

**Industry Seminar – 18 November 2015**

**Investment Supervision and Policy Division Presentation**

**Emma Bailey, Director**

Good afternoon everybody and welcome to the Investment Supervision and Policy Division's segment of the Commission's Industry Seminar. Speaking alongside me today, I have my deputy directors Mark Le Page and Louise Bougourd.

I am also pleased to have with us on the panel John Dunford. John is the Deputy Director of the Authorisations Unit at the Commission. I will touch on authorisations in more detail a little later but John is here to answer any questions you may have about the Authorisations Unit or the process. Before we rush to get to the questions which we will take at the end what will myself, Louise and Mark be talking about?

Basically we are going to have a quick canter through the activities we undertake and taking the theme of this year's presentation "Island economies – productivity and prosperity" it will hopefully be self-explanatory as to how the activities we are describing today contribute to the prosperity of our island.

**Slide: Presentation Overview**

I will start by providing an overview of the Division, including as I say how we interact with the Authorisations Unit. I will then talk about the sector and in particular the challenges facing the sector. Following me will be Louise who is going to talk first about policy, and it would not be a presentation by Investment without us mentioning AIFMD and MiFID II, and then Louise will comment on her IOSCO work.

Finally bringing up the rear will be Mark who will cover risk based supervision and the PRISM methodology; highlighting the trends we have seen through our supervisory work. He will discuss the first thematic we commenced in early October and our plans for future thematic.

Mark will wrap up his section by running through a case study but with us trying something a little different this year. We are often asked to share examples of behaviour that we come across, anonymously of course, and we understand that it is valuable feedback for you to receive. I will leave Mark to elaborate further in due course but I would like to thank the willing volunteers from amongst my team for their participation and it is not true that this is the reason why Nick Herquin recently moved from the Investment Division to take up the Deputy Director post in the Financial Crime Division.

Starting off then let's have a look at the Division.

**Slide: The Team**

This organogram shows the current make-up of the division. We are currently stand at 16 in number.

Stripping away the personnel and focussing on the activities; you will see since the introduction of risk based supervision we have changed the structure of the division away from one where the teams are driven by function; being monitoring, onsite and applications, to one where the focus is on the impact rating of the entities. The final step in the process was the move of applications out the division across to the centralised Authorisations Unit.

From a practical point of view in terms of you contacting us we have the now well established email addresses for submitting notifications however, you may have heard Stephen Cole, our Chief Operating Officer, describe this morning how a number of the notifications may now be submitted via our newly launched online submissions portal. A list of the notifications that are live for submission via that route is available on our website.

We are of course still contactable by phone and if you are in any doubt as to who to speak to, as a general rule of thumb please call the help desk for support around operational issues for online submissions or the PQ portal, (their number is on our website) and for supervisory matters please contact anyone in the Investment Division and they will either respond to your query or pass you to the appropriate person.

The resources in the division are already shared between teams and over the coming 12 months I expect there to be a further merging of the teams shown here, allowing us to flex our resources to apply them even more effectively to where they are needed most.

### **Slide: Authorisations**

As I said the applications function was moved from the Division into the Authorisations Unit in May this year, which is the point at which the Authorisations Unit was fully formed into its current role including taking on the applications work of the other supervisory divisions. This slide shows that the Authorisations Unit has been very busy since its establishment.

The move of work was accompanied with the move of two members of the Division. As it stands today eight members of the Authorisations Unit have worked in investment at some point in their career with the Commission.

The Authorisations Unit may be well stocked with staff experienced in handling investment applications but that does not mean that we have removed ourselves from the process entirely. The Investment 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 applications.

This connection and collaboration between the two teams is crucial for ensuring we are forming policies correctly and ensuring that there is consistency.

The Authorisations Unit has adopted the same approach as the Investment Division held to applications; that is to meet deadlines requested as far as they possibly can, however, when they are busy (as they have been of late and which is of course a very positive state for them to be in), it may not always be possible to meet the deadlines asked of them (very often these requests being timeframes much shorter than the statutory requirements) and I would just ask you to bear that in mind and be realistic in your requests.

### **Slide: Sector Overview – Funds**

The next couple of slides show the tentative statistics as at the end of September; they are hot

off the press so to speak hence the caveat on both slides but they are now unlikely to change (and I would also like to point out that those are hyphens on the slide and are not meant to indicate negative figures) as I am very pleased to say that funds under management have increased over the quarter to £224.8 bn (from £219.9bn in the previous quarter) and this is as a result of uplifts in each of the three fund types. This increase in the funds under management was also matched by a very slight increase in the number of open funds and closed ended funds in existence.

Moving on to the next slide showing the statistics for the Asset Managers.

### **Slide: Sector Overview – Asset Managers**

Again these statistics are as at the end of September with the same caveat and indeed the same comment about the hyphens. It will not have gone unnoticed by many of you that the statistics for the Asset Managers has increased significantly over the previous few quarters. I have referred to this on the news releases issued with the statistical data on our website but just to reiterate it is largely due to the submission of data from entities that had not previously supplied the information to the Commission. Why have these entities suddenly started to submit this information? The reason is, it is an example of how our shift in focus through risk based supervision has brought us into closer contact with entities where it has previously been limited and through that increased contact we have identified the non-submission of the statistics.

The statistics are positive for the quarter ending September which is great news but there are of course challenges facing our sector. Historically the Investment Division has approached the funds, together with their services providers, on the one hand and the asset managers on the other as really two distinctive elements of our sector. Mark will comment later on how our use of risk based supervision means any entity licensed under the POI Law regardless of its main business will come under our supervisory focus dependent on its impact rating.

Similarly I think the challenges facing both sides of the sector are now merging.

### **Slide: Challenges?**

For example, but none of this will be new to you:

**Changing Investors:** There have been a number of recent studies and reports highlighting the changes we are seeing and can expect to see in investors' profiles and demands. Institutional clients are our bread and butter however; the retail sector still exists and anyway are the demands and expectations of both client bases that different? We are being told, according to these reports, that investors are looking for brands they can trust [The Guernsey Brand perhaps?], and important buying criteria for all clients are or will be simplicity, transparency, honesty and integrity – all factors as a jurisdiction we strive to be known for.

Other challenges include:

**International Pressures:** Louise will be covering the challenges of AIFMD and MiFID II on both sides of the sector and you are all more than aware that regulatory pressures are just one aspect of a whole raft of pressures internationally.

**Technology:** Expectations of retail investors will be for 24/7 connectivity and access to relevant and timely information, but will institutional investors requirements be any different?

**Markets:** The opportunities for investment with acceptable returns are diminishing, the debt and

bond markets are still dampened, and investors may be more prepared therefore to consider non-traditional savings products. Institutional investors will expect Guernsey to be ready to accommodate alternative products and Gillian Browning will speak later this afternoon about innovations and the Commission's role in the Island's initiatives.

Finally competition: It is ever increasing and entities are having to move more quickly to keep a pace with the challenges I have described here, in the face of competition on an individual firm level as well as on a jurisdictional level. Indeed we seen locally this year movements of books of business or merges within the Island, alongside the loss of business off Island together with the wins of business moving here.

How can these challenges be further turned in opportunities?

Technology and Competition are two challenges which I will commit to try to turn to our advantage. I have mentioned earlier the advent of the Commission's online submissions; this in time, hopefully from the end of quarter 4 this year, will be extended to the statistical returns for POI Licensees. The opportunity arising from this will be the ability to better analyse the statistics provided. A member of industry commented to us recently that we do not use our statistics to the best purpose, for example we are not highlighting the new launches and I agree. Whilst I hope the online submissions will make the analysis easier I am also prepared to commit other resource now to review these statistics to identify the data that is more positive in nature.

That said I do have to be careful not to breach any confidentiality in the information we provide or release via the statistics and so that is where you come in. When I initially drafted this speech I was going to ask that if you are aware of the good news stories, the launches, the new promoters to the Islands to please share them with Guernsey Finance. Of course before I could ask you already did and it was pleasing to see the headline in the Guernsey Press on 5 November 2015 "Fund Assets down but future bright". Instead I will encourage further articles of this nature (particularly this quarter as the Statistics are up on nearly all accounts) ask that you issue your own news release, or if innovative in nature share it with the Fintech Digital Oversight Group. I am of course aware of things in the pipeline, I cannot share them but you are in the position to do so. In the meantime my team will take a more in depth look at the statistics to determine where the good news lies. It may appear to be a minor thing but it is a start and by working together better presentation of the statistics and good news stories will add to our prosperity by raising the brand of Guernsey.