusions including on any sanctions to be imposed based upon the evidence.

Simon Gaudion
Director

Whistleblowing Line

Calls to the whistleblowing line during 2015 included the expression of concerns about the conduct of certain senior staff at licensees; a suspected unlicensed business and other general reports of poor business practices. The reports were reviewed by the Intelligence Unit and relevant information passed to the appropriate supervisory division for further consideration.

The whistleblowing line is 01481 748094. There is also now an email address available: whistleblower@gfsc.gg

SENIOR DECISION MAKERS

In the Annual Report for 2014, the Commission announced that it had set up a Panel of Queen's Counsel to act as Senior Decision Makers in cases where the Commission considered it necessary to take enforcement action against firms and individuals and where the enforcement proceedings were contested. Once appointed to sit and determine a specific case, the relevant Senior Decision Maker would act as the delegate of the Commission itself and would proceed in a quasi-judicial and impartial way (see the 2014 Report at pages 4 and 24).

In the latter part of 2014, the Panel was constituted, following invitations to apply made to the Bars of England and Wales and of Scotland, and a subsequent rigorous selection process. One further appointment was made in 2015. The Panel now consists of six Queen's Counsel in England and Wales, though one of them practises regularly in Northern Ireland, and one Scottish Advocate. The full Panel consists of: -

- Glen Davis QC
- Malcolm Davis-White QC
- Richard Millett QC
- Terence Mowschenson QC
- Leigh-Ann Mulcahy QC
- Nicholas Peacock QC and
- Andrew Stewart QC.

In addition, I have been appointed as President of the Panel, largely for governance, organisational and oversight purposes.

Initially, it seemed right to ask the Senior Decision Makers to accept a case appointment in alphabetical order, and four of them have now been engaged in decision making on one case each. The remaining three will, barring conflict, be invited to take the next cases falling to be dealt with. Thereafter, I expect to take responsibility for selecting the individual Senior Decision Maker, having regard to specific expertise, fair distribution and availability.

The Panel as a whole has now been invited to attend two valuable training days in the Bailiwick and has benefited from presentations about matters of relevance to the Bailiwick and its financial services sector, as well as from mutual discussion on procedural and case-handling issues. A further training day will take place in the Autumn of 2016.

At present, public statements arising from two determinations of Senior Decision Makers appear on the Commission's website. These are Guernsey Insurance Brokers Ltd and others (December 2014) and Bordeaux Services (Guernsey) Ltd and others (August 2015). The Commission's Annual Report also provides some account of the determinations that have been made, so far as it is possible to make such information publicly available at this stage.

Michael Blair QC
President of the Panel

CHIEF OPERATING OFFICER'S REPORT

Introduction

One of the key objectives for the Commission during 2015 is to maintain a high standard of "business as usual" while completing a number of challenging projects including the remaining parts of the Sentinel project. That particular project included the delivery of our online services portal which went live on 31 October 2015 following the completion, earlier in the year, of the project to enable the online submission of Personal Questionnaires (PQs).

With the completion of the Sentinel project, the Commission now has the ability to collect and analyse data more effectively which, in turn, will inform our PRISM engagement programmes with firms. 2015 also saw the final stages of the establishment and development of a central Authorisations Unit which now has responsibility, across the Commission, for the receipt and approval of most licence applications.

Financial Information

Detailed financial information is contained in the statements and the accompanying notes on pages 28 to 43 of this report. In summary, the Commission's Net Assets for the year show £2,867,000 which is an improvement of £2,469,000 from 2014 and an extremely positive movement from 2013 (£348,000 negative reserves).

Income from fees for the year was £12,733,000 (2014: £12,755,000) – which is a small decrease of £22,000 on the 2014 figure.

Total expenditure for the year was £12,196,000 (2014: £11,968,000) which represents an increase of £228,000 on 2014. This increase is primarily due to the one-off curtailment gain of £497,000, resulting from the closure of the defined benefit pension scheme in 2014, together with depreciation costs arising on completion of the Sentinel project. Notable areas where expenditure reduced included overall staff costs which fell by £260,000 (3%) and Legal and Professional fees which was reduced by £40,000 (8%).

The Commission continues to manage its costs carefully as evidenced by the decision we took once again to limit increases in 2016 fees to a gross blended rate of 2% (other than in respect of anomalies). This is the fourth year in succession where general fee increases have been limited to 2% or less.

During 2016, we continued with the policy of building up our reserves with the stated aim of maintaining a reserve equivalent to six months' operational costs. In two enforcement cases last year, the fines received were higher than the Commission's costs for progressing them; therefore, in line with the feedback we received from industry last year, the relatively small surpluses were allocated to our reserves rather than being used to increase operating budgets.

Authorisations Unit

The Unit has been previously involved in the design, development and delivery of the new online portal for the submission and updating of all Personal Questionnaires (PQs). During 2015, the Unit also assumed responsibility for the processing of all standard authorisations, notifications and applications from all regulated sectors. From October 2015, submissions have been made electronically through the online services portal - with the exception of unusual applications which, due to their bespoke nature, have been submitted manually after conversations between the applicants and the Commission. By the end of 2015, we had received 813 returns and notifications. The Unit also provides a help desk service and offers specialist training to licensees.

Human Resources

Through our moderated appraisal system, we operate a performance-management system which ensures that staff who perform to the required high standards are rewarded. A general pay award of 1% was made available for those staff in January 2015 following the appraisal round in late 2014. Salary costs for the year were £8,468,000. An analysis of these figures is provided in the tables on page 54. Analysis of staff salary band and movements in staff numbers (both full-time equivalent and headcount) are shown in tables 4 and 5 on page 54. A breakdown of Commissioners' fees is shown in table 7 on page 55.

Staff turnover for 2015 fell to 18% compared with 21% in 2014. Nonetheless, the UK median rate (according to the latest Chartered Institute of Personnel and Development survey) is 13.6% and, as the Director General notes in his statement, the difference between ourselves and the UK average is primarily because the Commission has lost some good staff to industry.

In 2015 we continued to develop skills in the use of PRISM and online services. With the introduction of our online services portal, which is linked to the PRISM system, significant steps have been taken to enhance the quality of the information we receive and how it is analysed and used effectively. Good data management and presentation of information from that data are now no longer solely specialist roles but core skills for many of our staff.

The Commission continues to provide a good-quality training programme for all of our staff to enhance their technical skills and abilities as well as their personal development. For example, in 2015, in addition to the core training provided to all staff, we supported 16 individuals studying for professional qualifications and delivered 43 specialist internal training courses (of which 10 were delivered by our own staff).

Our Graduate Development Programme had a strong cohort of eight graduates during 2015, all of whom have continued to deepen their understanding of regulation and risk-based supervision. We plan to continue to recruit to our programme in 2016 which will be the third year of its operation. It is important to the Commission to continue to maintain a blend of good-quality graduates and experienced, qualified and well-trained staff who have considerable experience in regulation. In 2015, nearly 50% of our staff had over 5 years' service.

During 2015 we provided support and training to the Central Bank of Malawi. Additionally, we provided significant technical assistance to the regulators in the Cook Islands and Nevis on behalf of the Commonwealth Secretariat which funded our costs. This type of assistance helps to reinforce, to the international community, the Bailiwick's capabilities and willingness to assist other jurisdictions. These opportunities also provide good learning and personal development experiences for our staff.

Communication and Information Systems

The Commission is fortunate to have a very capable, albeit small, IT team which ensures the Commission's day-to-day IT requirements are professionally delivered. Our IT team was also instrumental in the delivery of the online services project - the final phase of the Sentinel project as detailed above. That project has inevitably brought an increased focus on the security of all electronic data held by the Commission as well as the need for IT staff who are well-trained and systems which are resilient in the face of possible threats. Therefore, during 2015, the Commission arranged for experts in this area to conduct a two-week cyber security audit. This involved a detailed analysis of our IT systems, processes and procedures as well as an assessment of the capabilities of our staff when confronted with possible cyber security attacks. The Commission was satisfied with the outcomes of the review.

Balanced Scorecard

Our Balanced Scorecard (BSC) remains central to the delivery of the Commission's annual objectives and alignment of resources. Overarching the BSC is our Mission Statement and six high-level objectives (as described in the Director General's report). These deliver clarity to our common goals and shared activities and enable us to measure progress as well as achievements throughout the year. The BSC will continue to cover all key areas of the Commission's operations and regulatory activities.

In addition to our BSC, we maintain and publish our Service Level Standards (SLSs) on our website. Throughout the year, the Commission's SLSs met or exceeded the standards for over 97% of our measured activities and 99% of total transactions. The timely processing of surrenders is the only area that has not met the standard and this was due to resources in the relevant divisions having to focus on other regulatory priorities.

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 2015 which comprise the Statement of Comprehensive Income, the Statement of Reserves, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 16. 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 is 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 which 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 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 Commissioners; 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 the 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 2015 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended.

BDO Limited
Chartered Accountants
Guernsey

3 June 2016

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015	2014
		£	£
Income			
Fees receivable		12,733,382	12,755,412
Financial penalties imposed	13	295,000	506,000
Interest receivable and similar income		83,967	68,036
		13,112,349	13,329,448
Expenses			
Salaries, pension costs, staff recruitment and training		8,468,484	8,728,580
Gain on curtailment of pension scheme	7(b)	-	(497,000)
Other pension costs	7(b)	359,077	409,118
Commissioners' fees		203,417	214,500
Legal and professional fees		462,595	502,896
Premises and equipment, including depreciation and dilapidations		1,634,724	1,510,556
Other operating expenses		996,933	890,714
Bad debt provision expense	13	45,000	200,000
Unrealised loss on investment portfolio	11	17,277	-
Auditor's remuneration		8,750	8,750
		12,196,257	11,968,114
Surplus for the financial year		916,092	1,361,334
Other comprehensive income			
Re-measurement of net defined benefit liability	7(c)	1,552,680	(614,682)
Total comprehensive income for the year		2,468,772	746,652

The notes on pages 32 to 43 form an integral part of these financial statements

STATEMENT OF RESERVES

For the year ended 31 December 2015

	Note	2015	2014
		£	£
Opening reserves		398,489	(348,163)
Total comprehensive income for the year		2,468,772	746,652
Balance at 31 December 2015		2,867,261	398,489

Reserves are stated after deducting the accumulated pension liability of £8,784,674 (2014: £9,974,351) which equates to the post-employment benefit liability under FRS 102 (see note 7).

The notes on pages 32 to 43 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2015

	Note	2015	2014
		£	£
Fixed assets			
Tangible assets	4	3,733,271	3,327,016
Current assets			
Debtors and prepayments	5	674,889	675,972
Short-term deposits	10	4,500,000	7,140,274
Investments	11	2,982,723	-
Cash at bank and in hand	10	1,010,212	1,447,753
		9,167,824	9,263,999
Current liabilities			
Creditors – amounts falling due within one year	6	(1,077,084)	(2,080,423)
Net current assets		8,090,740	7,183,576
Non-current liabilities			
Provisions for liabilities	14	(172,076)	(137,752)
Net assets before post-employment liability		11,651,935	10,372,840
Post-employment liability	7(a)	(8,784,674)	(9,974,351)
Net assets		2,867,261	398,489
Total reserves		2,867,261	398,489

The Financial Statements on pages 28 to 43 have been approved by the Commissioners and signed on their behalf on 3 June 2016 by:-

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

The notes on pages 32 to 43 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015	2014
		£	£
Cash flows from operating activities			
Surplus for the financial year		916,092	1,361,334
Adjustments for:			
Defined benefit pension scheme:			
Pension service cost	7(b)	-	366,933
Contributions to defined benefit scheme	7(e)	-	(312,257)
Pension scheme administration costs	7(e)	3,926	3,808
Gain on curtailment of pension scheme	7(b), (7d)	-	(497,000)
Other pension costs	7(b)	359,077	409,118
Depreciation of tangible assets	4	647,053	547,379
Loss on disposal of fixed assets	4	1,080	41,840
Interest receivable		(83,967)	(68,036)
Unrealised loss on investment portfolio	11	17,277	-
Decrease/(increase) in debtors and prepayments		1,083	(207,343)
Decrease in creditors		(1,003,339)	(305,327)
Increase in provisions for liabilities	14	34,324	34,052
Net cash generated from operating activities		892,606	1,374,501
Cash flows from investing activities			
Purchases of tangible fixed assets	4	(1,054,388)	(984,585)
Proceeds from sale of tangible assets		-	10,000
Interest received		83,967	68,036
Purchase of current asset investments	11	(3,000,000)	-
Management of short-term deposits	10	2,640,274	333,755
Net cash from investing activities		(1,330,147)	(572,794)
Net (decrease)/increase in cash at bank and in hand	10	(437,541)	801,707
Cash at bank and in hand at the beginning of the year	10	1,447,753	646,046
Cash at bank and in hand at end of the year	10	1,010,212	1,447,753

The notes on pages 32 to 43 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

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

1. Accounting policies

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

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015 and the Commission has applied the new standard accordingly. Information on the impact of first-time adoption of FRS 102 is given in note 16.

i. Presentation currency
The financial statements are presented in pounds sterling.

ii. Legal status
The Commission is a body corporate established under The Financial Services Commission (Bailiwick of Guernsey) Law, 1987. The Commission's operations are conducted from offices at Glategny Court in Guernsey.

iii. Preparation
The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates.

These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss. 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.

The following significant accounting policies have been consistently applied.

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

(b) Financial penalties imposed
The Commission imposed financial penalties during the year under Section 11D (1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended. Financial penalties are recognised as income receivable when the decision is made and the relevant public statement is placed on the Commission's website.

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

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

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

Leasehold improvements	over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment	25% straight-line
Furniture and fittings	over the shorter of 10 years and the estimated useful economic life of the assets
Computer equipment:	
Hardware	331/3 % straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(f) Financial instruments (financial assets and liabilities)

i. Recognition

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

ii. Initial measurement and subsequent measurement

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

iii. De-recognition

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

(g) Cash at bank and in hand

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

(h) Short-term deposits

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

(i) Investments

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

(j) Leases

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

(k) Employee benefits

i. Short-term benefits

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

ii. Defined benefit scheme

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. 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.

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

The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the scheme assets at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. Annually the Commission engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high-quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of scheme assets. This cost is recognised in profit or loss as 'Other pension costs'.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on scheme assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

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

iii. Defined contribution schemes

Employees who joined the Commission after 31 December 2007 up until 30 June 2014 were generally eligible to be members of the Island Trust Plan (the "DC Plan"). With effect from 1 July 2014, members of the DC Plan, deferred members of the defined benefit scheme and new employees were offered a choice of pension offerings. The options consist of the 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.

The Commission's contributions are recognised as an expense when they are due.

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

i. Tangible fixed assets (see note 4)

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

ii. Defined benefit pension scheme

Note 7 outlines in significant detail the nature of the pension scheme and sets out the actuarial assumptions used to support the fair value of scheme assets and the present value of funded obligations.

iii. Lease classification (see note 8)

The Commission established a lease with the landlord of its Glategny Court office accommodation in September 2010. This is classed as a non-cancellable operating lease. Judgement has been applied in deciding on the classification of the lease.

iv. Investments (see note 11)

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

v. Bad debt provision (see note 13)

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

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

vi. Dilapidations (see note 14)

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

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 2015	1,280,372	427,239	700,511	2,905,823	5,313,945
Additions	-	-	20,316	1,034,072	1,054,388
Disposals	-	-	(10,985)	(6,400)	(17,385)
At 31 December 2015	1,280,372	427,239	709,842	3,933,495	6,350,948
Depreciation					
At 1 January 2015	238,859	278,176	452,144	1,017,750	1,986,929
Charge for the year	55,155	39,582	122,027	430,289	647,053
On disposals	-	-	(10,904)	(5,401)	(16,305)
At 31 December 2015	294,014	317,758	563,267	1,442,638	2,617,677
Net book value at 31 December 2014	1,041,513	149,063	248,367	1,888,073	3,327,016
Net book value at 31 December 2015	986,358	109,481	£146,575	£2,490,857	3,733,271

5. Debtors and prepayments

	2015	2014
	£	£
Prepayments	627,851	633,058
Provision for bad debts (see note 13)	(245,000)	(200,000)
Other debtors	292,038	242,914
	674,889	675,972

Included in the total are prepayments of £118,653 (2014: £160,082) which relate to periods longer than 12 months

6. Creditors - amounts falling due within one year

	2015	2014
	£	£
Expense creditors and accruals	559,023	816,382
Fees received in advance	518,061	1,264,041
	1,077,084	2,080,423

7. Post-employment benefits

(i) FRS 102 (Section 28) Disclosure for the Guernsey Financial Services Commission (GFSC) Actuarial Account of the States of Guernsey Superannuation Fund

Nature of the GFSC Actuarial Account

The GFSC Actuarial Account operated by the Commission is a funded defined benefit arrangement which provides retirement benefits based on final pensionable pay. The GFSC Actuarial Account ("the scheme") forms part of the States of Guernsey Superannuation Fund. The scheme closed to future accrual of benefits with effect from 30 June 2014. All remaining active members were treated as having left pensionable service with effect from that date. 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.

7. Post-employment benefits (continued)

The most recent formal 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. 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. It was recommended that the surplus was partly utilised to pay the expenses of administration in the Actuarial Account over the period until the next actuarial valuation.

The calculations for the FRS 102 disclosures have been carried out by running full actuarial calculations as at 31 December 2015.

Funding policy

Following the cessation of accrual of benefits with effect from 30 June 2014, regular contributions to the scheme are no longer required. However, additional contributions would be made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the projected unit method. The States determine the level of contributions payable following advice from the Fund's actuary.

Actuarial account amendments

The scheme closed to future accrual of benefits with effect from 30 June 2014. This gave rise to a curtailment gain on 30 June 2014. 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.

Employee benefit obligations

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

	2015	2014
	£	£
Fair value of scheme assets	18,275,005	18,190,000
Present value of funded obligations	(27,059,679)	(28,164,351)
Net under-funding in scheme	(8,784,674)	(9,974,351)

The asset and liability values on the FRS 102 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.

b) The amounts recognised in profit or loss are as follows:

	2015	2014
	£	£
Service cost (within Salaries, pension costs, staff recruitment and training)	-	366,933
Curtailment gain	-	(497,000)
Net interest on net defined liability	359,077	409,118
Net expense recognised in profit or loss	359,077	279,051

7. Post-employment benefits (continued)

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

	2015	2014
	£	£
Return on assets (not included in interest)	(159,778)	254,843
Actuarial gains/(losses) on obligation	1,712,458	(869,525)
Total re-measurements recognised	1,552,680	(614,682)
Cumulative amount of re-measurements recognised in other comprehensive income	937,998	(614,682)
Actual return on scheme assets	487,881	1,026,378

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

	2015	2014
	£	£
Opening defined benefit obligation	(28,164,351)	(26,512,067)
Service cost	-	(366,933)
Contributions by members	-	(282,845)
Interest on obligation	(1,006,736)	(1,180,653)
Experience gains/(losses)	450,784	(356,077)
Gain/(losses) from changes in assumptions	1,261,674	(513,448)
Gain on curtailment	-	497,000
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	398,950	550,672
Closing defined benefit obligation	(27,059,679)	(28,164,351)

The weighted average duration of the liabilities of the scheme was 22 years as at 31 December 2015.

7. Post-employment benefits (continued)

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

	2015	2014
	£	£
Opening fair value of scheme assets	18,190,000	17,123,000
Interest on scheme assets	647,659	771,535
Return on assets (not included in interest)	(159,778)	254,843
Contributions by employer	-	312,257
Contributions by members	-	282,845
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	(398,950)	(550,672)
Administration expenses	(3,926)	(3,808)
Closing fair value of scheme assets	18,275,005	18,190,000

The Commission contributed £312,257 to the scheme over the year from 1 January 2014 to 31 December 2014, and members of the scheme contributed £282,845 to the scheme over the same period. Following the closure of the scheme to future service accrual, no contributions, by either the Commission or members of the scheme, were made in the year ended 31 December 2015.

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

	2015	2014
	%	%
Equities	76	75
Gilts	2	1
Corporate bonds	10	14
Property	7	7
Other assets	5	3

All of the Fund's assets have a quoted market price in an active market. The Fund holds no financial instruments issued by the Commission, nor does it hold any property or other assets used by the Commission. This allocation is at the discretion of the States.

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.

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.

7. Post-employment benefits (continued)

g) Principal actuarial assumptions used for the FRS 102 disclosures

	31 December 2015	31 December 2014
	%	%
Discount rate at end of the year	3.8	3.6
Discount rate at start of the year	3.6	4.5
Inflation	3.2	3.1
Rate of increase in deferred pensions	3.2	3.1
Rate of increase in pensions in payment	3.2	3.1

h) 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 88 if female. For members currently aged 50, the assumptions are that if they attain age 60 they will live on average until age 88 if they are male and until 89 if female.

ii) Disclosure for defined contribution scheme

The amount recognised in profit or loss as an expense in relation to the Commission's defined contribution scheme, for the year ended 31 December 2015, was £160,564 (2014: £233,080). No contributions were outstanding as at 31 December 2015 or 2014. 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) Disclosure for the Multi-member RATs scheme ("GFSC Group Pension Scheme")

The net expense of employer contributions to the GFSC Group Pension Scheme for the year ended 31 December 2015 was £291,770 (2014: £130,934). No contributions were outstanding as at 31 December 2015 (2014: £11,004) and 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. Operating lease commitments

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

	£
Lease payments up to 1 year after balance sheet date	655,188
Lease payments between 1 and 5 years after balance sheet date	2,620,752
Lease payments more than 5 years after balance sheet date	9,020,647
Total future minimum lease payments	12,296,587

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

9. Controlling party

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

10. Cash at bank and short-term deposits

	At 1 January 2015	Cash flow	At 31 December 2015
	£	£	£
Deposits with States Treasury	22,923	338	23,261
Cash at bank and in hand	1,424,830	(437,879)	986,951
Total cash at bank and in hand	1,447,753	(437,541)	1,010,212
Certificates of deposit	7,140,274	(7,140,274)	-
Fixed deposits and notice accounts	-	4,500,000	4,500,000
Total short-term deposits	7,140,274	(2,640,274)	4,500,000

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

11. Current asset investments

	2015	2014
	£	£
Opening fair value	-	-
Purchases	3,000,000	
Loss on re-measurement to fair value	(17,277)	-
Market value	2,982,723	-

All current asset investments are shares, bonds and funds, which are traded on a regular basis. The total unrealised loss recognised on these investments in the year was £17,277. The portfolio was first established in February 2015.

12. Financial instruments

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

	2015	2014
	£	£
Financial assets		
Financial assets measured at fair value	2,982,723	-
Financial assets measured at amortised cost	6,185,101	9,263,999
Financial liabilities		
Financial liabilities measured at amortised cost	1,249,790	2,218,175

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

Financial assets measured at amortised cost comprise cash at bank and in hand, short-term deposits, debtors and prepayments.

Financial liabilities measured at amortised cost comprise expense creditors, provisions and fees paid in advance.

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 £295,000. During the year, the Commission raised a provision of £45,000 in relation to amounts outstanding. The total of such provisions, at 31 December 2015, amounts to £245,000.

14. Provision for liabilities

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

	2015	2014
	£	£
Provision brought forward from previous year	137,752	103,700
Dilapidations charged to profit and loss	34,324	34,052
Total provision at year end	172,076	137,752

15. Related party

Key management personnel compensation

Key management comprises the Commissioners and members of the Executive Committee. The compensation paid to key management for employee services in 2015, including pension and social insurance, amounted to £1,823,023 (2014: £1,963,405).

Related-party transactions

The States appointed Wendy Dorey as a Commissioner in November 2015. Prior to that point in the year, the Commission engaged her husband to provide professional services in respect of a thematic review. These were contracted on an arm's-length basis and are not considered to be significant in the context of the business of the parties.

16. Transition to FRS 102

This is the first year that the Commission has presented its results under FRS 102. The last financial results under UK GAAP were for the year ended 31 December 2014. Therefore, the date of transition to FRS102 was 1 January 2014. Set out below are the changes in accounting policies between UK GAAP, as previously reported, and FRS 102.

Reconciliation of profit for the financial year	2014
	£
As previously stated under former UK GAAP	1,665,247
Transitional adjustments	
Defined benefit pension scheme (see note below):	
Change to measurement of net defined benefit liability	(409,118)
Change to other finance cost	61,301
Revision of 2014 service cost	47,712
Administration expense	(3,808)
	(303,913)
As stated in accordance with FRS 102	1,361,334

Under previous UK GAAP the Commission recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the Statement of Comprehensive Income. There has been no change in the defined benefit liability at 31 December 2014. The effect of the change has been to reduce the credit to the profit and loss account in the year to 31 December 2014 by £303,913 and reduce the debit in other comprehensive income by an equivalent amount.

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 Risk Officer
  - **Simon Gaudion** – Director, Enforcement Division

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COMMISSIONERS

Drs. Cees Schrauwers
Chairman of the Commission

Drs. Schrauwers is a Dutch citizen with more than thirty-five years' experience in financial services. He has served as managing director of Aviva International, CGU Insurance and Commercial Union, covering both the general insurance and life sectors. He was instrumental in the mergers with General Accident and Norwich Union which resulted in the creation of Aviva plc. Following the mergers he was appointed managing director of Aviva International, gaining valuable experience in dealing with regulators across the globe, including North America. Prior to this, he was a Partner with Coopers & Lybrand in charge of its insurance consultancy practice. He has served as Chairman of Drive Assist Holdings Limited, senior independent director of Brit Insurance Holdings Plc. and Brit Syndicates Limited, non-executive director of Canopius Holdings UK Limited and Canopius Managing Agents Limited and as a director of Munich Re (UK) Plc. He is currently Chairman and Commissioner of the Guernsey Financial Services Commission. Cees was appointed as a Commissioner in 2008 and Chairman in 2012 and is the senior independent director of Record Plc. and Chairman of EC3/Legal LLP. 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. Susie retired on 31 March 2015 after nine years' service as a Commissioner.

The Lord Flight MA (Cantab) MBA FRSA
Commissioner

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

Alex Rodger MCIBS
Vice-Chairman of the Commission (from 1 April 2015)

Alex Rodger was appointed as a Commissioner in February 2008. He spent over forty 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 fifteen years has been a consultant advising a wide range of clients in financial services on regulatory, risk and governance issues. He was previously Chairman of Faber Global Ltd, a wholesale insurance broker. He is currently non-executive Chairman 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 thirty years in the financial services industry in Guernsey and internationally. From 1979 to 1997, he held positions in international banking and international private banking with the Lloyds Bank/Lloyds TSB Group in South America, the 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 twenty-eight years' experience as an advocate and is a consultant at Babbé having previously been a Partner. He is a member of the Council of the Chamber of Commerce and served as its president between 2001 and 2003. Advocate Howitt has served on a number of States Committees including being a non-States member of the Legislation Select Committee since 2004, the share transfer duty working party and the Inheritance Law Review Committee. Advocate Howitt is currently the Deputy Bâtonnier of the Guernsey Bar.

Wendy Dorey
Commissioner (from November 2015)

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

Investment Supervision and Policy

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

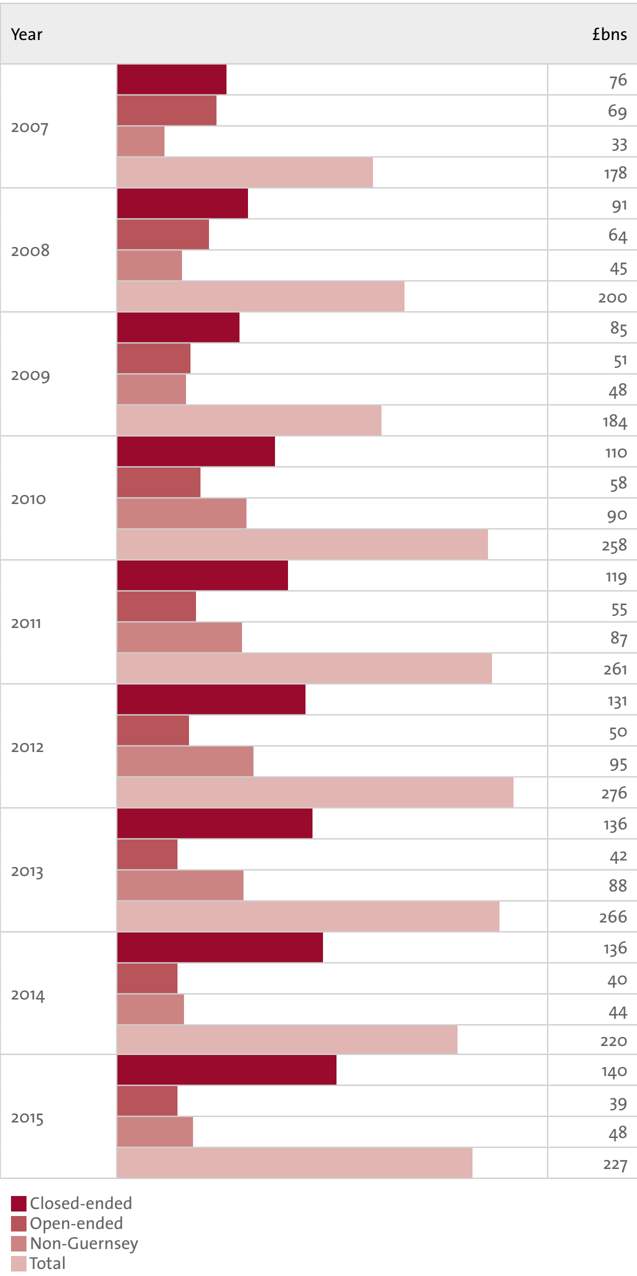


Figure 2. **Total number of investment funds at the year end**

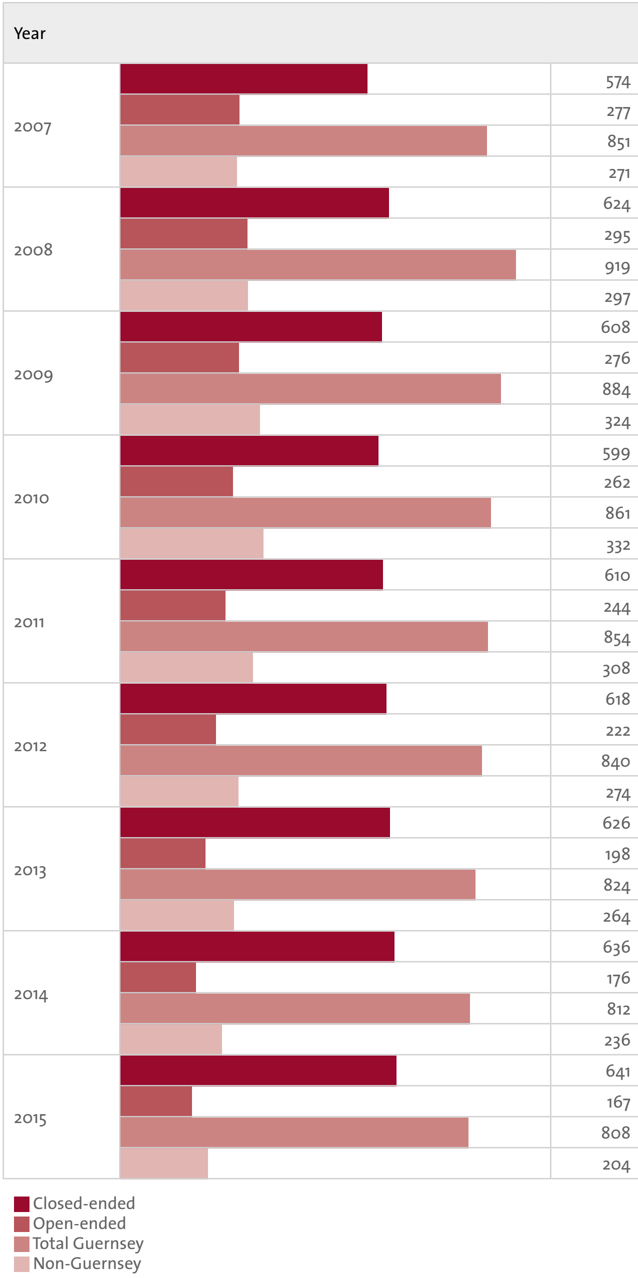


Figure 3. **Total number of licensees at the year end**

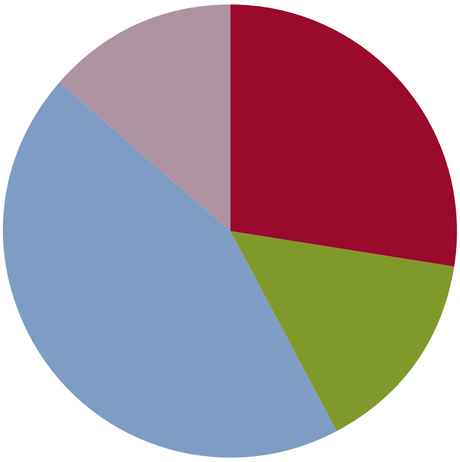
Year	Investment licensees
2007	636
2008	680
2009	661
2010	652
2011	654
2012	644
2013	635
2014	622
2015	639

Investment licensees

Table 1. **Movements within period**

Type	Total as at 31 December 2014	Approved in year	Lost in year	Total as at 31 December 2015
Total of open-ended schemes	176	8	17	167
of which Authorised	164	6	16	154
of which Registered	12	2	1	13
of which Qualifying Investor Funds (QIFs)	32	4	11	25
Total of closed-ended schemes	636	63	58	641
of which Authorised	435	10	39	406
of which Registered	201	53	19	235
of which QIF's	151	8	4	155
Total of licensees	622	54	37	639
Total of non-Guernsey schemes	236	18	50	204
of which QIF's	28	0	5	23

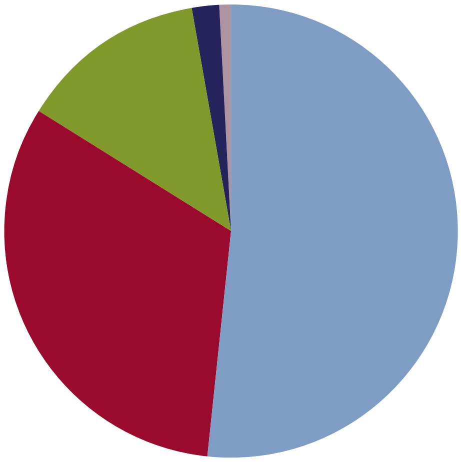
Figure 4. **Ownership of lead licensees at 30 June 2015***



	2015	2014
International financial group	43	39
Lawyers and accountants	23	26
Privately owned – local	69	68
Privately owned – overseas	21	18

*Based on 156 persons holding a full fiduciary licence as at 30 June 2015.

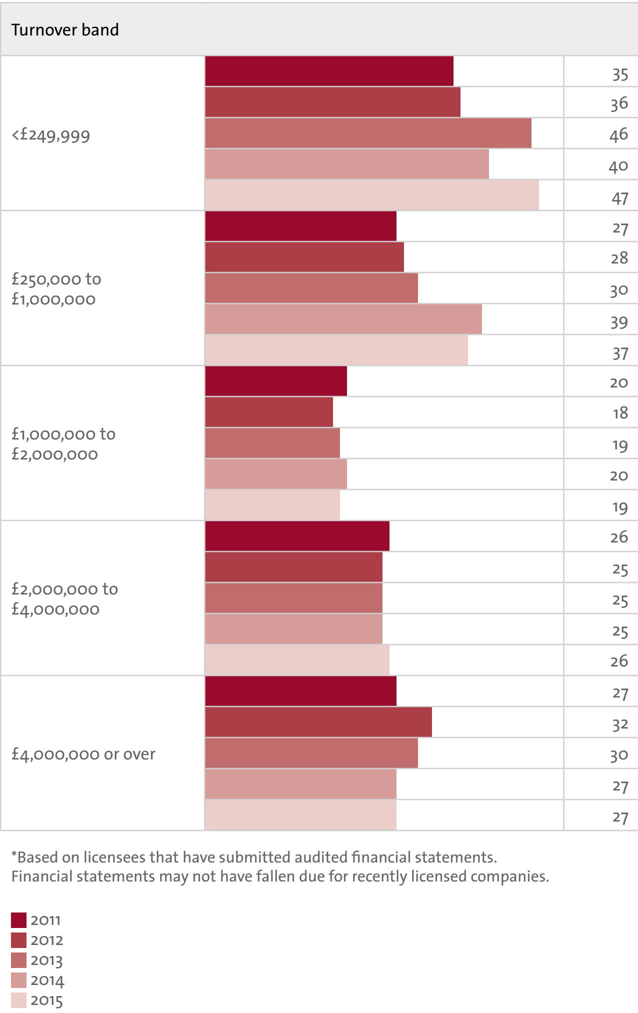
Figure 5. **Staffing levels of licensees based on total number of staff carrying out regulated fiduciary activities***



	2015	2014
Up to 10 staff	81	79
11-25 staff	50	46
26-50 staff	21	22
51-75 staff	3	3
76-100 staff	1	1

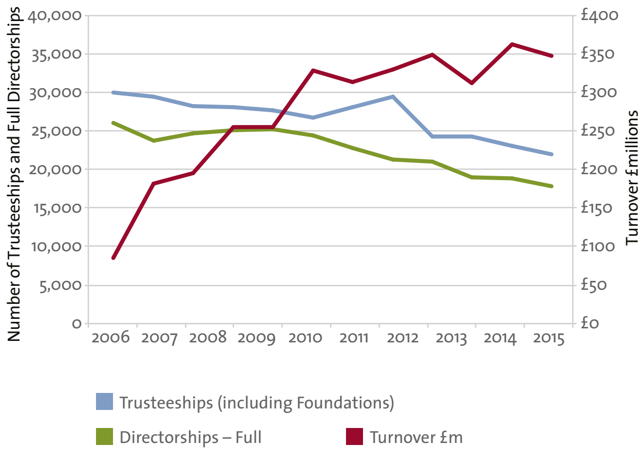
*Based on 156 persons holding a full fiduciary licence as at 30 June 2015.

Figure 6. **Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30 June 2015***



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

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.

Figure 8. **International insurers as at 31 December 2015**

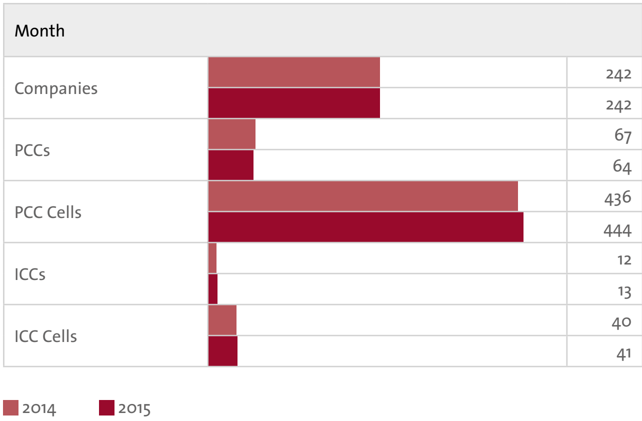


Figure 9. **International insurers – net worth**

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

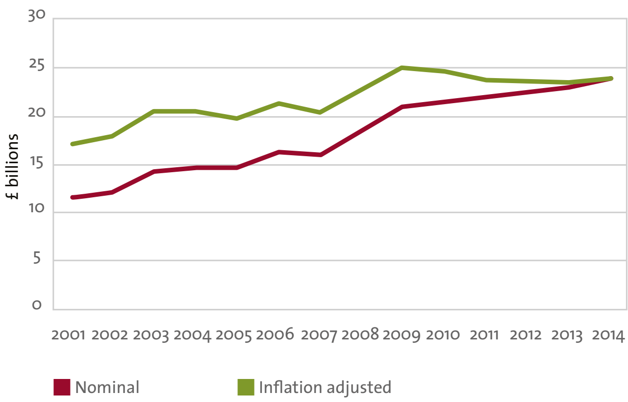


Figure 11. **International insurers – gross premium**

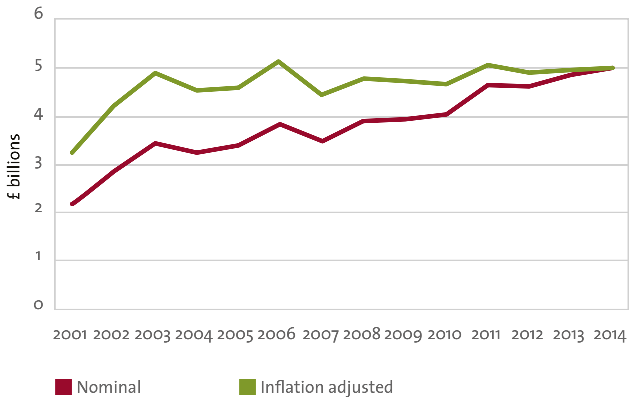


Figure 12. **Total assets, number of licensees and Full-Time Equivalent staff (FTE)**

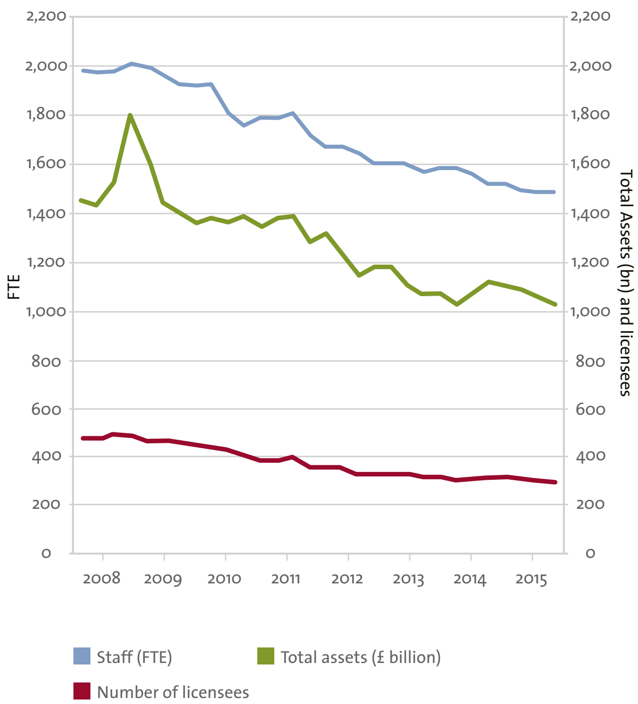
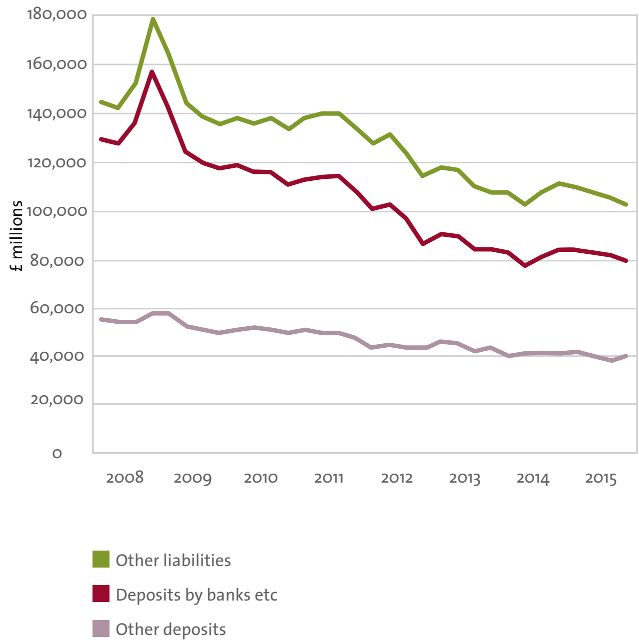


Figure 13. **Guernsey bank liabilities**



Finance and Operations

Table 2. **Expenditure by functional area**

	2015	2014
	£'000	**£'000**
Enforcement	1,208	1,076
Authorisations	821	776
Risk and Transformation	764	754
Supervisory and Policy divisions (incl. Financial Crime)	4,838	5,728
Other operational	1,201	1,130
Overheads incl. Premises, IT expenses and depreciation	3,005	2,592
Gain on curtailment of pension scheme	-	(497)
Other pension adjustments	359	409
Total	**12,196**	**11,968**

Table 3. **Salaries and related costs**

	2015	2014
	£'000	**£'000**
Salaries	6,653	6,921
Consultants/secondees	-	-
Pension costs	689	776
Social insurance, permanent health and medical insurance	735	720
Recruitment and training	391	312
Total	**8,468**	**8,729**

Table 4. **Number of staff by salary band**

Annual salary	2015	2014
£0- £39,999 p.a.	37	37
£40,000 - £79,999 p.a.	53	47
£80,000 - £119,999 p.a.	12	14
£120,000 - £159,999 p.a.	6	6
£160,000 p.a. and above	1	1
Total number of staff	**109**	**105**
Full time equivalent	**103.8**	**101.7**
Comprising:		
Full-time staff	91	93
Part-time staff	18	12
	109	**105**
FTE vacancies at year end	7	8

Table 5. **Movement in number of staff**

	2015
Employed at start of year	105
Recruited into new positions	4
Positions removed	(4)
Existing vacancies filled	4
Employed at end of year	**109**

Table 6. **Legal and professional fees**

	2015	2014
	£'000	**£'000**
Legal fees - enforcement	140	132
Legal fees - judicial process	80	119
Legal fees - advisory	15	14
Professional fees	199	125
Consultancy fees – Sentinel programme	–	73
Internal audit	29	40
Total	**463**	**503**

Table 7. **Commissioners' fees**

		2015	2014
		£	**£**
Cees Schrauwers		57,000	52,000
Susie Farnon	Retired as Vice-Chairman 31 March 2015	6,250	25,000
Alex Rodger		25,000	25,000
Lord Flight		31,000	32,500
Richard Hobbs		30,000	30,000
Robert Moore		25,000	25,000
Simon Howitt		25,000	25,000
Wendy Dorey	Appointed 1 November 2015	4,167	–

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 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 Commission maintains regular dialogue with the States. During 2015, 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. The Commission also engaged with the Commerce and Employment Department in relation to financial services legislation. The Department is one of the Commission's important stakeholders and the Commission values its relationship with the Department. 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 2014 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 Board of the Commission (Commissioners). The Commission Law provides that the Board 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. A Commissioner is appointed for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. Commissioners must currently retire on reaching the age of 72 years.

The Commissioners during 2015 were: Drs. Cees Schrauwers, Susie Farnon (retired 31 March 2015), The Lord Flight, Alex Rodger, Richard Hobbs, Bob Moore, Simon Howitt and Wendy Dorey (from November 2015). 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 10 meetings of the Board in 2015. The attendance was as follows: Drs. Cees Schrauwers 9, Susie Farnon 2, Howard Flight 10, Alex Rodger 10, Richard Hobbs 10, Bob Moore 9, Simon Howitt 9 and Wendy Dorey 2. 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 was 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.

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.

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

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 2015, the Commission's Audit Committee comprised Alex Rodger and Simon Howitt and was chaired by Richard Hobbs. The Committee covered oversight of the management of risk, reviewed corporate governance and the systems of internal control and reported routinely to meetings of the Commissioners as a whole. Meetings were usually attended by the Director General, the Chief Operating Officer and the Financial Controller. The Committee met 4 times in 2015.

The attendance of the individual members at these meetings was as follows: Alex Rodger 4, Richard Hobbs 3 and Simon Howitt 4. The Audit Committee has oversight for non-regulatory risk; regulatory risk is reviewed 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.

Meetings were attended by the Chairman, Director General and the Chief Operating Officer. The Committee met twice in 2015 with Commissioners Hobbs and Rodger attending the meetings. Commissioner Moore could not attend one of 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 2015, the Commission appointed an external party to undertake internal audits in the following areas:-

- enforcement policies and procedures (phase 2);
- finance;
- cyber security.

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

In 2015, the corporate governance standards of the Commission were reviewed by Commissioners, the Audit 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 was reaffirmed by the Council of Europe's Financial Action Task Force regional inspectorate, Moneyval, which visited the Bailiwick in late 2014 and which published its final report in January 2016.

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