2022

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31st December 2022

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

INSIDE FRONT COVER

Guernsey Financial
Services Commission

Appendix

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

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

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CHAIRMAN'S STATEMENT

This report is written with the benefit of my first twelve months as Chairman of the Commission against my prediction of being in a fast-changing world where we could not afford to stand still. What I had not forecast was either the rate or the scope of change over the last twelve months to now, against a backdrop of:

- inflation at a level not seen since 1982;
- UK interest rates rising to a level not seen since 2007, having been effectively close to zero for 14 years;
- an increasing scarcity of affordable property, particularly for first-time buyers and lower quartile paid earners;
- close to full employment in the Channel Islands and UK, making it hard for growing companies to recruit suitable and qualified employees;
- higher than average long-term market volatility;
- war in Europe, leading to sanctions, and scarcity of commodities;
- two changes of UK Government leadership with very different mandates creating uncertainty; and
- continued preparation for MONEYVAL.

Despite this changing backdrop, which has affected all, I have been very impressed with the resilience shown by our regulated finance industry, and its continuing growth. The Commission and I have continued to maintain a high level of communication with our two key stakeholders, the States of Guernsey and our finance industry, during this period of change particularly where there has been some necessary increase in regulation to provide for the forthcoming inspection by MONEYVAL. While the actual inspection is planned for the first quarter in 2024, the formal preparatory build up has already started.

Twelve months ago having engaged with industry, I was given the clear message that the Commission must be:

- easy to deal with;
- cost appropriate; and
- competent.

The feedback has indicated that we are reasonable to deal with. We continue to devote time to listening, particularly when either making changes or introducing new legislation. A good example is the significant time and effort involved in our consultations with industry over the introduction of the rules to accompany the new Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 during the year.

The 'cost appropriate' requirement has been harder to explain this year when we have needed an increase in our fees of 8% to ensure that we have the capability to retain and attract, in competition with industry and inflation, good and qualified staff. The purpose of the increase was also to ensure that the Commission continues to have sufficient financial resources to meet our statutory objectives as well as being able to make continued investment in our IT infrastructure. However, I remain satisfied that this is appropriate as we are still well behind other comparator jurisdictions in terms of relative costs and number of staff.

Finally – competence. It is clear that the majority of feedback given to us supports the management of the Commission in its requirement to both set and achieve a high bar at divisional and individual levels. While this has been affected by the previously higher than wished staff turnover I am pleased that we are seeing an increase in stability as a result of changes made.

In December, the Commissioners and I were deeply saddened by the death of our Vice Chairman, Baroness Couttie. Baroness Couttie was a dedicated public servant with a distinguished career in business and politics who made an important contribution to the work of the Commission and she will be very much missed. Our thoughts and prayers continue to be with her husband and children.

Julian Winser
Chairman

HIGHLIGHTS

Authorisations and Innovation

500 Scrutinised over 500 applications

Assessed over 9,000 Online Personal Questionnaires, Appointments and Resignations

Held Innovation Soundbox meetings with potential Virtual Asset Service Providers

Completed programme of post facto reviews of fast track applications

Supervision

2 "Dear CEO" letters to attract senior management's attention to their firms' business risk assessments and to the application of enhanced measures to certain categories of customers

Interviewed 23 individuals under our MLRO/MLCO exit interview programme

364 Risk Mitigation Programme Issues set

270 Risk Mitigation Programme Issues completed by firms

Carried out 22 Full Risk Assessments and 218 further engagements with firms

Policy

Developed new consumer protection rules around lending

Laid the foundation of a new regulatory regime for Virtual Asset Service Providers

Launched the Natural Capital Fund to create a regulatory designation for funds to help channel investment into biodiversity and natural capital projects

Enhanced protection for investors from the potential risk of "greenwashing" by developing guidance to ensure that adequate disclosures are made in respect of environmental sustainability claims

Technology

Created an Early Warning System for our supervisors from Augmented Intelligence tools that have been developed internally

Protected against close to 50,000 attacks or connections to our firewalls that tried to exploit publicly known vulnerabilities

Transferred our document management system onto a cloud version of the system

DIRECTOR GENERAL'S STATEMENT

Economic Risk and the Bailiwick's Economy

Globally, this has certainly been the year that central banks proved to others and themselves that Modern Monetary Theory has its limits when pushed, as it was during the Covid lockdown period, beyond reasonable bounds. We now find ourselves in a position where the world's major central banks can no longer give political authorities a free pass by lowering interest rates a bit or by buying a bit more government debt as those actions have undoubtedly helped feed the high rate of inflation in major currencies which is now having a widespread negative impact on living standards.

The Bailiwick, having had short lockdowns without much additional public spending, finds itself from a micro-perspective, much better insulated than some other jurisdictions but, being in a currency union with the UK, it cannot escape the inflationary impact of the UK's quantitative easing and the wider inflation caused by the dismantling of aspects of the global supply chain.

In 2022, we saw the Bailiwick's financial services sector remain in robust health with new business proposed to the Commission for authorisation running at a solid level. The biggest short term issue faced by the sector has been a lack of sufficient skilled staff resident on the island. This has contributed to wage and cost inflation within the sector whilst a lack of suitable and affordable private sector accommodation on the island has inhibited firms from being able to fill vacancies with skilled staff from the UK and elsewhere. This has resulted in business (either directly or through outsourcing) ending up being carried out outside the Bailiwick to the detriment of our economy.

In the longer term, the Commission is concerned that the increasing "living wage" required to persuade skilled junior and mid-level financial services staff to relocate to Guernsey may damage the ability of entrepreneurs on the island to grow businesses of substance to the extent that they would otherwise be able to do in a less tight employment and housing market. It is not for the Commission to say how this issue can most efficaciously be resolved but it is for us, to highlight that in public discussions which often centre on nurses and teachers' accommodation, it is equally vital for the island to be able to accommodate private financial services workers more easily as they are generally net contributors to the general revenue of the island. The vast majority of our public services and the quality of life which we all enjoy here is sustained by the revenues the financial services industry brings to the island. If competitor jurisdictions can attract and accommodate workers more easily than us, they are likely to grow whilst we will shrink. Whilst that may offer comfort to some worried about overcrowding, once you lose momentum in a sector, the business can soon switch jurisdictions and the tax revenues attaching to that business (generally the high amount of income tax paid by employees in our context) shift as well. Thus, high quality public services become markedly less affordable.

Externally, it will be interesting to see whether The Chancellor of the Exchequer's budget of November 2022 pushes the UK into recession as tax rises deter both investment and consumer spending or whether, after its politically volatile year, the UK steadies with meaningful supply side reforms and trade agreements helping to restore its growth trajectory. Each of these, and views on the political complexion of the next UK government, are likely to have a significant impact on the levels of financial sector business coming to the Bailiwick.

Combatting Financial Crime

Making sure the Bailiwick is a hostile location for those entertaining financial crime is a core duty of the Commission to which we always devote considerable resource. That said, the prospect of the Council of Europe's MONEYVAL team assessing us to Financial Action Task Force (FATF) standards in 2023 and 2024, led to us reviewing our methods and methodologies through 2021 and 2022. This included appointing an external evaluations expert in 2021 to review how well our financial crime supervision aligns with FATF expectations on effectiveness. His recommendations have been useful in helping us ensure that we can make a strong case that we are an effective supervisor. Whilst undertaking this preparatory work we have also remained focused on actually countering financial crime with over fifty-five financial crime focused supervisory visits undertaken and our business risk assessment thematic published. The 30th December public statement we issued against an investment firm for failing to manage its financial crime risks is an example of the sort of robust action we are continuing to take against those who fail to take anti-money laundering and countering terrorist financing measures seriously. There are a number of other equally serious enforcement actions of a similar nature working their way through the system which we hope to be able to publicise over the course of the next year.

Showing the flexibility of the Commission's skilled staff we were able to take people off important conduct and prudential supervision in the wake of the Russian invasion of the Ukraine to check that Guernsey firms were applying sanctions in a proper fashion – appropriately restricting firms which had business relationships which overnight turned from legitimate to potential illegality if one wrong step was made. Overall Bailiwick exposure to Russia is small and we were delighted with the degree of co-operation we received from the vast majority of those local businesses which have Russia-related business as we and they worked through complex legal and practical problems. In a small number of cases, we had to devote substantial resources to remediation efforts and, where necessary, we quietly took robust action to ensure assets were properly locked down. In rare instances where firms' sanctions risk management and behaviour was poor, enforcement action is being taken.

Over the last twelve months, we delivered several focused sessions for industry on MONEYVAL's expectations of firms. These were generally well-received. We appreciate that some are nervous about the increase in regulation which is taking place in some areas as we gear up for MONEYVAL. We think this nervousness comes not because those concerned are not running good quality businesses but rather from a concern about the compliance burden the revised regulations may entail in some areas. We appreciate this and have tried hard to implement FATF standards in the least administratively burdensome way whilst maintaining compatibility with the proper compliance MONEYVAL will demand industry collectively evidence. We also appreciate that academics can argue over the efficacy of the global anti-financial crime architecture but we are not academics but practical practitioners. Whilst we will seek to offer the FATF Secretariat our best advice to help it shape new standards, once those standards are adopted we simply have no option but to comply with them if we are to continue to be regarded as a reputable jurisdiction. Thus, in implementing them, we do not believe that we are putting the Bailiwick at a competitive disadvantage but rather helping to maintain the battlements from which it currently competes.

Policy

A huge amount of our policy capacity was absorbed by the Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 (LCF) this year. We have been consulting on this law since 2015, but 2022 was the year in which it all finally came together with the States passing the necessary black letter law in July. This then allowed us to consult on the rules to go beneath this piece of complex legislation which encompasses consumer credit, fintech, anti-financial crime measures and virtual asset service provider (crypto) licensing. We have made some changes to our rules in the light of the constructive feedback we received from industry through the Autumn and hope to implement a sensible, but administratively simpler, regime from 1st July 2023. This will bring modern levels of consumer credit protection to the Bailiwick's residents for the first time, as well as providing a framework within which innovative fintech ventures can be properly licensed.

Because of the amount of effort we had to put into dealing with the LCF, we have had to go more slowly on some other policy areas such as general insurance reform which we intend to take forward in 2023. Nevertheless, we did manage to implement changes to Professional Indemnity Insurance rules, which should provide more balanced coverage requirements going forward.

Sustainability

As well as planting more than fifty thousand trees in an ecologically positive arrangement in March to help put our own house in order with regard to climate emissions, we worked with Guernsey Finance to further develop the Bailiwick's sustainability proposition in 2022. As well as introducing some anti-greenwashing rules to match what was becoming common practice in other reputable jurisdictions, we improved our Guernsey Green Fund regime, increasing its alignment with the EU's green taxonomy to reduce the bureaucratic burdens attaching to it for those funds which will need to align with the EU's green criteria for other reasons. We also developed the highly innovative Natural Capital Fund regime and launched it at Guernsey Finance's Sustainability Week in September. We based this, in part, on the draft global biodiversity standards which were agreed on 19th December at the end of COP15. There, with Guernsey Finance, we presented on the positive contribution Guernsey is able to make to the sustainable finance agenda. Private sector finance for biodiversity and nature positive investment is sadly lacking at present and we hope that our regime may make some modest contribution to being able to raise private sector capital for commercially viable nature positive investments, highlighting the positive contribution Guernsey's International Financial Centre can make to the global ecosystem.

In the next year, we are likely to see the International Sustainability Standards Board mature its draft standards for reporting around both climate change and nature. We will look to see the speed with which those standards, once finalised, are adopted by IOSCO and other international bodies as international financial services standards. We will then consider, in conjunction with other official sector actors and industry, at what point after 2023 it might be sensible for the Bailiwick to consider a balanced adoption of those international standards.

People

Having suffered too high an attrition rate in 2021, we made a number of significant moves in 2022 to improve retention having, in late 2021, surveyed staff who strongly said they really liked working for the Commission but... Our reforms have included reducing the standard contractual hours to bring them closer to financial services industry norms, embedding our popular nine-day fortnight, and allowing staff more flexibility in terms of dress on days during which they are not planning to meet external parties. We also addressed the pay issue (a significant gap between industry basic pay and our basic pay at some levels) after a number of years where financial constraints had forced us to award very limited uplifts. Noting rising housing costs, nearly all staff received a one-off bonus with some junior staff also receiving a mid-year increment to narrow the gap between them and industry in an inflationary hot jobs market. At the end of the year, whilst continuing to apply our rigorous appraisal process, we were also able to award most staff a decent, albeit sub-inflationary, pay increase having signalled our intent to staff that we would aim to do this at the middle of the year. This is not to say that we expect to pay our staff at exactly industry levels – public service has its own rewards and we do not think it appropriate to attempt to pay bonuses on a private sector scale for example but, when accommodation costs rise as fast as they have over the last 18 months on the island, we need to be able to provide enough for our skilled staff not to be forced to switch to private sector employers to make ends meet.

These measures appear to have contributed to our wastage rate reducing by 7% relative to 2021, taking it much closer to what a balanced staff turnover figure should be. That said, the 2021 wastage rates and the necessary diversion of people into sanctions oversight work has meant that we have not been able to undertake all our planned supervisory work in 2022. Conscious of increasing prudential risks, we plan to reinforce our efforts in that area through 2023 whilst maintaining our high levels of vigilance on financial crime matters.

Technology

We have continued to develop our use of Augmented Intelligence (AI) in supervision with a full scale deployment of some interrogatory software we have spent two years developing. We are now examining the extent to which some of the more straightforward due diligence processes in authorisations might be further automated through the use of AI or other advanced software. We have also upgraded parts of our technology stack so it sits with a cloud service provider rather than in an on-premises system. This is not something we were particularly eager to do, but it became clear to us that by sticking with on-premises software, we were increasingly depriving ourselves of functionality within mainstream Microsoft systems and that this was not a sustainable position for a modern mid-sized organisation. We are, however, taking care to use cloud service providers subject to HM Government assurance procedures as to their security credentials. The transition has been smooth and the practical usability of our Microsoft software stack has increased markedly as a result, increasing efficiency.

Finances and Resources

We delivered a better than expected financial outturn in 2022. That we managed this was partly due to running considerably under complement for much of the first half of the year and partly due to the marked increase in the value of enforcement fines collected in 2022. Enforcement revenues tend to be quite erratic, as cases do not necessarily conclude to an orderly planned timetable but our implementation of the increased fining powers granted to us by the States in 2017 has started to make a difference to our ability to recover the costs of our enforcement activity from malefactors. Nevertheless, it is worth reiterating that our administrative penalties are, of course, determined by the severity of the law breaking rather than the costs incurred by the Commission. That said, the net result of the increased reserves accumulated (thanks to our enforcement collections in 2022) was that we were effectively able to rebate industry one ninth of our planned nine percent 2023 fee increase. Whilst this may not be possible in every year, we hope that, over time, we will be more able to adopt a more "polluter pays" approach, thus lightening the burden our necessary enforcement work places on law abiding fee-paying firms.

For the future, the Commissioners and executive are cognisant of the need to manage our resources wisely, noting that the Bailiwick is, for most actors, a jurisdiction of choice. The right level of resourcing is always going to be a matter of judgement. The IAIS 2019 report on the Bailiwick recommended that we strengthen our insurance resourcing and in consequence we are recruiting an insurance actuary. We are strengthening our financial crime resourcing to some degree because of the project related strain caused by intense preparations for the MONEYVAL inspection discussed above. In other areas of the Commission we are not seeking to imitate the greater staff numbers enjoyed by our peer regulators – rather we continue to focus on having capable highly skilled staff operating effectively in all areas.

As the Chairman notes in his introduction to our annual report we were all saddened by Baroness Couttie's premature death. When she was able to attend our meetings she always bought intellectual rigour to proceedings, making a strong contribution and offering insights into the thinking of our main trading partner, the UK.

William Mason
Director General

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AUTHORISATIONS AND INNOVATION

Authorisations

2022 was a year of consolidation and building increased efficiencies into our working practices within the Division whilst still maintaining a rigorous application review process. We continue to apply a risk-based approach to our review of applications which ensures that resources are applied to the areas which represent the greatest risk to the Bailiwick.

We completed a programme of meetings with licensees from across industry and were pleased that the view of the authorisations process was generally positive. We have taken feedback on board and will use it to further refine and update the application process and to inform the potential development of the online portals in the future.

The Division has been heavily involved in the preparations for applications under the new Lending, Credit and Finance legislation working alongside our colleagues in the broader Commission. We are well placed to deal with the applications that will be received in the first half of 2023.

We have also worked on the process for those directors who will be required to register under the 'up to six directorships' registration framework consulted on by the Policy and Resources Committee and will be ready to receive registrations subject to the legislation being finalised.

The number of applications remains strong, exceeding our forecast although slightly down on 2021. There is no discernible pattern with each month varying markedly in the volume and type of applications received. Whilst this makes planning difficult, we have maintained good turnaround times which we understand are important to licensees and their clients.

A risk-based approach to our assessment of application submissions results in most applications achieving straight through review by the Division without reference to supervisors. Authorisation Review Panels (ARPs), continue to be used where required to draw on supervisory knowledge. In 2022, six ARPs were held (eight in 2021) and in most cases approval was granted once the necessary risk mitigations were in place.

We have completed our 2022 programme of post facto reviews for fast track applications. These post facto reviews are concerned with the due diligence and assessments performed by the administrator in order for them to be able to sign the declarations required for an application. The results were encouraging with many reviews raising no material concerns. Where issues were found, these were referred to our colleagues in the Financial Crime Division and Investment, Fiduciary and Pension Division for consideration of further action. Potential actions can include requiring all the due diligence to be submitted with the application, disapplying the fast track turnaround times, a third party review of the application prior to submission or even the exclusion of the administrator from future use of the fast track facility.

The Online Personal Questionnaire Portal continued to be busy with a total of 9,143 submissions made during 2022 which was on a par with the 2021 submission rate. Encouragingly, the number of Online Personal Questionnaires (OPQs) and Online Appointments which are returned for correction or clarification has dropped from 11% in 2021 to under 5% in 2022. We continue to monitor the number of new individuals who apply for supervised roles within the Bailiwick, during 2022 a total of 588 individuals who were new to the Commission submitted OPQs (2021, 718). Of the 588 submissions, approximately a quarter were from Bailiwick residents.

OPQs provide the Commission with important information regarding those operating within the financial services sectors. A thorough review of all OPQs is carried out either as part of an application assessment or when a new individual is appointed to an entity already regulated in the Bailiwick. The importance of regularly reviewing OPQs has been communicated to industry since it is imperative that the Commission has up-to-date knowledge of individuals in supervised roles.

We continued to work towards reducing the number of Online Services Helpdesk requests by further refining our frequently asked questions. There was a drop in the number of email queries from 6,506 in 2021 to 5,133 during 2022. The Commission undertook additional work on two factor authentication (2FA) for portal access during 2022 which resulted in the deployment of a new sign-in process in 2023.

During 2022, 18,506 (2021, 22,579) submissions were made via the Online Submissions Portal, these submissions comprised 14,437 (2021, 18,656) returns and 4,069 (2021, 3,923) notifications, which are dealt with by the relevant supervisory divisions. The drop in the number of returns submitted to the Commission was predominantly due to the Pension/Gratuity Scheme reporting changing from quarterly to annually and the revocation of the Non-Guernsey Scheme regime and quarterly reporting relating to that, lightening the administrative regulatory burden.

Authorisations and Innovation *(continued)*

Innovation

The Commission continues to encourage innovation and is keen to work with potential applicants to help them understand how the regulatory framework may apply to their financial services businesses.

The Innovation Soundbox continues to provide a good platform for discussion of innovative proposals including those involving Virtual Asset Service Providers and we encourage firms to start a dialogue with us at an early stage. During the year, we have held meetings with over a dozen potential applicants in which we have explored ideas, increased our understanding of new structures and provided guidance on our expectations should they progress to a formal application. The meetings were in addition to the numerous email and telephone enquiries we received during the year dealing with a range of innovations from brand new ideas to small tweaks to established practices.

The Commission continues to participate in the Global Financial Innovation Network. We also remain involved in its cross-border testing programme, although this has not yet resulted in any entities being required to be regulated in Guernsey.

Caroline Bradley & Alison Gavey
Co-Directors

BANKING AND LENDING

Supervision

With reference to banking, the forward outlook as presented by the Bank of England in its Financial Stability Report of December 2022 is relatively benign; despite acknowledging increasingly difficult economic conditions. The UK banking sector — to which many Guernsey banks are closely linked — is seen as being resilient in terms of capital, liquidity, and provisioning levels; as well as having been subject since 2007 to higher credit requirements and deleveraging in favour of capital markets. Also, banks are benefiting from the increase in the net interest margin (an observation especially relevant to Guernsey banks who draw much of their profitability from this source). Households are seen as being reasonably capable of weathering the adverse economic environment; being less indebted than in 2007 and with unemployment remaining relatively low. The corporate sector is seen to be more at risk. Outside the UK, the key sovereign exposures for Guernsey banks are to Switzerland and the US neither of whose economies poses immediate risks.

Despite this outlook, several material risks for banks exist in 2023, given the worsened economic outlook, and these are highlighted below in the Risk section.

Over the years, regulatory reporting by Guernsey banks relating to financial crime has developed and Guernsey banks have responded well to the new requirements. This enabled Guernsey banks to respond more easily in 2022 on any Russian exposures although these were, in the event, limited.

Few material issues emerged in the supervision of Guernsey banks during 2022. The exception was around financial crime mitigation where some banks exhibited gaps in their systems and controls. These gaps are best illustrated by the two thematic studies: 'Money Laundering and Terrorist Financing Business Risk Assessments' and 'Sanctions' published by the Commission in 2022 and further discussed in the Financial Crime section of this report. As ever, all Guernsey banks are therefore urged to pay particular attention to the continued mitigation of financial crime risk.

Policy

There were no new banking policy initiatives in this sector in 2022; not least as the rollout of Basel IV across the G20 has stalled. The States of Deliberation is expected to consider in due course the creation of a banking resolution regime in the Bailiwick. The Commission has been acting as the default resolution authority since 2019 under the terms of a States' letter and continues to work with the States to advance the necessary legislation.

Banking and Lending *(continued)*

Risk Outlook

There are several key exposures and risks for banks in 2023. These are:

- commercial property lending – always the first to go in a recession;
- smaller companies with low liquidity, poor profitability and lots of debt;
- companies exposed to higher energy costs such as transport and manufacturing;
- mortgage loans to those whose servicing costs are high relative to income; and
- fair value accounting where lower bond values adversely affect capital ratios;
- liquidity risk in a digital world where individuals can withdraw funds immediately.

In addition, during difficult economic conditions, the following risks tend to come out of the woodwork:

- increased external fraud - this includes not just, for example, credit card fraud; but also more existential threats such as around cyber security;
- operational weaknesses such as collateral documentation that turns out to be ineffective or credit analysis undertaken without consideration for the bad times; and
- poor treatment of customers and less than ideal forbearance resulting in fines and/or reputational damage; this can affect even advised high net worth clients.

Jeremy Quick
Director

FIDUCIARY AND PENSION

Supervision

During the year, we undertook 12 onsite visits to fiduciary and pension licensees as part of the PRISM Full Risk Assessment process. This firm-specific work is supported by our ongoing programme of thematic sectoral reviews and reactive work in response to, for example, key risks crystallising, changes of firm ownership and subsequent integration work as well as the response to the Russian invasion of Ukraine.

In June, we published a report on our thematic review of Pension Transfers, exploring licensees' compliance with "The Pension Scheme and Gratuity Scheme Rules and Guidance, 2021". We found that generally pension licensees considered the associated risks of transfer effectively and that transfers were completed in a reasonable timeframe. Overall, we concluded that the current Rules and guidance are appropriate and not unnecessarily onerous but we did highlight our expectation that firms would continue to have regard to this guidance, ensuring that members' interests are protected while at the same time avoiding the creation of unnecessary barriers to transfers.

We held a series of self-assurance events relating to Compliance Monitoring Programmes and valued regular engagement directly with fiduciaries and via the industry associations throughout the year.

A total of 42 fiduciary and pension Risk Mitigation Programme (RMP) actions were created during the year. Financial Crime risk (38%), Governance risk (21%) and Operational risk (19%) account for the largest number of RMPs. The Commission continues to consider Cyber risk as part of Operational risk and reminds licensees of this ongoing threat.

Policy

In the first half of the year, we consulted upon and made a change to the "The Fiduciary Rules and Guidance, 2021" requiring firms to have sufficient "mind and management" in the Bailiwick. This new rule formalises our expectation, and established industry practice, that the number of a firm's Bailiwick-based senior executives is commensurate with the nature, size and complexity of the firm's activities in the Bailiwick.

In August, following completion of a comprehensive consultation process, rules on Professional Indemnity Insurance requirements for licensed fiduciaries were updated to ensure that prudent levels of cover are maintained.

In December, we also consulted on an extension to the scope of statutory licensing exemptions available to individuals acting as a director of companies connected to Bailiwick authorised or registered collective investment schemes. This work will continue in 2023.

Fiduciary and Pension *(continued)*

Risk Outlook

2022 presented a new challenge for the fiduciary sector in addressing the impact of the Russian invasion of Ukraine. On the whole the sector coped well with the rapidly shifting risk environment and adapted to changing sanctions requirements. Regrettably, there is no guarantee that 2023 will not see further global political turmoil and it is important licensees continue to monitor sanctions and more generally continue to assess their potential exposure to such risk through customer or other business relationships.

The Bailiwick's finance centre plays a valuable role within a wider global context, both in terms of offering products and services internationally, but also by drawing upon expertise or resources from other jurisdictions. The concept and benefit of outsourcing is well-established, as we hope is industry's appreciation of fundamentals such as:

- outsourcing the function not the responsibility;
- establishing and maintaining an effective control framework over outsourced operations; and
- outsourcing not rubber stamping.

The Public Statement we issued on 30th December following the conclusion of an enforcement investigation was a timely reminder of the need to maintain vigilance in this area.

Gillian Browning
Co-Deputy Director General

INSURANCE

Supervision

2022 saw an uptick in gross captive formation in the Bailiwick due to a harder global insurance market. Professional Indemnity Insurance was a particularly popular line of business for captives in the wake of a general rise in premiums. All other types of insurance remained quiescent. Exposure to Russia was marginal.

In February 2022, I wrote a 'Dear CEO' letter to all insurers magnifying several of the supervisory issues addressed in the Commission's 2021 Annual Report. A point worth repeating here, is the need to ensure the completeness and accuracy of regulatory reporting. The Commission this year has continued to observe a level of misreporting that is too high.

In 2022, the Commission continued to intensify its supervision of insurance managers. Two key risks have emerged as especially relevant. The first is stretched compliance resources in the second-line of defence. Managers should therefore consider spending more on second line-of defence resources as opposed to front line client service and marketing. The second is weak governance. Some managers have boards that are too inward-looking. This means there is very little challenge to 'group-think' at board level. Insurance managers will therefore continue to be a focus of Commission scrutiny, not least given their crucial role in supporting insurers.

In the summer of 2022, the Commission, as Chair of the Group of Insurance Sector Supervisors (GIICS) organised a two-day AGM and seminar in London as a hybrid event. This event attracted several senior insurance supervisors to attend in person (the first time since the Covid outbreak); together with a larger virtual attendance. This meant that most GIICS members tuned into the event, often despite significant time differences. GIICS also organised several virtual sessions though the year by which members were able to exchange views on relevant issues.

The Commission continued to play a role at the International Association of Insurance Supervisors with senior staff participating in key committees and working groups. The Commission also continued to participate in peer-to-peer assessments on certain Insurance Core Principles.

Policy

Following work in 2021, 2022 saw the final issuance of new rules on Professional Indemnity Insurance for insurance intermediaries and managers. These new rules mostly tightened up current rules. They were issued alongside more extensive rule changes for the fiduciary and investment sectors.

As trailed in the last annual report, the Commission has been developing a Consultative Paper aimed at strengthening the regulatory environment around retail general insurers; especially around governance. In addition, this paper will put forward new data reporting requirements that will enable the Commission to gauge more accurately the potential impact and probability risk of each retail general insurer. This paper will be published in 2023 with the aim of having new rules in place before the end of the year.

Risk Outlook

The following general risks are key for 2023:

- increased claims due to inflation; requiring revisions in Incurred But Not Reported estimates;
- more liquidity and collateral calls due to higher lapse ratios and margin requirements;
- forbearance challenges - for both brokers and insurers - around life premium holidays due to recession; and
- short-term adjustment in the solvency ratio due to higher bond yields.

Closer-to-home, there are specific challenges that relate to the Guernsey insurance sector. These are:

- trapped capital in ILS products and continued limited demand for these products; and
- the continuing financial crime risks associated with Guernsey life insurers operating cross-border.

Jeremy Quick
Director

INVESTMENT

Supervision

During 2022, we undertook eight onsite visits to investment licensees as part of the PRISM Risk Assessment process. This firm-specific work is supported by our ongoing programme of thematic sectoral reviews and reactive work in response to, for example, key risks crystallising, changes of firm ownership and subsequent integration work as well as the response to the Russian invasion of Ukraine.

Thematic reviews continued to complement focused Full Risk Assessments and in the second half of the year we began a review of licensees' practices around the treatment of unclaimed client money, the results of which we intend to publish in 2023.

We also reviewed the accuracy of investment reporting data. Reassuringly, the number of errors as a proportion of the total number of returns analysed was low. There were however a number of common Designated Administrator errors, for example 21% checked the wrong response (yes/no answer) to the question 'does the audit opinion include an emphasis of matter statement' and 18% omitted or failed to attach the correct management letter when submitting the annual accounts return. One of our conclusions, we will work to address in the years ahead, is the importance of regulatory data validation controls.

A total of 112 investment Risk Mitigation Programme (RMP) actions were created during the year. Financial crime risk (28%), Operational risk (27%) and Strategy/Business Model risk (18%) account for the largest number of RMPs. The Commission continues to consider Cyber risk as part of Operational risk and reminds licensees of this ongoing threat.

In our supervisory interactions with licensees this year, a theme we noted was a growing tendency for investment licensees to communicate with the Commission indirectly through professional advisers. While it is entirely appropriate for firms to seek expert advice where necessary, we would note that indirect contact can be inefficient and on occasion causes us to pause to consider why we have not been contacted directly. We would welcome licensees taking this point into account when they consider future interaction with the Commission and are grateful to those who have engaged valuably with us either directly or via industry associations.

Policy

In September, we took three significant steps to further develop our policy framework for sustainable finance. First, we launched "The Natural Capital Fund Rules and Guidance, 2022", creating a regulatory designation for funds to help channel investment into biodiversity and natural capital projects that make a positive contribution and/or significantly reduce harm to the natural world. The Natural Capital Fund framework complements the Guernsey Green Fund regime, and our second step was to expand the green criteria in this regime to include the EU Taxonomy for Sustainable Activities criteria for activities contributing to climate change mitigation and adaptation, thereby increasing consistency with international standards. Third, we published anti-greenwashing guidance for the investment sector to ensure that adequate disclosures are made to investors in respect of any environmental sustainability claims made.

During the year, we also amended the "Licensees (Conduct of Business) Rules and Guidance, 2021" to clarify expectations around appropriate levels of Bailiwick-based "mind and management".

In August, in a parallel process with the fiduciary regime, the rules on Professional Indemnity Insurance requirements for investment licensees were also updated.

Risk Outlook

2022 saw a significant change in the global economic environment with the prolonged, post-Global Financial Crisis period of low interest rates, "cheap money" and low inflation coming to an end. This change in the economic environment has the potential to impact long established business models, as investment strategies shift, client expectations evolve, and the cost and availability of funding changes. Licensees should ensure that established assumptions built into their risk assessments and stress testing are amended accordingly.

The Bailiwick's finance centre plays a valuable role within a wider global context, both in terms of offering products and services internationally, but also by drawing upon expertise or resources from other jurisdictions. The concept and benefit of outsourcing is well-established, as we hope is industry's appreciation of fundamentals such as:

- outsourcing the function not the responsibility;
- establishing and maintaining an effective control framework over outsourced operations; and
- outsourcing not rubber stamping.

The Public Statement we issued on 30th December following the conclusion of an enforcement investigation was a timely reminder of the need to maintain vigilance in this area.

Gillian Browning
Co-Deputy Director General

CONDUCT

Supervision

2022 was a much quieter period for retail intermediaries following several years of disruption caused by Covid. Travel insurance, for instance, began to revive. Few new or material supervisory risks emerged in the local market. The Commission continues to maintain and update on its website a list of frequently asked questions relating to scams, frauds and more general consumer information.

An emerging issue was the role of Money Service Providers (MSPs); especially for small retail businesses. The Commission issued a frequently asked question in 2022 explaining that there were no regulatory requirements around reverse solicitation – that is where a local person asks a non-Guernsey MSP to be taken on as a customer. Nevertheless, there are some regulatory requirements were an MSP wish to market directly to local people. The Commission is open to discussing these requirements with potential licensees but, generally, the latter have limited interest in a small jurisdiction.

Policy

During 2022, the Commission worked on ensuring vehicle insurance sold in Guernsey met new criteria set out by the UK Motor Insurers' Bureau so that insurance covered driving outside the Bailiwick, subject to contractual terms.

In 2022, policy work on lending has been extensive. In 2022, the States of Deliberation passed new legislation on Lending, Credit and Finance (LCF). The new law, which will come into full effect in July 2023, sets out various measures to ensure the fair treatment of borrowers by both lenders and intermediaries. Any type of firm that lends, or facilitates lending, into the retail sector is within scope; not just banks. The scope also extends beyond the traditional activities associated with banks to cover fintech innovations around electronic platforms and Virtual Assets Service Providers (VASPs).

The Commission has undertaken extensive work with stakeholders in 2022 to prepare its own rules that will eventually sit below the new law. Accordingly, in 2022 the Commission issued its own Consultation paper; together with draft Rules.

The high-level strategy outlined in this paper was that the Bailiwick should broadly follow a simplified version of financial consumer protection as set down in the UK given the close business links between the two jurisdictions. The paper also outlined anti-financial crime requirements not just for retail but also for wholesale lending. Feedback to the paper was extensive and constructive and resulted in the Commission further refining its draft rules. The Commission is grateful for all of the responses received.

In the first half of 2023, the Commission will issue these rules as final and process licence applications. The Commission expects a significant number of the latter, especially from intermediaries. In the case of VASPs, the Commission will continue to exercise caution, its previous caution having been endorsed by knowledgeable actors responding to its LCF consultation.

Risk Outlook

In a difficult economic period, the following conduct risks may emerge:

- fair treatment of those customers in difficulty due to recession;
- maintenance of affordability criteria especially for mortgages; and
- authorised Push Payment fraud.

Jeremy Quick
Director

Supervision

"Help - our manual screening cannot keep up with the escalation in UK sanctions on Russian interests."

A real but fortunately rare cry we had from one firm during the first wave of UK designations against Russian interests. This firm's fee earners had to assist in manually checking its customer base against the list of sanctioned Russian persons during the almost daily sanctions notices issued in March by the Policy and Resources Committee, the Bailiwick's sanctions authority, as the Bailiwick adopted UK sanctions.

By the end of the year nearly 1,500 individuals and 162 legal entities were designated under the UK's Russian sanctions, provision of a broad swathe of financial services to Russian interests was prohibited and secondary sanctions extended to third parties supporting Russia's war effort in Ukraine.

The scale of these UK sanctions is unprecedented but writing ten months on from Russia's invasion of Ukraine, our monitoring of firms' exposure to designated persons (either as customers and beneficial owners of customers or through assets held in structures administered or managed by Bailiwick firms) suggests a moderate exposure to sanctions evasion risk which for the most part is being cautiously and conservatively managed by firms. More than four-fifths of firms had, when the war started, already invested in automated screening systems to help identify designated persons. At the close of 2022, the proportion had risen to 90%.

Compliance with sanctions is an absolute. The UK's sanctions framework includes regimes for tackling human rights abuse, corruption, and cybercrime as well as implementing sanctions called for by the United Nations Security Council to tackle terrorist financing and proliferation financing. Then there are EU and US sanctions for which a breach can have a serious consequence for a Bailiwick firm. Sanctions risk, including evasion, should be on all firms' agendas to ensure this risk is being effectively managed.

An effective risk-based approach for managing financial crime risk must include the ability to react quickly to re-allocate resources to effectively tackle heightened risk situations. Russia's invasion of Ukraine in February tested all our resources to ensure that the Bailiwick's exposure to attempts to evade UK sanctions were minimised. For the Financial Crime Division that meant diverting our onsite resources to a few firms who were not managing their sanctions risk optimally. Through the Commission's monitoring of firms' sanctions exposure two firms were identified where there were sufficient concerns to warrant onsite inspections. Both these inspections resulted in a referral to the Enforcement Division for investigation for potentially significant and systemic failings in their anti-money laundering and terrorist financing controls.

In May, we published a report of a thematic review on the effectiveness of licensees' compliance with targeted financial sanctions which was based on supervisory work we undertook the previous year in recognition that sanctions compliance was becoming increasingly complex. We followed this up with workshops in July attended by 350 industry representatives. I hope that firms found this beneficial as they grappled with the sharp increase in sanctions. The report was sighted as very informative during a third-party presentation to MONEYVAL member countries' supervisors and law enforcement agencies at the end of that month.

The transitional arrangements in the Handbook on Countering Financial Crime and Terrorist Financing for firms to review their existing customers to ensure that appropriate due diligence has been applied, including enhanced measures for non-resident customers, private banking customers, customers which are private asset holding vehicles and customers with nominee shareholders ran out at the end of 2021. In 2022, we reviewed how well a number of firms had complied with their obligations in this area.

In May, we issued a 'Dear CEO' letter highlighting good and poor practices observed from our supervision of firms' application of enhanced measures. We issued a second 'Dear CEO' letter in December on Business Risk Assessments to flag the publication of a report on the thematic review of more than 100 firms' business risk assessments and to highlight our intention to undertake a further sample of firms' business risk assessments in a year's time.

We use 'Dear CEO' letters to focus senior management's attention on an issue which needs to be on the senior management's radar. The letter deliberately targets a firm's senior management because it is its senior managers/directors who are responsible for ensuring compliance with the Handbook. We proactively ask firms we meet the actions that they took in response to these letters – needless to say we will take a dim view of firms which ignore them.

We interviewed 23 individuals in 2022 under our Money Laundering Reporting Officer/Money Laundering Compliance Officer exit interview programme. These interviews continue to complement our knowledge about a firm's compliance culture and quality of controls. We find most interviewees welcome the opportunity to talk with us about their experiences at a firm.

Policy

Our MONEYVAL preparations including our significant input into updating the National Risk Assessment were, and continue to be, the policy focus with our sights firmly set on the areas against which the Commission and also the private sector will be assessed.

The findings from an external audit we underwent against the Financial Action Task Force's criteria, which MONEYVAL will be using to assess the effectiveness of our supervision, has been helpful in shaping our pre-evaluation submission – particularly the key messages we want to convey on how our supervisory activities improve money laundering and terrorist financing risk understanding and have a positive impact on firms' compliance.

Unfortunately, criminals use companies to frustrate the efforts of law enforcement to trace and track the origins of the proceeds of crime to which Guernsey's significant trust and corporate services sector is vulnerable. This risk is significantly mitigated by our supervision of the sector but there remains a gap whereby an individual may act as a director of up to six companies without a fiduciary licence. Towards the end of 2022, we worked with government on a consultation by the Policy & Resources Committee to develop a registration regime for those persons who use this exemption.

This included hosting two well-attended information sessions at the Commission's offices for those who act as director but outside the sphere of a supervised firm. The Commission is committed to building a proportionate risk-based registration regime which takes into account the small number of appointments that can be held. In our discussions we have been heartened by the strong commitment and professionalism towards their duties as directors which was evident in those sessions.

Risk Outlook

From corruption to crypto-crime to sanctions evasion – financial crime risks are complex and varied and require all firms to remain vigilant. Firms must ensure their controls are effective in detecting and preventing financial crime.

Fiona Crocker
Director

Cases reported

With the disruptions over the last two years behind us, 2022 was very much a case of being back in the office. Throughout the year there was one fully completed enforcement case, and three new cases taken on across the various sectors. However, that does not tell the full story of the year's activities which saw much activity before the Royal Court.

I intend to use this year's report to try and answer a question posed regularly to me when speaking to industry practitioners; "Why does the Commission's website display prohibitions against individuals, but there are no accompanying public statements detailing the reasons why these individuals are prohibited?" The answer to the question is two-fold. First, it could mean that certain aspects of the case are under appeal before either the Royal Court or the Guernsey Court of Appeal, or second, that there may be a parallel criminal investigation running. We appreciate that the informed public likes to see public statements so they can understand what has gone wrong. We try and ensure there is sufficient factual detail contained within the public statements to assist in that process.

2022 was the most active period over the last nine years for the Commission in terms of matters before the Royal Court. In one case that went before the Royal Court in December 2021, the judgment was handed down in 2022, however, part of it was immediately appealed to the Court of Appeal, and therefore cannot be commented upon further. This matter should be heard sometime in 2023.

Judgments on three other matters that went before the Royal Court in 2022 are still awaited. Under The Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020 ("the Enforcement Powers Law"), which came into force on 1st November 2021, the presumption that an appeal against a decision to publish a public statement shall be held in private was abolished. The Commission believes this to be important for the Bailiwick's international credibility and we hope this will markedly reduce the number of unfounded appeals.

Finally, a further matter, where a decision was handed down by a Senior Decision Maker in Q4 2022 has just been appealed to the Royal Court, and should be heard in 2023. As you can see, the Enforcement Division, has five matters that are subject to the judicial process. Only once those processes have concluded may the Commission be in a position to publish the outcomes on its website.

The only case that can be reported in detail came via settlement agreement at the end of 2022, where a licensee was found to have serious deficiencies in its AML/CFT procedures. The statement released detailed some serious issues that spanned a significant period. The licensee provided discretionary investment management services to private clients and a small number of non-Guernsey collective investment schemes. Its clients comprised high net worth individuals from, or linked to, jurisdictions which are regarded as posing a higher risk of money laundering, terrorist financing and/or bribery and corruption.

The licensee had no direct contact with its clients. Its business model meant that it was reliant on information provided by relationship managers in a separate jurisdiction who were employed by another company in the group. The deficiencies found within the client files reviewed were deeply concerning, and in some instances public information was available which should have meant greater scrutiny or even exit plans for some clients. The licensee failed to ensure appropriate and effective AML/CFT policies, procedures and controls were in place; there were corporate governance failings; the licensee failed to monitor transactions and activity; and the licensee failed to avoid, manage and minimise the conflicts of interest that clearly existed.

This all meant that the licensee was vulnerable to being used to facilitate money laundering and terrorist financing and thereby jeopardising the reputation of the Bailiwick as an international finance centre. The sanctions imposed reflected these findings.

General Process

Since 2013, when the Enforcement Division was created, 62 cases have been referred for further investigation, of which 38 have resulted in sanctions being imposed. At the end of 2022, the Division had 15 active cases, an increase of one from the same position in 2021.

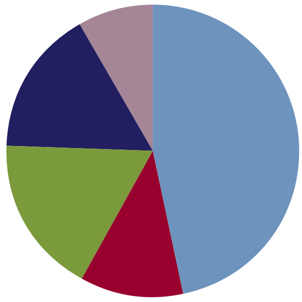
With the first full year now complete using the Enforcement Powers Law, it has proved to be much clearer for not only the Commission but also industry, on how matters will proceed. Once a matter has been referred to the Enforcement Division, it will be dealt with under this single law. In addition, the changes made to the Decision-Making Process, in an effort to streamline the process, have proved to be a success. This means that unless there are unusual circumstances, a matter that is referred to one of our panel of Senior Decision Makers will be completed within a period of six months. This will incorporate all of the processes that were in place previously but allows those empowered to make these decisions to manage unreasonable delaying tactics.

In 2022, we have also benefited from the consolidation of the Enforcement Division's 14 previous explanatory notes into one comprehensive note. This allows those subject to an enforcement investigation to navigate through the enforcement process with greater clarity than before, with one piece of legislation, one decision-making process and one explanatory note. We also endeavour to keep open dialogue with those under investigation to explain the stage of the process we may have reached throughout the lifecycle of an investigation.

From an operational point of view, across all investigations there were 25 statutory notices served on individuals and licensees, which was more than double the previous year. These notices provide the Enforcement Division with the necessary material to conduct thorough investigations where allegations of wrongdoing have been made. To supplement this process and to provide explanations relating to the material gathered, the Enforcement Division conducts interviews with those in key roles of which 12 interviews were conducted during the year.

We continued in 2022 to represent the Commission on Committee 4 for the International Organisation of Securities Commissions (IOSCO). This committee focuses on enforcement and cross-border support between regulators. The first in-person meeting was held in November 2022 after an almost three-year gap. This proved far more beneficial and constructive than the online meetings of the pandemic period.

Figure 1. **Outcome of Referrals 1st September 2013 to 31st December 2022.**



Total cases resulting in sanctions	29
Total cases referred back to supervision	7
Total cases with no further action	11
Open active cases	10
Open court appeals	5

IOSCO reached a significant milestone in 2022. Members are commemorating the 20th anniversary of the Multilateral Memorandum of Understanding (MMoU). Securities regulators suchas the Commission use the MMoU to exchange information, ensuring effective global enforcement cooperation and strengthening international securities markets.

Created in 2002, the MMoU has provided regulators with the tools for combating cross-border fraud and misconduct that can weaken global capital markets and undermine investor confidence. In its first year, the MMoU had only eight signatories; today it has 129. With more than 5,500 cross-border requests for information made through this mechanism in 2021, the MMoU is recognised by members as the leading instrument for regulatory enforcement cooperation and information sharing in the world.

The Commission became a signatory to the MMoU in 2009 and has found it an invaluable tool to seek information in ongoing investigations and to share outcomes with our fellow regulators who may have the same actors causing malfeasance in their jurisdictions.

Simon Gaudion
Director

SENIOR DECISION MAKERS

The constitution of the Panel of Senior Decision Makers remained the same this year as in 2021. At the year end, the Panel was as follows (in alphabetical order):

- Glen Davis KC (England and Wales)
- Russell Finch OBE, former Judge of the Royal Court (Guernsey)
- Catherine Gibaud KC (England and Wales)
- Kirsty Hood KC (Scotland)
- Ben Hubble KC (England and Wales)
- Richard Jones KC (England and Wales)
- Terence Mowschenson KC (England and Wales) and
- Alison Potter (England and Wales).

At the start of the calendar year 2022, there were no live cases before a Senior Decision Maker. However, three cases before a Senior Decision Maker commenced during 2022. One commenced in January and concluded in July 2022. The other commenced in May and concluded in November 2022. The third which only commenced in October 2022 is ongoing. 2020 and 2021 had seen the Covid pandemic impact on the arrangements for decision making by the Senior Decision Makers but 2022 saw the two oral meetings held in-person.

At the end of 2022, there were five live appeals from decisions of Senior Decision Makers. One has been the subject of a decision by the Royal Court and is on appeal to the Court of Appeal. Four others await a decision by the Royal Court.

The total number of cases dealt with by Senior Decision Makers since the inception of the Panel in 2014 is now 19.

The annual training day for the Senior Decision Makers was (happily) able to resume 'in-person' on 25th November 2022. It was a valuable session and all who attended appreciated being able to meet the new Commission Chairman, Mr Julian Winser, in person. The agenda included issues of practice and procedure arising out of recent cases and a discussion of certain aspects of the case decided by the Royal Court.

The Explanatory Note regarding "The Investigation and Decision-Making Process Relating to the Use of Enforcement Powers" (the Explanatory Note) which was updated on 1st November 2021 and later in September 2022, to reflect the new Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020 appears generally to be working well in the cases to which it has applied.

The Explanatory Note was updated in September 2022 to clarify the procedure to be followed by the Commission in relation to the timing of the imposition of sanctions, including where an application is made for a stay pending an appeal (at paragraphs 14 and 16.2).

Leigh-Ann Mulcahy KC
President of the Panel of Senior Decision Makers

RISK AND FINANCIAL STABILITY

Risk

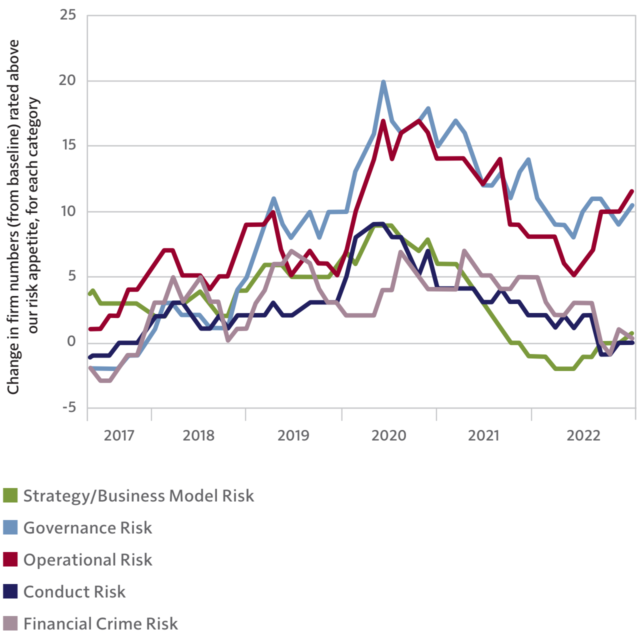
During 2022, the Risk Unit continued to provide challenge to, assurance of and further develop our approach to risk-based supervision; alongside being instrumental in successfully delivering several internal projects as part of our three-year business plan.

One key project that the team has been supporting is the preparation for the MONEYVAL visit in 2024. This preparation has included ensuring that our systems are working correctly, updating the documentation of our policies and procedures and identifying the key data that will need to be provided in response to MONEYVAL'S pre-visit questionnaire. This support will continue throughout 2023 to ensure that we provide accurate information to our assessors and also to test the effectiveness of our supervisory processes and practices in addressing risks relating to AML/CFT.

The adaptions to our risk based supervisory approach following the pandemic, reducing face-to-face meetings with larger firms that have what could be considered to have more straightforward business models and utilising thematic and peer group analysis for key prudential risks using Internal Sector Reviews (ISR) continue. With a significant number of ISRs now completed we continue to develop the best methods and approaches to identifying issues across peer groups and the findings from these reviews have informed a wide range of further actions such as Risk Mitigation Programme (RMP) issues for certain firms, further investigation of specific issues or - in one instance - the issuance of a 'Dear CEO' letter to a whole sector. We hope that this feedback, in addition to our external thematic reports issued on Reinsurance and other forms of Risk Transfer, Pension Transfers and Sanctions compliance in 2022 and the range of industry assurance events that have been held on several subjects, helped firms to better understand the Commission's rules, regulations and expectations and provide further guidance on actions all firms should be taking.

During 2022, we carried out 27 full scope Full Risk Assessment visits and over 218 further engagements with firms. Following these, the Risk Unit continued to act as an internal voice of challenge to our supervisors by providing an independent view on the RMP actions proposed. 335 actions were assigned to firms during the year and 228 actions were successfully closed by firms as they addressed the risks that the Commission had identified either in 2022 or earlier years. These actions are created where the weaknesses identified at a firm for a specific issue result in the probability of the risk crystallising being unacceptably high.

Figure 2. **Change in Open RMP Actions**



We continued to set RMP actions to mitigate a wide range of risk types, with, as in previous years, a significant number targeted at governance, operational, financial crime and conduct risks (Figure 2), and, whilst some of these may be discrete in nature, often an interdependency exists between them. Firm directors should continue to ensure they are satisfied that their own systems and controls in each of these risk areas, as well as their effect on each other, are sufficiently robust to mitigate the level of risk that they face, especially if the firm operates a high risk or innovative business model.

We continued to receive and review a range of information on the firms we supervise. This information is received from sources such as online returns, firm notifications, social media and the whistleblowing hotline. From these different sources we dealt with approximately 8,000 alerts and where necessary raised over 2,241 triages to record the action the Commission has or, where appropriate, has not taken. These alerts and triages cover a wide range of events from breaches of legislation or rules to reporting errors or the need to follow up an RMP action that had been set. For example, 1,745 alerts related to Key Risk Indicators or Information provided in our annual Financial Crime Risk Return.

Risk and Financial Stability *(continued)*

We continue to consider the best ways to process and analyse the information that we receive by using supervisory technology (SupTech) to augment our supervisory approach. Building on the foundations laid in the two prior years, with three internally developed applications, we have continued to enhance, consolidate and add to these applications, thereby developing an 'intelligent' early warning system that integrates with our existing PRISM system. This has been successfully 'operationalised' in the second half of 2022 and is now providing supervisors with key indicators of risk for individual firms and funds, hopefully enabling them to take actions against risks before they have crystallised.

Financial Stability

When considering financial stability each year, there is always a balance between looking back at what has happened in the past or facing forward and looking at what may impact us in the future. Each has its pitfalls, when looking back, it is all too easy to assume past cycles may apply to future events, even though the circumstances will never be identical. As we like to warn financial services customers – past performance is not an indicator of future performance (though we always mean successful performance here). In looking forwards it is only too easy to miss the unexpected risk or event that at the time of writing no one saw coming. Therefore, without trying to be Nostradamus, when considering financial stability for Guernsey it is best to review and understand the strengths and the weaknesses of the Bailiwick's economy versus the wider movements in financial stability globally.

The dominant themes during 2022 were interest rates being increased to address high inflation, slowing growth and increasing costs of living in tandem with record high employment levels. Overall, there was a sense of the main central banks trying to regain control of the financial system using the limited tools left in their toolbox following several decades spent trying to prop up the system due to financial crises or pandemics.

The Bailiwick has limited control over how many of these issues impact our islands but, without being overconfident, we continue to be in a slightly better position than perhaps some of our nearest neighbours. The overall inflationary figure calculated by the States of Guernsey at the end of 2022 was 8% - significantly less than the figure in the UK and Jersey for the same period. Whilst there are differences in calculations between each of these jurisdictions, if taken at face value, it presents a positive picture for Guernsey. Nonetheless, Bailiwick inflation does tend to lag behind the UK so whilst there are suggestions that the UK may have reached its peak inflationary figure in late 2022, Guernsey figures may continue to rise for a further period. Either way, the Bank of England is now forecasting a significant drop in inflation over the course of 2023 with a forecast of 3% for the start of 2024. There appears to be disagreement between Monetary Policy Committee members as to what this might mean with respect to interest rates but it does suggest that there may be a stabilisation in interest rates and that some of the worries around the future mortgage rates may have been allayed.

Across the globe, there are signs of a slowdown in most major economies with the UK only just avoiding going into recession at the end of 2022. Whilst the UK had the largest growth in GDP amongst the G7 countries in 2022, this does not hide that it had the largest gap to cover as its level of GDP has yet to reach its pre-pandemic level despite the fact that the US GDP was 4.2% higher and the Eurozone GDP was 2.1% higher in November 2022 prior to their pre-pandemic positions. The IMF forecasts UK GDP growth of -0.6% in 2023, the lowest in the G7. Were this to transpire it would be concerning as a positive and buoyant UK is of significance to a healthy Guernsey economy. That said, it is noteworthy how consistently the IMF has underestimated the UK's economic performance since it voted to leave the EU.

In 2022, we saw a 4.3% drop in applications for authorisations versus the average number for the last three years. Whilst this is not a significant drop, it could suggest a slowing down in growth for financial services in Guernsey. Overall, 2023 may be a year of consolidation rather than rapid growth for the Bailiwick's financial sector.

One of the key challenges for the UK to return to growth is the historically low unemployment levels and increase in the economic inactivity rate for working age individuals. This challenge is also replicated in many continental European countries according to supervisory counterparts to whom we have spoken. There is a similar challenge for us in the Bailiwick as there continues to be a shortage of skilled workers. Furthermore, firms experience significant difficulties given, the high cost of and lack of housing, in being able to attract the necessary skills to the island. The Commission, along with financial services firms, continues to work hard to recruit capable individuals but it is difficult. Without additional staff, no matter the opportunities which we understand exist, it will be difficult for financial services firms on the Bailiwick to achieve their full potential.

As we look forward to 2023, it is clear that if we were assessing the sea state for the Bailiwick, there is some rough water coming towards us, with perhaps some currents running against us, but if there is one thing this island is good at, it is swimming. We have a strong and balanced financial services industry with the potential for growth. Opportunities exist to develop our financial services so long as the Bailiwick can attract and retain skilled swimmers.

Katherine Jane
Co-Deputy Director General

THE COMMISSION'S THREE-YEAR BUSINESS PLAN

As noted in last year's annual report, the Commission invested significantly in the first Three-Year Business Plan ('3YBP'), which was initiated in the first half of 2018 and completed in 2021. The Commission's second 3YBP, running between 2021 and 2024, is now underway and in this section we report on progress made during 2022 implementing the various projects that form part of it.

MONEYVAL

This project began under the first 3YBP by allocating time and resources to plan for our next MONEYVAL visit, due in the first quarter of 2024. It has been over seven years since the Bailiwick's last evaluation and global expectations on AML/CFT have increased significantly since then. During 2022, following the significant progress made in 2021 updating our Financial Crime Risk Return, we used the data collected from it in conjunction with the National Risk Assessment sector ratings to implement a new Financial Crime Residual Risk model within PRISM to drive the frequency of our financial crime inspections. Further progress was made in reviewing and updating our internal policies and documentation to address any perceived gaps or weaknesses, following the points made by an external assessor in 2021.

Additionally, we increased our outreach to industry and re-examined the exemptions that are provided within our legislation, for example, the 'up to six directorships' exemption for which work continues into 2023 to implement a proportionate director registration regime. Further significant work in 2023 includes the preparation of the Bailiwick's MONEYVAL pre-evaluation submission which is due in Q3.

Credit and Finance

2022 saw the launch of the first ever consumer credit legislation in the Bailiwick, which will provide not just important protection to Bailiwick residents, but a framework for regulating Virtual Asset Service Providers (VASPs). Significant cross-Commission effort was spent during the year in developing policy, rules and guidance to support the new Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 that will come into full effect from 1 July 2023. Alongside this, work was undertaken to update our internal systems, authorisations processes and online portals in preparation for receiving applications from new regulated entities captured by this Law. Moving into 2023, further development of our internal systems will be required to ensure that these new entities are brought into the existing PRISM framework such that they can be supervised in accordance with our risk-based approach.

Website

The Commission's website is a key tool which we use to give messages and information to industry. It can be the first touchpoint people have when considering whether to start a financial services business in Guernsey. Recognising this, the aim of this project was to enhance the Commission's existing website, ensure compatibility with various devices with a particular focus on improving search functionality, user experience, accessibility and content management. During 2022, we took the opportunity to garner feedback from a wide range of stakeholders, following which we considered what needed to be updated or amended to improve the website's user experience. The resulting changes and updates are scheduled to be completed in the first quarter of 2023 and we hope that users will see an improvement in its ease of use.

Data

Our first 3YBP developed a data management system and updated the software behind our Online Portals which provided a solid base for this 3YBP. Like any organisation our IT systems and data storage have developed over time with additional systems being added when needed. The data project is reviewing our overall data strategy, including capture, storage, retrieval and accuracy, to consider the steps that need to be taken to ensure that the Commission receives accurate information in a timely manner which can be accessed, retrieved and analysed effectively. In 2022, four working groups focused on these areas and have produced a series of recommendations and actions to take forward into 2023 and beyond. Some of these relate to making updates to certain regulatory returns and associated guidance and will require liaison with industry regarding these changes. The Commission will continue to promote the need for accurate high quality data submissions to the Commission. Other recommendations relate to the need to redefine our future target operating model and our target data architecture with the aim of having a system which allows us optimally to access, retrieve and analyse the data we hold. As we move into 2023, the project will shift into a new phase where we will consider the design of a new data platform that would transform our current IT infrastructure, before working through the preparatory phase that would be required to implement and migrate to such a solution.

Linked to the data project is further development of our data management system. As noted above, as part of the first 3YBP, a centralised data management system was created and embedded across the Commission but this was a first step. During 2022, we moved from an on-premises version of SharePoint to SharePoint

Online, which brought additional tools and functionality to help simplify and improve the data storage process for all staff. In 2023, we need to consider how we use these new tools to further improve our data management systems and processes.

Augmented Intelligence

Following the success of the first project, during 2022 we partnered with technology provider d-fine to operationalise, enhance and consolidate the innovative tools that we created in the first phase of the project, thereby developing an intelligent early warning system ('EWS'), focused on low impact entities that integrates with our existing PRISM system. In July, we deployed an initial version of the EWS with an initial group of supervisors using it as part of their day-to-day supervision. Following user feedback, an enhanced second version of the EWS was deployed in December and continues to be evaluated in terms of its efficacy before being rolled out further across the Commission in 2023. It is envisaged that the EWS will augment the monitoring of low impact entities such that the system will help direct supervisors' attention quickly to entities that are displaying certain risk characteristics and patterns of concern. Internationally, the EWS has garnered significant interest from other regulatory authorities with several demonstrations planned during the first half of 2023. Alongside the wider roll out of the EWS, we have identified a range of other potential tools and systems that would help support our supervisory and authorisation processes, which we will look to prototype with a particular focus on automating our routine authorisations processes.

Equivalence Strategy

We continue to support the States of Guernsey with its work on developing trade agreements, alongside the UK, with several key jurisdictions. This work should help ensure the growth of financial services within the Bailiwick of Guernsey. As part of the 3YBP we created a project to analyse data and information to identify key jurisdictions of interest and to monitor work to support the Bailiwick's possible accession to free trade agreements. During 2022, the first part of this work was completed and so our support has been integrated into our normal activities.

Katherine Jane
Co-Deputy Director General

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SUSTAINABLE FINANCE

Supervision

A consideration of the impact of climate change was built into the Commission's Code of Corporate Governance in 2021 and is now featuring as a part of the Commission's routine supervisory approach; albeit with the understanding that the approach of most licensees is still evolving in this area. The Commission continues to follow evolving regulatory standards around disclosure.

The Commission continues to participate in the regulatory work of several international bodies, including the International Association of Insurance Supervisors sustainability group, the Sustainable Insurance Forum, and the Network for Greening the Financial System (NGFS). The Commission is also considering the concept of sustainability more generally rather than limiting the focus on climate change. For example, the Director General spoke at a Canadian-led panel on biodiversity finance at the UN Biodiversity Conference in Montreal (COP15).

The Commission continued to implement its three pledges made at COP26 in 2021. These being:

- to engage with life insurers interested in accessing the Commission's green life regulatory regime in a paper issued in 2022 by the NGFS made specific reference to this regime;
- to afforest its land in Scotland, supported by Scottish Forestry (c.50,000 trees were planted in 2022);
- to extend the Commission's regulatory regime to include sustainable funds in addition to the current coverage of green funds (see below).

In addition, the Commission has instructed its investment manager to follow sustainability criteria for certain parts of its holdings.

Policy

Following the success of the Guernsey Green Fund, the Commission launched its sister in 2022, namely the Natural Capital Fund. The concept of natural capital seeks to recognise the role of nature as an asset which is key to the sustained functioning of human social and economic activity. Examples of natural capital include clean air, water supply, plant life, animals, soil, and minerals. Under this scheme, funds can use the designation of a Guernsey Natural Capital Fund so long as their adhere to a set of qualifying criteria, including those specified by the United Nations; subject to external verification.

Risk Outlook

- greenwashing: especially in the funds sector;
- indifference: especially in the wake of other global challenges; and
- reputational damage: especially if consumers see the financial sector as part of the problem rather than part of the solution.

Jeremy Quick
Director

Human Resources

A focus for the HR team in 2022 continued to be effective recruitment which identifies, attracts and appoints good candidates. While competing for talent in what remained a tight recruitment market, the Commission also increased its headcount to support our supervisory efforts in advance of MONEYVAL - taking our permanent staff to 126 by the end of the year. While our staff turnover decreased by a third compared to 2021, some Divisions had to carry vacancies for longer than expected due to the challenge of finding suitably skilled candidates for new and existing positions.

Considerable effort was put into staff retention initiatives during 2022 including implementing several management actions as a result of an extensive staff survey undertaken at the end of 2021. After consideration, we reduced our full-time working hours from 40 hours per week to 37.5 hours per week to more closely align our working week with the standard full-time contracted hours in the finance industry. This has allowed more staff to take advantage of our existing flexible working policies including our nine-day fortnight scheme. We have also implemented various changes to our office floorplate to make the working environment more comfortable for staff; this includes installing a staff locker room and increasing the number of pods available to allow staff to work more flexibly in the office when needed. Further facilities improvements are planned for early 2023.

Staff salaries are regularly reviewed against the local finance industry and international regulatory and inspection bodies. We took steps in 2022 to reduce the gap in basic pay between staff at certain job levels and the finance industry. Nearly all staff were awarded a one-off Platinum Jubilee bonus in recognition of the additional work and effort put into the first half of the year while vacancies were at a high level, and to recognise the impact that rising inflation was having on the cost of living.

We continued to maintain our presence at local careers fairs and events and also attended an off-island university careers fair to advertise our ongoing and competitive Graduate Development Programme. Five new graduates were inducted into the rotation programme in 2022 and commenced the core foundation training programme. The training includes core skills such as minute taking, business writing, presentation and interviewing techniques. More widely, 25 members of staff were studying towards a professional qualification including the Investment Management Certificate, STEP Certificate in International Trust Management, the Chartered Financial Analyst Levels I-III, and the International Compliance Association Advanced Certificate in Anti-Money Laundering. Staff attended over 130 external training events including courses on personal development, investment advisors and funds, insider trading, a Global Wealth Strategy Summit, cyber incident response management and crypto assets. Our internal lunchtime talks continued with internal and external speakers giving a range of talks on topics such as the history of the internet, lasting powers of attorney, cyber and data risk management, an update from the Channel Islands Financial Ombudsman, health and wellbeing, sea swimming and beach litter.

In addition to our commitment to training and development, we continue to support staff wellbeing. Our Sports and Social Committee organise events to facilitate team building and support morale. The Commission offers an internal mentoring scheme to all staff and a trial of an external mentoring scheme commenced in 2022. Refresher training was provided to existing Mental Health First Aiders to ensure their knowledge is up-to-date, onsite flu vaccinations were offered to all employees, and the Commission's e-bikes remain popular with staff.

Finally, the Staff Handbook was reviewed in the second half of the year and following a consultation period with all staff, amendments were brought into effect from December 2022. As part of this review and following a trial period, the Commission made permanent an amended working from home policy which allows staff the option to work from home for up to one day per week and a "dress for your day policy" was introduced to replace the previous dress code. We regularly review and benchmark our benefits and internal policies and as a result of one such review the study leave policy was updated to increase the amount of study leave staff are entitled to when sitting exams.

Annabel Hitchon
Deputy Director

Operations Report *(continued)*

Financial Information

Several unexpected factors contributed to an increase in the Commission's reserves of 6.1% over 2022, following on from the small increase of 3.7%, seen in 2021.

One of these factors was, as mentioned elsewhere, a significantly higher than forecast number (and value) of discretionary penalties, with a total value of £1,510k being invoiced during 2022 with £972,700 cash received. As noted in our feedback paper on the fees consultation in the second half of the year, this was a key reason for our being able to reduce the fee increase we had proposed for 2023. Whilst this income was matched in part by an increase in some of the Commission's legal costs, these costs were much closer to our original budget for the year. The receipt of discretionary penalties is cyclical in nature (with just £39k received in 2021) making forecasting difficult. Should we continue to collect significant penalties in 2023 we will aim to use that income to minimise any increase in fees for law-abiding licence holders, following a "polluter pays" methodology. Any surplus might equally be absorbed by legal expenses. We have also seen a material jump in our bad debt allowance in 2022 relating to one enforcement penalty, which remains outstanding and we continue to pursue this debt but prudently have allowed for no recoveries.

Since the end of the year, we have had an indication of the outcome of at least one of our outstanding enforcement cases, which had been appealed to the Royal Court. Within this judgment, there are several key aspects that the Commission has decided to appeal to prevent the setting of precedents which could, in future, limit our legitimate ability as a regulator to take relevant actions against wrongdoers. We expect that this will come with significant costs and may cause future deficits. This is one reason we continue to hold a surplus over our operational expenses.

Carrying on from the position we found ourselves in at the end of 2021, for the first half of 2022 the Commission saw an under-complement benefit as a result of staff vacancies (which peaked at 20% in June 2022). This meant over the course of the full year we saw an under-complement benefit of over £600k, significantly reducing our expenses for the year, although delaying or stopping some important parts of our work programme such as several of our thematic inspections.

The above, combined with below budget professional and travel costs, led to considerably lower than budgeted expenditure. These factors combined to put the Commission in a significantly better position at the end of 2022 than originally forecast at the start of the year. As a result of the staff retention measures introduced in 2022, we do not expect to see a similar level of vacancies in 2023. This predicted increase in costs, along with further expenditure on projects such as Lending, Credit and Finance, the development of our IT infrastructure to allow for a registration regime for 'up to six directorships' as well as inflationary pressures mean that we expect 2023 to be a much tougher year in budgetary terms.

We will continue to invest our assets in a sensible and controlled manner over the next three years, whilst aiming to be in a position at the end of the three years, by 2026, to break even on a cash basis. There are several external forces which could affect this aim, not least the inflation forecast for 2023, though this may have seen its peak, and the ongoing challenges of recruiting skilled staff whilst available housing is limited and there is a high cost of living.

The Commission continues to manage its funds prudently, to ensure it can withstand unanticipated stresses and is able to deliver on its statutory objectives. Our level of cash, deposits and marketable securities has remained consistent with prior years, standing at £12.7 million. We continue to enforce robust counterparty limits to restrict our exposure to individual counterparties. Due to the size of our deposit base, we have limited banking counterparties who wish to deal with us, therefore this year we have invested a significant portion of our liquid assets in short dated, highly rated fixed interest securities. This allows us to minimise our risk profile whilst maintaining our liquid resources.

In 2022, the Commission's operational assets decreased in value by 23%. Some of this reflected the move to specific cloud-based systems with the underlying on-premise software or applications no longer being used. In the future, we expect a large proportion of our IT expenditure to be shown as operational expenses, due to the software as a service model regularly used by cloud-based systems.

Katherine Jane
Co-Deputy Director General

Information Technology and Systems

Information Technology and Systems

Following two years of significant change necessitated by Covid restrictions, our IT requirements have settled down into a more normal pattern with a significant amount of office working whilst supporting a robust and flexible system which allows working from home as and when needed, in line with the Commission's operational requirements. Whilst not forgetting the lessons learnt during the pandemic, such as our ability to pivot to a different way of working quickly and securely, it is our hope that we will have sufficient operating stability to focus on renewal of our IT infrastructure over the next few years.

We continue to see on-premises systems and services, especially for an organisation our size, being withdrawn or not being developed further as IT providers focus on their cloud products. We are also aware that within the next five years a number of our back office systems will need to be replaced as they move out of vendor support. We have therefore initiated a project to review and improve our IT and data infrastructure, to ensure a safe and secure move to cloud services which will enable us to take advantage of the broader range of services and products that are offered on the cloud.

Projects

There were several projects that absorbed IT resources during the course of the year with one of the key ones being the development of the system infrastructure to support the authorisation of new licensees under the Lending, Credit and Finance (Bailiwick of Guernsey) Law, that was approved by the States of Guernsey in 2022. There was a wide range of work undertaken to ensure that we could accept applications for authorisation, and associated Personal Questionnaires, from the start of 2023. There will be further work required in 2023 to develop our existing infrastructure to allow these newly licensed firms to submit relevant annual returns and other notifications to the Commission.

In 2021, the Commission completed the implementation of a document management system which allows information on an individual firm to be stored in a central area. After this was successfully deployed using an on-premises version of the software it became clear that this did not align easily with some of the cloud-based tools we were utilising. Therefore, in 2022, we moved our document management system to a cloud-based version of the existing system, providing significant synergies, easier use and access to a wider range of tools when searching for information.

Finally, the other project that had significant IT focus was the review of our data and infrastructure systems with a view to what the future structure should look like. This has been discussed further in the three-year business plan section of this report.

Cyber Security

As for every organisation, this remains a key risk for the Commission and is one of the areas on which we focus a lot of time and energy to try to ensure that our controls are as strong as they can be, for an organisation of our size.

As in previous years, ongoing staff training and phishing tests help to keep our staff aware of the risks and new methods of attack. Our practical testing also identifies further improvements in our systems and controls which could be implemented. Within our IT team we also continue to ensure we could, if necessary, restore our systems from backups in a timely manner should we be subject to a ransomware attack. In addition, we continue to use outside parties to review and test our systems, via penetration testing, or other methods to ensure our IT perimeter and systems are as protected as possible. The Commission remains Cyber Essentials certified, which is a testament to our strong control environment and good cyber hygiene. We have continued to consider other relevant methods for testing our systems and controls. While none of this provides certainty, we are confident our work has been robust and comprehensive, as far as is reasonably possible.

In 2022, we saw over 48,000 attacks or connections that tried to exploit publicly known vulnerabilities, however, a high number of these were for systems or software that the Commission does not run. In addition, we continue to see outside parties pretending to be the Commission using cloned websites and "lookalike" domains in emails. Over the course of the year, we saw these attempts become more sophisticated and in one instance even suggested that the Commission would refund lost cryptocurrency to scammed individuals. Whilst we continue to investigate actively these cases, including requesting the closure of any relevant websites or domains, they keep reappearing. Given this we would encourage all licensees to be vigilant and, if you have any concerns about whether a message from the Commission is genuine, please reach out directly to us, either through your normal contact point or via our main reception.

We will continue to work with the relevant law enforcement agencies, put notices on our website or social media when we become aware of a fake website, however, we have a limited ability to stop this recurring.

Katherine Jane
Co-Deputy Director General

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of the Guernsey Financial Services Commission (the "Commission") for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

In our opinion, the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2022 and of its surplus for the year then ended;
- are in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102"); and
- comply with the requirements of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Commissioners are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Commissioners for the financial statements

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

In preparing the financial statements, the Commissioners are responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commissioners either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Use of our report

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

Grant Thornton Limited
Chartered Accountants
St Peter Port, Guernsey

Date: 1st June 2023

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FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2022

Note		2022	2021
		£	£
	Regulatory income		
2.1.	Fee and financial penalty income	16,076,068	14,251,409
		16,076,068	14,251,409
	Operating expenses		
2.2.	Administrative and general expenses	(4,358,085)	(4,033,630)
3.1.	Staff expenses	(10,759,576)	(9,849,629)
		(15,117,661)	(13,883,259)
	Operating surplus	958,407	368,150
2.3.	Net finance income	(185,214)	128,620
2.4.	Grant income	13,530	-
	Total comprehensive surplus for the year	786,723	496,770

STATEMENT OF CHANGES IN EQUITY

	Retained surplus
	£
At 1st January 2021	13,388,163
Comprehensive surplus for the year	496,770
At 31st December 2021	13,884,933
Comprehensive surplus for the year	786,723
At 31st December 2022	14,671,656

All operations are considered continuing. There was no other comprehensive income in the current or prior year.
The accompanying notes are an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
As at 31st December 2022

Note		2022	2021
		£	£
	Non-current assets		
4.1.	Intangible assets	1,127,233	1,753,000
4.2.	Property, plant and equipment	1,041,638	1,067,075
5.1.	Forestry assets	174,241	139,421
5.2.	Non-current financial assets	8,023,460	3,331,554
6.1.	Non-current receivables	22,906	28,264
		10,389,478	6,319,314
	Current assets		
5.2.	Current financial assets	3,766,269	3,700,000
6.1.	Current receivables	1,202,379	1,075,176
6.2.	Cash and cash equivalents	918,452	4,603,669
		5,887,100	9,378,845
	Total assets	16,276,578	15,698,159
	Current liabilities		
6.3.	Current payables	(847,310)	(1,268,669)
		(847,310)	(1,268,669)
	Non-current liabilities		
6.4.	Provisions	(757,612)	(544,557)
		(757,612)	(544,557)
	Net assets	14,671,656	13,884,933
	Equity		
	Retained surplus	14,671,656	13,884,933
	Total equity	14,671,656	13,884,933

The accompanying notes are an integral part of the Financial Statements.
The audited financial statements on pages 41 to 57 were approved by the Commissioners and signed on their behalf on 1st June 2023 by:

Julian Winser	John Aspden	William Mason
Chairman	**Vice-Chairman**	**Director General**

STATEMENT OF CASH FLOWS

For the year ended 31st December 2022

Note		2022	2021
		£	£
	Cash flows from operating activities		
	Total comprehensive surplus for the year	786,723	496,770
	Adjusted for non-cash items:		
4.1.	Amortisation	589,759	751,376
4.2.	Depreciation	210,830	285,463
4.1.	Loss on disposal or write-down of intangible assets	36,008	164,773
4.2.	Loss/(gain) on disposal or write-down of property, plant and equipment	(14)	(5,140)
2.3.	Net finance (cost)/income	185,214	(128,620)
	Movements in working capital:		
6.1.	Increase in receivables	(121,844)	(390,787)
6.3.	Decrease in payables	(421,359)	(904,335)
6.4.	Increase in provisions	213,055	202,025
	Net cash from operating activities	1,478,372	471,525
	Cash flows from investing activities		
4.2.	Purchase of property, plant and equipment	(185,428)	(104,700)
	Proceeds received on disposal of equipment	-	5,500
4.2.	Software development expenditure	-	(252,719)
5.1.	Purchase of forestry assets	(34,820)	(28,981)
2.4	Grant towards purchase of forestry assets	13,530	-
5.2.	Net (purchase)/sale of financial assets	(5,026,178)	3,289,010
2.3.	Net finance income received	66,376	7,897
	Net cash (used in)/from investing activities	(5,166,520)	2,916,007
	Increase/(decrease) in cash in the year	(3,688,148)	3,387,532
	Cash and cash equivalents at the start of the year	4,603,669	1,216,137
	Effect of foreign exchange rate changes	2,931	-
	Cash and cash equivalents at the end of the year	918,452	4,603,669

There were no cash flows from financing activities in the current or prior year.
The accompanying notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2022

1. Accounting information

This section explains the basis of preparation for the Commission's Financial Statements and accounting policies that relate to these as a whole.

1.1. General information

The Guernsey Financial Services Commission ("the Commission") is a body corporate established under the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 ("the Commission Law"). The Commission's operations are carried out from its offices at Glategny Court, St Peter Port, Guernsey.

The Commission is a Public Benefit Entity whose primary objective is to regulate the financial services industry in the Bailiwick of Guernsey.

1.2. Statement of compliance

The Financial Statements give a true and fair view, are prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") and comply with the Commission Law.

1.3. Basis of preparation

The Financial Statements have been prepared under the historical cost convention with the exception of the revaluation of investment property and financial assets, which are held at fair value through surplus or deficit. The Commission's principal accounting policies, which have been applied consistently by the Commission year-on-year, are described in the relevant notes below.

1.4. Functional currency

The Commission's functional currency is Pounds Sterling ("£") and is the currency in which the Commission presents the Financial Statements and measures its financial performance, position, and cash flows.

1.5. Going concern

The Financial Statements are prepared on a going concern basis. In concluding that the Commission remains a going concern, with adequate financial resources to continue its operations 12 months following approval of the Financial Statements, the Commissioners have considered the following:

- The Commission's net assets include cash and marketable securities of £12,708,181 (2021: £11,635,223) that are readily realisable within three months in normal market conditions and liabilities of £1,604,922 (2021: £1,813,536).
- The Commission's projected income, expenditure, and cash flows for 2023 and its three-year planning cycle. The Commission's net assets and projected income are, at the time of approval of the Financial Statements, deemed adequate to enable the Commission to continue to fulfil its statutory objectives.
- Scenario analyses have been undertaken on the impact of increases in Commission expenditure and reduction in the Commission's projected income due to a reduction in the volume of new applications or existing licensees. Whilst these scenarios would be likely to cause/increase any projected operating deficit, the Commission's strong financial position means we believe it would continue to meet its ongoing financial commitments.

1.7. Use of judgements and estimates

The preparation of the Financial Statements requires the use of judgements, estimates, and assumptions that affect the application of our accounting policies and the reported amounts of assets, liabilities, income, and expenses. Although these estimates are based on the Commission's best available knowledge, uncertainty in assumptions and estimates mean actual results may ultimately differ from those estimates.

Information about the judgements, assumptions, and estimates that are most significant to the Financial Statements are set out in the following notes:

A. **Critical accounting judgements**
   (i) Recognition of Intangible Assets (see note 4.1)
   (ii) Classification of Leases (see note 4.3)

B. **Key sources of estimation uncertainty**
   (i) Useful Lives of Intangible Assets (see note 4.1)
   (ii) Fair Value of Investment Property (see note 5.1)
   (iii) Fair Value of Financial Assets (see note 5.2)
   (iv) Bad Debt Allowance for Fee and Penalty Receivables (see note 6.1)
   (v) Provision for Lease Obligations (see note 6.4)

2. Performance for the Year

This section describes the Commission's regulatory income, other income, operating expenses, and other expense items relevant to the Commission's results for the year-ended 31st December 2022.

2.1. Regulatory Income

The Commission's primary sources of income are through the raising of fees for firms carrying out regulated activities under the Commission Law and levying of penalties, which enables the Commission to recover the costs of carrying out its statutory functions.

	2022	2021
	£	£
Fee income		
Annual Fee Income	13,841,496	12,582,803
Application Fee Income	1,123,720	1,160,790
	14,965,216	13,743,593
Penalty income		
Administrative Penalty Income	134,000	125,500
Discretionary Penalty Income	1,150,310	466,800
	1,284,310	592,300
Change in Bad Debt Allowance	(143,473)	(60,663)
Bad Debts Written-Off in the Year, net of Recoveries	(29,985)	(23,821)
	16,076,068	14,251,409

The following table provides information about the nature of the major sources of regulatory income and their associated revenue recognition policies:

Type of Income	Nature	Recognition
Annual Fees	The periodic fee payable by licensees and registrants, as prescribed by regulation and set out on the Commission's website on a sectoral basis.	Income is recognised where an entity is licensed or registered on 1st January of each year. Where an entity is licensed or registered partway through a financial year, a pro-rata annual fee is charged. Any fee income received prior to 1st January is deferred and treated as fees in advance (see note 6.3).
Application Fees	A person wishing to be licensed or registered with the Commission to carry out a regulated activity is required to pay a non-refundable fee when submitting the application, as prescribed by regulation. Licensees must also pay a fee when making certain notifications to the Commission, as specified in regulation.	Application fees are recognised on receipt of the relevant fee with the application made to the Commission.
Administrative Financial Penalty	Where a licensee files an annual return, financial statement, or other relevant document, or pays its annual fee, after the stipulated deadline date, a penalty is levied as prescribed by regulation.	Income is recognised when the penalty can be reliably measured, once the return, financial statement, or relevant document has been submitted to the Commission in an appropriate manner, or the relevant fee has been paid.
Discretionary Financial Penalty	The Commission may impose financial penalties using its statutory powers under section 39 of the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020, and previously section 11D (1) of the Commission Law. Such decisions are subject to the Commission's published enforcement process and confer a right of appeal to the Royal Court.	Income from financial penalties are recognised when a formal decision has been made by the Commission, following its published enforcement process, a public statement has been placed on its website, and the parties have settled or any statutory appeal process has either been concluded or an appeal has not been lodged with the Royal Court within the statutory timeframe.

The greatest uncertainty from income recognition arises from recoverability of penalties or regulatory fees. This is when the circumstances of a particular debtor give rise to concerns over whether they will be able to settle a penalty or regulatory fee in full. In such circumstances, the Commission will raise a bad debt allowance against amounts receivable from that debtor, which is assessed on a case-by-case basis. This is described further in note 6.1.

2.2. Administrative and general expenses

The following are included within the Commission's operating surplus:

	2022	2021
	£	£
Rent, rates and premises costs	1,119,395	1,078,029
Amortisation (see note 4.1)	589,759	751,376
Depreciation (see note 4.2)	210,830	285,463
Loss/(gain) on disposal or write-down of property, plant and equipment (see note 4.2)	(14)	(5,140)
Loss on disposal or write-down of intangible assets (see note 4.1)	36,008	164,773
Changes in measurement of provisions (see note 6.4)	213,055	202,025
Legal expenses	421,936	398,536
Professional expenses	303,469	191,733
Auditor's remuneration	10,120	9,200
Other expenses	1,453,527	957,635
	4,358,085	4,033,630

Administrative and general expenses are accounted for on an accruals basis in the year to which they relate. A breakdown of expenses by functional area for the current and prior year can be found in the Statistical Data section on page 68.

Gains or losses on disposal or write-down of property, plant and equipment and intangible assets are determined as the difference between the proceeds or costs on disposal, if any, and its net carrying value on the date of disposal or write-down.

2.3. Net finance cost/income

	2022	2020
	£	£
Dividend and interest income	173,075	60,998
Bank and management charges	(67,377)	(52,312)
Net (losses)/gains on financial assets	(290,912)	119,934
	(185,214)	128,620

Interest income on fixed income instruments, fixed-term deposits, notice, and call accounts is recognised on an accruals basis using the effective interest rate method. Dividend income is recognised on an accruals basis in the event the Commission owns a security after the ex-dividend date has passed.

Realised gains or losses on the disposal of financial assets held at fair value are determined as the difference between the sales proceeds and the carrying value of the asset at the commencement of the reporting period plus any additions in the period. Unrealised changes in fair value on revaluation are taken to surplus or deficit. Refer to note 5.2 for information on the determination of fair value for financial assets.

2.4. Grant income

During the year, the Commission received a grant of £13,530 from Scottish Forestry (2021: £nil) to provide financial support for the Commission's afforestation of its land in Scotland, as well as maintenance costs in connection with planted trees (refer to note 5.1). No further amounts are due under the grant agreement.

The Commission's is obliged under the grant agreement to plant specified woodland on the land, as well as to undertake sustainable management of the afforested land. The Commission estimates that most of the costs anticipated to satisfy those obligations have been incurred in afforesting the land during 2022, and the Commission has applied the accruals method in recognising grant income.

2.5. Taxation

The Commission is exempt from income tax under the Income Tax (Guernsey) Law, 1975, as amended.

3. People and related parties

This section describes the range of employment and post-employment benefits provided to the Commission's staff and our relationships with other key people.

3.1. Staff costs

The total remuneration for the Commission was £10,759,576 (2021: £9,849,629) comprising:

	2022	2021
	£	£
Wages and salaries	8,165,811	7,638,244
Social insurance, permanent health, and medical insurance costs	977,059	871,195
Pension costs	908,320	828,412
Recruitment and training costs	467,545	282,959
Commissioners' fees	240,841	228,819
	10,759,576	9,849,629

3.2. Post-employment benefits

A. Defined contribution scheme

The Commission recognised £106,933 (2021: £94,039) of expenses relating to the Commission's defined contribution scheme. Employer contributions are calculated at 12% of pensionable salary. Up until 30th June 2014, mandatory employee contributions were at a rate of 5%, after which employee contributions became entirely voluntary. No contributions were outstanding at 31st December 2022 (2021: £nil).

B. Multi-member RATS

The Commission recognised £598,260 (2021: £533,843) of net expenses for employer contributions to the Commission's multi-member RATS scheme. Employer contributions are calculated at 12% of pensionable salary. Employee contributions are entirely voluntary. No contributions were outstanding at 31st December 2022 (2021: £nil).

3.4. Related parties

A. Controlling party

The Commission does not have a controlling party. No party can direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction.

B. Key Management Personnel

Remuneration paid to key management personnel in 2022, including pension and social insurance, totalled £2,114,724 (2021: £2,008,788). Key management personnel include the Commissioners and the executive directors.

C. Related Party Transactions

The following amounts were recognised in the year in relation to related parties:

- Commissioner Dorey is a Non-Executive Director of Schroders (C.I.) Limited. The firm provides investment management and deposit administration services for the Commission, for which it received fees during 2022 of £60,600 (2021: £45,815).
- Commissioner Howitt's long-term partner is a member of the senior counsel at Walkers (Guernsey) LLP. The firm provided legal advice to the Commission during the year, for which it received fees during 2022 of £9,036 (2021: £20,825).
- Members of key management personnel and certain Commission officers were granted an indemnity by the Commission in respect of liability incurred because of their office. The indemnities were in force during the year-ended 31st December 2022 and remain in force. The indemnity was not called on during the current or prior year.

Commissioners Dorey and Howitt are not present at discussions with Commissioners relating to any business involving the firms for which they are a related party.

4. Operating assets and liabilities

This section describes the long-term assets used by the Commission in fulfilling its objectives and related obligations.

4.1. Intangible assets

These are non-physical assets consisting of purchased and internally developed computer software. This software is designed to help the Commission carry out its various statutory functions more efficiently and effectively. These are stated at cost less accumulated amortisation and impairments.

	Computer software
	£
Cost	
At 1st January 2022	5,081,085
Additions	-
Disposals and Write-Offs	(1,133,521)
At 31st December 2022	3,947,564
Accumulated amortisation	
At 1st January 2022	(3,328,085)
Expense for the year	(589,759)
Disposals and write-offs	1,097,513
At 31st December 2022	(2,820,331)
Net carrying value	
At 31st December 2021	1,753,000
At 31st December 2022	1,127,233

The cost of internally developed software, including all directly attributable costs necessary to create, produce, and prepare the software for use is capitalised when it meets the criteria specified by FRS 102.

Once available for use, intangible assets are amortised on a straight-line basis over the shorter of their expected useful life or 5 years. These are assessed based on the technical life of a given piece of software, the period over which ongoing supplier support is available, and the period over which it is anticipated Commission staff will benefit from use of the software, all of which are uncertain estimates based on our technical knowledge and judgement.

Intangible assets are assessed for impairment annually, or sooner if events or circumstances indicate potential impairment of asset's the carrying value. The carrying value of an asset is immediately written-down where this is greater than that asset's estimated recoverable amount.

4.2. Property, plant and equipment

These are physical assets that are held by the Commission for administrative or operational purposes. These are stated at cost less accumulated depreciation and impairments.

	Leasehold improvements	Fixtures, fittings and equipment	Computer hardware	Total
	£	£	£	£
Cost				
At 1st January 2022	1,445,701	588,227	874,577	2,908,505
Additions	52,910	39,085	93,434	185,429
Disposals and write-offs	(2,153)	(67,214)	(88,739)	(158,106)
At 31st December 2022	1,496,458	560,098	879,272	2,935,828
Accumulated depreciation				
At 1st January 2022	(725,618)	(408,738)	(707,074)	(1,841,430)
Expense for the year	(64,023)	(26,438)	(120,369)	(210,830)
Disposals and write-offs	2,117	67,214	88,739	158,070
At 31st December 2022	(787,524)	(367,962)	(738,704)	(1,897,190)
Net carrying value				
At 31st December 2021	720,083	179,489	167,503	1,067,075
At 31st December 2022	708,934	192,136	140,568	1,041,638

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Property, plant and equipment is depreciated on a straight-line basis over the expected useful life of the asset, based on the following periods:

- Leasehold Improvements: over the lease term or, if shorter, the improvement's estimated useful life;
- Office Equipment: 4 years;
- Fixtures and Fittings: 10 years or, if shorter, the asset's estimated useful life; and
- Computer Hardware: 3 years.

The residual values and useful lives of property, plant and equipment are reviewed and, if appropriate, adjusted at the end of each reporting period. The carrying value of an asset is immediately written down where this is greater than that asset's estimated recoverable amount, following an impairment assessment. These are carried out annually, or sooner if events or circumstances indicate potential impairment of the asset's carrying value.

4.3. Operating leases

The Commission is party to several operating leases for premises. These include:

- its offices at Glategny Court, which are subject to a non-cancellable lease ending in 2034; and
- three flats leased for 2-year terms, two commencing in 2022 and one commencing in 2023, that are sub-let to staff who have relocated to Guernsey.

All leases have been classified as operating leases, as the Commission does not consider the risks and rewards incidental to ownership to have transferred to the lessee. Rental payments made on these leases are recognised as expenses as they are incurred.

A summary of the minimum aggregate value of lease payments has been presented below:

	£
Less than 1 year	735,648
Between 2 and 5 years	2,748,640
More than 5 years	4,584,642
	8,068,930

The Commission has obligations under the terms of the lease for its office premises to undertake redecoration and reinstatement works. Provisions have been recognised for those obligations, as detailed in note 6.4.

5. Financial and forestry investments

This section sets out the investments, both financial and physical, that the Commission has made.

5.1. Forestry assets

	Investment property	Biological assets	Total
	£	£	£
At 1st January 2021	110,440	-	110,440
Additions	-	28,981	28,981
At 31st December 2021	110,440	28,981	139,421
Additions	-	34,820	34,820
Net change in fair value and write-downs	-	-	-
At 31st December 2022	110,440	63,801	174,241

Investment property represents land acquired by the Commission in June 2020, held to offset the carbon emissions arising from its activities through afforestation. Investment property is measured at fair value, with any changes in fair value being recognised in surplus or deficit.

Biological assets for 2022 represent the cost of planted trees and for 2021 the ground preparation work required to afforest the acquired land. These are initially recognised at cost and subsequently measured at cost less impairment, where applicable.

Valuations of investment property are performed on a three-year cycle by an independent, expert valuer. We plan to conduct the first such valuation for the 2023 reporting period. In the intervening period, the Commission assesses whether the carrying value of the land approximates its fair value by reference to market evidence of transaction prices for similar properties, consideration of the economic environment relevant for forestry land, and an assessment of the land itself for evidence of physical impairment.

5.2. Financial assets

The Commission invests a portion of its surplus funds in liquidity funds, fixed income securities, and a portfolio of investment funds managed by an external discretionary investment manager. This is to protect the capital value of the Commission's net assets, through a cautious investment strategy that is sustainable where possible, while mitigating against the erosion of the value of cash balances due to inflation.

	Current		Non-current		
	Fixed term deposits	Liquidity funds	Fixed interest securities	Investment funds	Total
	£	£	£	£	£
At 1st January 2021	5,800,000	1,265,000	386,385	2,748,457	10,199,842
Net purchases/(disposals)	(5,800,000)	2,435,000	(386,385)	598,392	(3,152,993)
Net change in fair value	-	-	-	(15,295)	(15,295)
At 31st December 2021	-	3,700,000	-	3,331,554	7,031,554
Net purchases/(disposals)	-	66,269	5,227,650	(292,055)	5,001,864
Net change in fair value	-	-	(12,262)	(231,427)	(243,689)
At 31st December 2022	-	3,766,269	5,215,388	2,808,072	11,789,729

All financial assets comprise basic financial instruments. These are recognised when the Commission becomes party to that instrument's contractual provisions at the relevant transaction price.

Fixed term deposits with a maturity of greater than three months are subsequently measured at amortised cost using the effective interest method. The carrying amount of these assets is considered to approximate their fair value.

All other investments are subsequently measured at each reporting date at fair value, with changes in fair value being recognised in surplus or deficit. The Commission invests either in listed investments or funds that trade daily, where there are quoted market prices available in active markets and where transactions occur at arm's length between appropriately knowledgeable counterparties. The prices used to revalue those instruments are quoted bid prices, which are multiplied by the number of securities of each instrument held by the Commission at the reporting date.

6. Net working capital

This section shows the assets and liabilities that the Commission generates through its day-to-day regulatory activities, including receivables, payables, cash, and provisions.

6.1. Receivables

	2022	2021
	£	£
Amounts falling due within one year		
Fee and penalty receivables	761,554	594,698
Less: Bad debt allowance for fee and penalty receivables	(258,321)	(114,849)
Other receivables	20,644	4,653
Prepayments	678,502	590,674
	1,202,379	1,075,176
Amounts falling due after more than one year		
Prepayments	22,906	28,264
	22,906	28,264
Total receivables	1,225,285	1,103,440

Receivables are measured at amortised cost using the effective interest method. The carrying amount of these assets approximates to their fair value.

The Commission assesses all fees and penalties receivable on an ongoing basis for recoverability. A significant proportion represents discretionary financial penalties issued by the Commission following its published enforcement process. These are assessed and, where appropriate, a bad debt allowance is raised in line with internal policies and the likely ability of the individuals or entities involved to settle their debts in part or in full.

The debts for which an allowance has been raised are reviewed regularly to ensure that all avenues are explored to obtain recovery.

6.2. Cash and cash equivalents

This comprises cash and short-term, fixed-rate bank deposits with a maturity date of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

	2022	2021
	£	£
Fixed-term deposits and notice accounts	-	3,204,284
Cash at bank and in hand	471,243	998,145
Cash held with discretionary manager	447,209	401,240
Total cash and cash equivalents	918,452	4,603,669

The Commission had no borrowings as at the year-end (2021: £nil).

6.3. Payables

	2022	2021
	£	£
Amounts falling due within one year		
Payables and accruals	818,924	755,514
Fees received in advance	30,812	513,155
Total payables	847,310	1,268,669

Payables are measured at amortised cost using the effective interest method. The carrying amount of these liabilities are considered to approximate their fair value.

Where cash is received before the relevant income recognition criteria, outlined in note 2.1, have been met, this is deferred and recognised as a liability until such time as those relevant criteria have been met.

6.4. Provisions

The provision relates to the expected costs of reinstatement and redecoration obligations as part of the lease for the Commission's premises. The total value of lease obligation provisions was £757,612 (2021: £544,557), comprising:

	Reinstatement provision	Redecoration provision	Total
	£	£	£
At 1st January 2021	328,657	13,875	342,532
Amounts provided/(released) during the year	204,663	(2,638)	202,025
At 31st December 2021	533,320	11,237	544,557
Amounts provided during the year	201,536	11,519	213,055
At 31st December 2022	734,856	22,756	757,612

All amounts fall due after more than one year.

The reinstatement provision relates to the expected costs to return the Glategny Court office premises to their original condition on termination of the premises lease. The redecoration provision relates to the expected costs to redecorate the internal surfaces of the Glategny Court office premises every five years, from 2015, for the non-cancellable period of the lease.

The provisions at the reporting date have been determined based on the following guideline values:

- Reinstatement Provision: £1,150,000; and
- Redecoration Provision: £24,000.

The guideline value for the reinstatement provision is determined based on an assessment by an independent expert, undertaken every three years. The most recent valuation was performed for the 2022 accounts. The guideline value for the redecoration provision is based on the Commission's experience of the cost of such redecoration work. In the intervening period, the Commission assesses whether changes to the office premises and movements in the rate of inflation warrant adjustment to those values. The value of provisions is accrued over the non-cancellable lease period, taking into consideration the time and value of money, where this is material.

7. Other notes

This section includes other financial information that is required by accounting standards.

7.1. Contingent liabilities

The Commission is subject to a variety of claims that arise in the ordinary course of fulfilling its statutory functions. These may include litigation or appeals following investigations undertaken by the Commission, as part of the enforcement process published on its website. Provisions are only recognised because of past events where claims give rise to a present legal or constructive obligation, it is probable settlement will be required, and the value of that settlement can be reliably measured. No provisions were recognised for any claims as at 31st December 2022 (2021: £nil).

As described in note 3.4, the Commission provides an indemnity to key management personnel and Commission officers who carry out actions in line with their statutory duties. This indemnity was not called on during the year (2021: £nil).

7.2. Subsequent events

The Financial Statements were approved for issuance by the Commissioners on 28th April 2023. Subsequent events have been evaluated until 27th April 2023.

The following non-adjusting subsequent events have been noted:

- Since 31st December 2022, movements in the quoted prices of the Commission's financial assets resulted in their fair value increasing by £325,846 as at 27th April 2023.
- In April 2023, the Royal Court handed down a decision in the matter of I. Domaille and I. Clarke and M. Hannis v Guernsey Financial Services Commission, which was an appeal against a decision made by the Commission to impose sanctions. The Royal Court's judgment set aside several parts of the Commission's decision and made an award of costs against the Commission. The Commission has appealed the Royal Court's judgment, on the advice of legal counsel and having considered the details outlined within the judgment. The amount of any potential penalty income, or expenses from cost awards against the Commission, will not be known until all legal procedures have been exhausted and as such have not been recognised in the Commission's Financial Statements.

There have been no adjusting subsequent events to report.

COMMISSIONERS

Julian Winser
Chairman of the Commission

Julian was appointed as a Commissioner in May 2021 and became Chairman in December 2021. Julian served in the military as an officer in the Royal Green Jackets and Army Air Corps. On leaving he spent ten years at Baring Asset Management in operations and investment management and subsequently 23 years at Schroders working in the investment market on behalf of private clients and institutions. Between 2005 and 2020 he was CEO of Schroders' offshore private client business based in Guernsey responsible for the Channel Islands, Gibraltar, Malta and Bermuda, while also being part of the team managing Cazenove Capital worldwide. He has been a Trustee of Youth Clubs UK, President of the Guernsey Chamber of Commerce and Chairman of the Guernsey Youth Commission. Currently he is Chairman of the Guernsey Friends of DofE, and he is a CEDR trained mediator, and advisor to the Oxford Process, an international conflict resolution organisation.

Wendy Dorey
Commissioner

Wendy was appointed as a Commissioner in November 2015. She has spent over 20 years in the financial services industry in the UK, France and Guernsey. She is currently Director of Dorey Financial Modelling, an investment consulting firm, and a Non-Executive Director of Schroders (CI) Limited and Weiss Korea Opportunity Fund Ltd. She has multi-sector experience across investment, banking and pensions, occupying senior posts in business strategy, governance and marketing and distribution for a number of leading institutions in the City of London. During that period, she was responsible for external risk reporting to the Financial Services Authority and embedding new "Treating Customers Fairly" processes. She was also responsible for the launch and on-going promotion of the Guernsey-domiciled M&G Property Fund to the UK Market. A strong advocate of continuous learning, she assisted the Investment Management Association in developing a new investment management syllabus for Independent Financial Advisors and, in 2018, gained the Institute of Directors Certificate and Diploma in Company Direction. She was admitted as a Chartered Director and Fellow of the IoD in 2019, before becoming Chair of the Guernsey IoD Committee in 2021.

Baroness Couttie
Vice-Chairman of the Commission

Philippa held leadership roles over 30 years in the marketing, financial and political spheres. She had founded, built up and sold two businesses, had been the chief executive of a subsidiary of a publicly quoted company, a director of Citigroup and Leader of Westminster City Council. She sat in the House of Lords where she was a member of the EU Select Committee and the EU Services Select Committee. She was also a Non-Executive Director of Mitie where she chaired its Social Value board sub-committee and was a member of its Audit and Nomination Committees. Philippa brought skills and experience across a wide range of areas including strategy development and turn around, along with finance and the financial sector and understood UK government thinking and policy development.

Simon Howitt
Commissioner

Simon was appointed as a Commissioner in June 2013. He has over thirty years' experience as an advocate and is a consultant at Babbé having previously been a Partner. He served as President of the Guernsey Chamber of Commerce between 2001 and 2003. Simon has served on a number of States Committees including as a non-States member of the Legislation Select Committee and its successor, the Legislation Review Panel, since 2004, as well as the share transfer duty working party and the Inheritance Law Review Committee. He is a member of the Board of Examiners for the Guernsey Bar Examinations and a member of the Editorial Board of the Jersey and Guernsey Law Review, and was Deputy Bâtonnier of the Guernsey Bar from 2012 to 2020.

Commissioners *(continued)*

John Aspden
Commissioner

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

Stuart King
Commissioner

Stuart is a non-executive director at Pension Corporation, the UK pension annuity specialist, and an independent consultant. Previously, Stuart was the Group Compliance Director at Aviva and a Managing Director at Promontory Financial Group - a consultancy specialising in strategy, risk and governance issues.

Earlier in his career, Stuart worked on a range of regulatory and public policy issues at the UK's Financial Services Authority (FSA), the Bank of England and the IMF. During his time at the FSA, he was successively Head of UK Banks Regulation, Head of Retail Intelligence and Regulatory Themes and Head of Major Insurance Groups Regulation. He also led the re-launch of the FSA's Treating Customers Fairly initiative and the supervision of the large insurance groups during the global financial crisis. He was responsible for changes to the supervisory approach to insurance groups which were introduced following the crisis.

Stuart takes a keen interest in mental health issues, particularly among the young and other vulnerable groups. He is the Treasurer of Emerge Advocacy which won a Queen's Award in 2021 for its work with young people suffering mental health challenges. He is working with a new charity which will provide counselling services to rough sleepers and is a Trustee of a Multi Academy Trust.

Philip Middleton
Commissioner

Philip is a senior financial services strategist with significant recent experience in advising governments, central banks and financial institutions. Since 2014, he has carried out consulting and advisory work in central banking and financial services as a Director of Rifle House Capital Ltd. He is also Deputy Chairman of the Board of the Official Monetary and Financial Institutions Forum, a leading central banking think tank, where he also chairs the Digital Monetary Institute. He has had significant experience in the private sector, holding various roles within KPMG LLP, including Partner and European Head of Financial Services Strategy, and within Ernst & Young LLP, including Partner and Head of Central Banking, EMEIA.

SENIOR OFFICERS OF THE COMMISSION

COMMISSIONERS

William Mason
Director General

Gillian Browning
Co-Deputy Director General
(Investment, Fiduciary and Pension Division)

Katherine Jane
Co-Deputy Director General
(Risk and Operations)

Alice Joy
Commission Secretary

Simon Gaudion
Director
Enforcement Division

Fiona Crocker
Director
Financial Crime Division

Caroline Bradley & Alison Gavey
Co-Directors
Authorisations and Innovation Division

Charisma Lyall
General Counsel

Jeremy Quick
Director
Banking and Insurance Division

STATISTICAL DATA

Investment

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

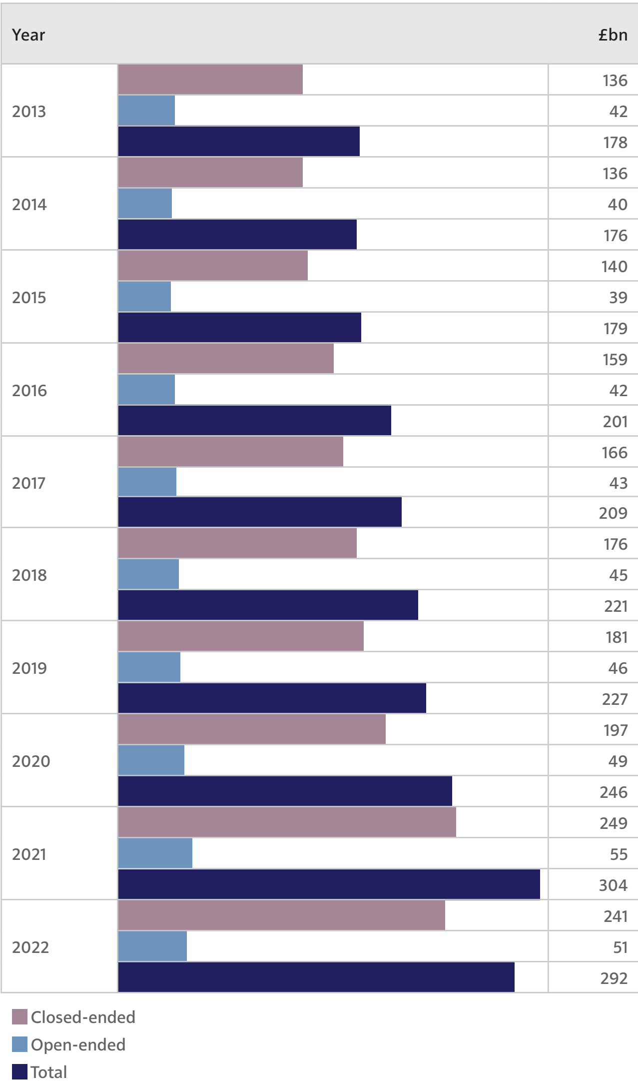


Figure 2. **Total number of investment funds at the year end**

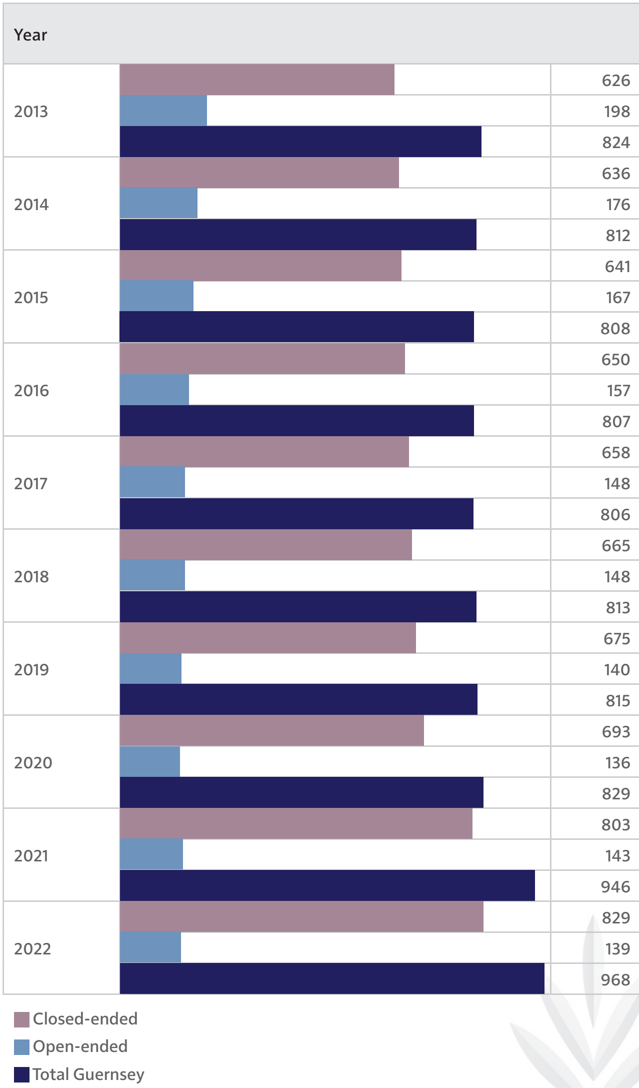


Figure 3. **Total number of investment licensees at the year-end**

Year	
2013	635
2014	622
2015	639
2016	644
2017	640
2018	663
2019	677
2020	686
2021	696
2022	702

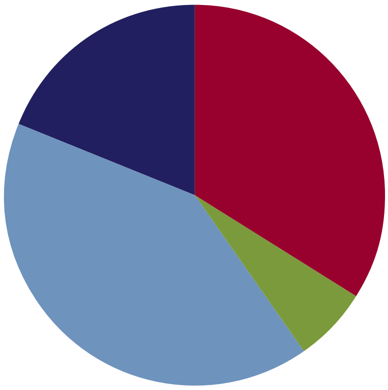
Under the Protection of Investors (Bailiwick of Guernsey) Law, 2020, investment funds (Figure 2.) are either Registered or Authorised; whereas the firms (Figure 3.) undertaking Controlled Investment Business are licensed under the same law. There is no meaningful correlation to be drawn between the number of investment funds and the number of licensees in existence.

Figure 4. **Movements within period**

Type	Total as at 31 December 2021*	Approved in year	Lost in year	Total as at 31 December 2022
Total of open-ended schemes	143	5	9	139
of which Authorised	121	1	7	115
of which Registered	22	4	2	24
of which Qualifying Investor Funds (QIFs)	18	0	1	17
Total of closed-ended schemes	803	56	30	829
of which Authorised	355	9	16	348
of which Registered	448	47	14	481
of which QIFs	172	8	6	174
Total of licensees	696	49	43	702

*Includes funds previously not required to report data as at 31 December 2021

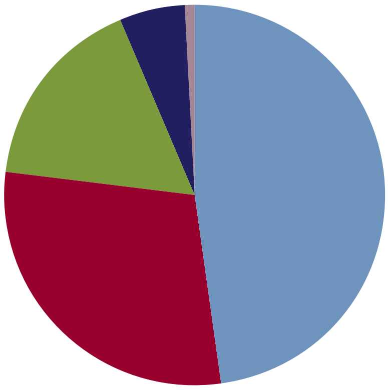
Figure 5. **Ownership of fiduciary licensees as at 30th June 2022**



	2022	2021
International financial group	49	46
Lawyers and accountants	9	9
Privately owned – local	59	54
Privately owned – overseas	27	30

NB excludes licensees in liquidation as at submission date for 2021 and 2020

Figure 6. **Staffing levels of licensees based on total number of staff carrying out regulated fiduciary activities as at 30th June 2022***



	2022	2021
Up to 10 staff	69	64
11-25 staff	42	41
26-50 staff	24	27
51-75 staff	8	4
More than 75 staff	1	3

*Based on the submission of an annual return by 144 licensees as at 30th June 2022

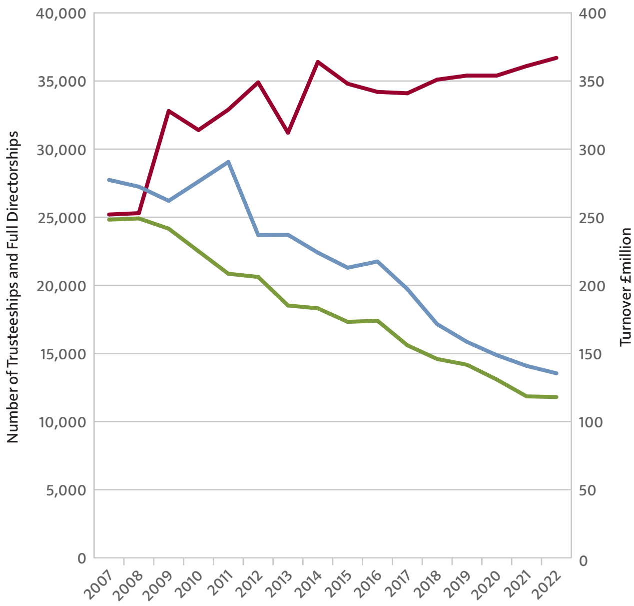
Figure 7. Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30th June 2022*

Turnover band	2018	2019	2020	2021	2022
Up to £249,999	25	20	21	20	22
£250,000 to £1,000,000	43	49	39	43	42
£1,000,000 to £2,000,000	21	22	27	19	21
£2,000,000 to £4,000,000	27	26	24	25	29
£4,000,000 or over	28	31	30	32	30

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

2018
2019
2020
2021
2022

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



Trusteeships
Directorships – Full
Turnover £m

Insurance

Figure 9. **International insurers as at 31st December 2022**

Month	2021	2022
Companies	218	228
PCCs	58	53
PCC Cells (excluding ILS)	294	245
ICCs	15	14
ICC Cells	48	54

Figure 10. **International insurers - Gross Assets**

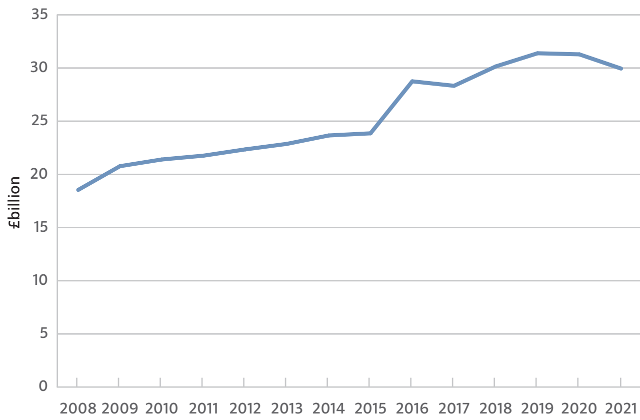


Figure 11. **International insurers - Net Worth**

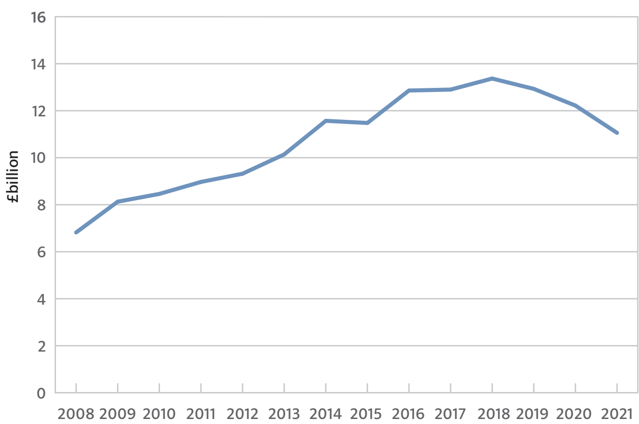


Figure 12. **International insurers - Gross Premium**

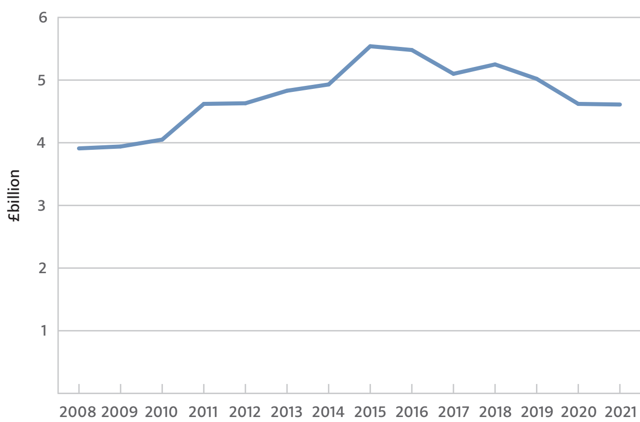


Figure 13. **Guernsey bank assets**

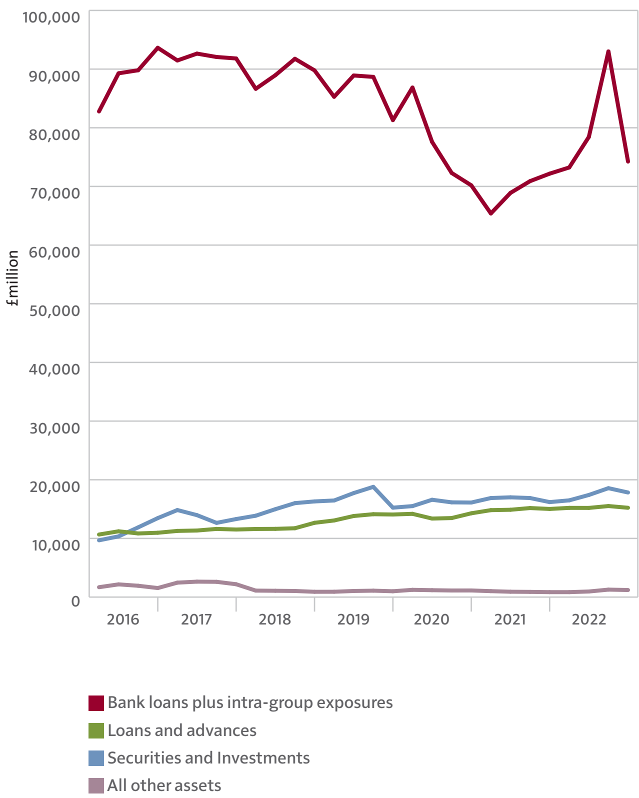


Figure 14. **Guernsey bank liabilities**

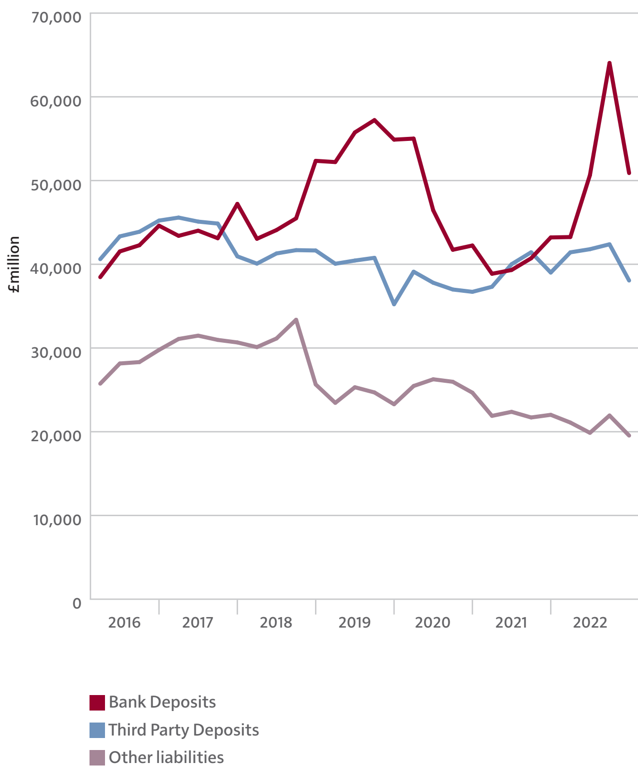


Figure 15. **Total applications by volume and type – 2019 to 2022 comparison**

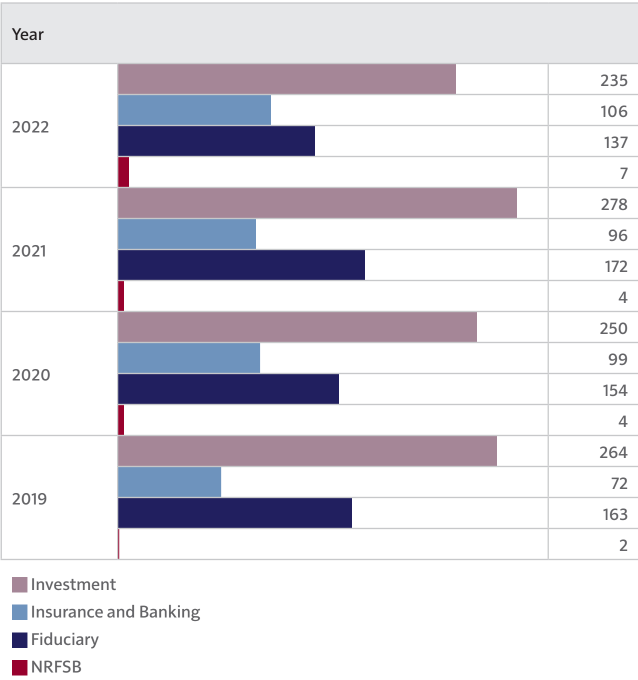
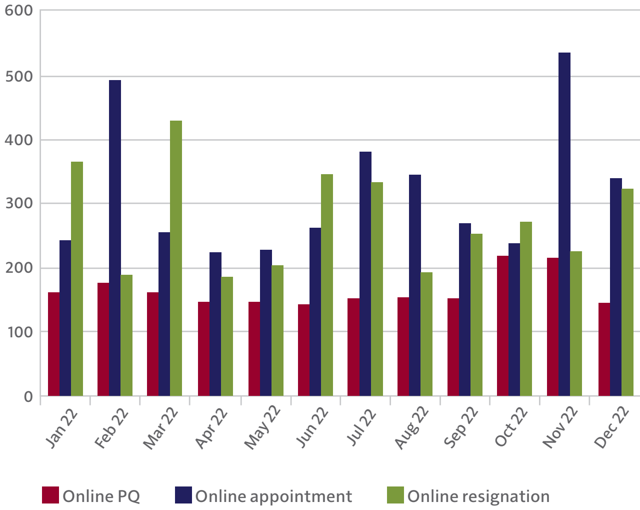


Figure 16. **Online Personal Questionnaire portal submissions 2022**



Finance and Operations

Table 1. **Expenditure by functional area**

	2022	2021
	£'000	£'000
Authorisations	1,049	1,006
Enforcement	1,972	1,880
Risk	981	770
Supervisory and Policy Divisions	5,965	5,410
Internal Operational Support Functions	1,640	1,376
Overheads (incl. Premises, IT Expenses, Depreciation, and Three-Year Business Plan)	3,510	3,441
Total	**15,118**	**13,883**

Table 2. **Legal and professional fees**

	2022	2021
	£'000	£'000
Legal Fees - Enforcement	98	169
Legal Fees – Judicial and SDM Process	299	188
Legal Fees – Advisory	25	42
Professional Fees	303	182
Internal Audit	40	10
Total	**765**	**591**

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

Annual Remuneration	2022	2021
£0 - £39,999	24	43
£40,000 - £79,999	75	51
£80,000 - £119,999	21	20
£120,000 - £159,999	5	3
£160,000 - £179,999	2	3
£180,000 and above	2	1
Total number of staff	**129**	**121**
Comprising:		
Permanent staff	126	118
Fixed-term staff	3	3
	129	**121**
Full Time Equivalent Staff	**122.4**	**114.9**
FTE Vacancies at Year-End	6	8

Table 4. **Commissioners' fees**

	2022	2021
	£'000	£'000
Cees Schrauwers	-	45,000
Julian Winser	47,070	15,819
Robert Moore	-	9,000
Simon Howitt	28,242	27,000
Wendy Dorey	28,242	27,000
John Aspden	36,610	35,000
Philip Middleton	36,610	35,000
Baroness Couttie	36,610	35,000
Stuart King	27,457	-
Total	**240,841**	**228,819**

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, 2020 as amended;
- the Banking Supervision (Bailiwick of Guernsey) Law, 2020 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, 2020 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; and
- the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020; and
- the Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008.

Relationship with the States

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

The Commission maintains regular dialogue with the States. During 2022, the Commission continued to engage with the Policy and Resources Committee, on matters of importance to the States and the Commission.

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

The Commissioners

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

The Commissioners during 2022 were Julian Winser, Baroness Couttie, Simon Howitt, Wendy Dorey, John Aspden, Philip Middleton and Stuart King. A brief résumé for each Commissioner is provided on pages 58 and 59 of this report. Three Commissioners live in Guernsey, with the remainder residing in the UK.

There were nine meetings of the Commissioners in 2022. The attendance was as follows: Julian Winser nine, Simon Howitt nine, John Aspden nine, Philip Middleton nine, Wendy Dorey eight, Stuart King seven and Baroness Couttie five. 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. Periodically, the review is undertaken by an external party with experience in this area.

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

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

Delegation of functions to executive staff

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

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy and Resources Committee; and
- any statutory functions which empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

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

The Commission Law also provides that the Commission shall:-

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

and that the accounts of the Commission shall be:-

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

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

Report on internal control and corporate governance

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

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

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

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

One Commissioner - Simon Howitt - has served as Commissioner for longer than nine years. Simon Howitt initially took over a portion of an unexpired term. As at December 2022, he had served for nine years and six months. He is due to retire in January 2024.

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

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

Audit and Risk Committee

The Audit and Risk Committee continued to be chaired by John Aspden. Its other members were Baroness Couttie and Wendy Dorey. 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 are attended by the Director General, the Co-Deputy Director General (Risk and Operations) and the Deputy Director (IT&Finance) of Risk and Operations.

The Committee met three times in 2022. The attendance of the individual members at these meetings was as follows Wendy Dorey three, John Aspden three and Baroness Couttie two. The Audit and Risk Committee has oversight for non-regulatory risk; regulatory risk is reviewed by the Board as a whole.

Remuneration and Nominations Committee
In 2022, the Remuneration Committee and the Nominations Committee were merged. The newly formed Remuneration and Nomination Committee was chaired by Simon Howitt from January to April and by Baroness Couttie from April to December. The Committee comprised Simon Howitt (full year), Philip Middleton (full year), Baroness Couttie (April to December) and Wendy Dorey (from November). The Committee, is mandated to advise and assist the Commission in fulfilling appropriate governance in respect of remuneration policies, practices and structure.

The Committee has specific responsibility for proposing to the Board the remuneration and reward of the senior executives and the general policy for staff remuneration and benefits to ensure that all of our people are fairly rewarded for their individual contributions to the Commission. (The Policy and Resources Committee determines the level of Commissioners' fees). The Committee is also responsible for advising the Commissioners on succession planning for Commissioners and the Director General and on appointments to the other Committees.

Meetings are attended by the Director General and the Commission Secretary. The Committee met on three occasions in 2022 with Simon Howitt attending three meetings, Philip Middleton two, Baroness Couttie one and Wendy Dorey one.

Investment Committee
In 2022, the Investment Committee continued to be chaired by Philip Middleton. Its other members were John Aspden and Stuart King. The Committee is mandated to advise the Commission in respect of its investment approach. Meetings are attended by the Director General, the Co-Deputy Director General (Risk and Operations) and the Deputy Director (IT & Finance) of Risk and Operations. The Committee met twice during 2022 and all members attended.

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 2022, the Commission appointed external parties to undertake internal audits in the following areas:-

- operating and capital expenditure and payables; and
- MONEYVAL preparation.

Internal assurance reviews were undertaken on our use of PRISM and the application of our risk-based supervisory approach.

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

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

During 2018, an assessment was conducted by the International Association of Insurance Supervisors (IAIS) of the Bailiwick's insurance regulatory regime against current international standards. The results, published in June 2019, demonstrated a high degree of compliance. The Commission plans to consult in 2023 to take forward a number of the IAIS recommendations.

SUSTAINABILITY REPORT

Greening the Commission

In order to evolve towards being a net zero regulator, in 2019 the Commission agreed to invest in a piece of previously forested land in Scotland. In 2022, over 50,000 saplings were planted, with support from Scottish Forestry. It is hoped that as they grow, the trees will start to act as an effective carbon sink helping the Commission to become a carbon neutral organisation by the middle of the 2020s.

In 2022, Commission officers initiated the creation of a staff working group to develop proposals to make the office more "green" such as selecting plants for the office that are more environmentally friendly as well as encouraging lower levels of printing. We continue to see significant use of our electric bikes by staff members travelling to and from meetings, providing health and environmental benefits.

The Commission continues to engage with other regulators to develop awareness, understanding and capabilities on how to respond to climate and nature-related risks. To that end, the Commission joined the Taskforce on Nature-related Financial Disclosures Forum (TFND) in May 2022. The TNFD was established to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

The Commission continued its work with the Network for Green the Financing System (NGFS), a network of central banks and supervisors who share best practices and contribute to the development of environment and climate risk management in the financial sector. In 2022, we extended our involvement through contributing significantly to the development of the NGFS' conceptual framework which aims to develop guidelines for central banks and supervisors on how to deal with nature-related financial risks in the future.

Greenhouse Gas Emissions

The Commission's greenhouse gas emissions have increased against a 2020 baseline for the following reasons:

- Due to the lifting of Covid travel restrictions, the international regulatory community has resumed some in-person meetings and so business travel has increased in comparison to 2020 and 2021.
- As the Bailiwick did not experience any lockdown periods during 2022, the Commission's office occupancy was at normal levels resulting in an increase in electricity consumption in comparison to the level of previous years.
- Since 2019, when the Commission began calculating its emissions data, our methodology has developed and as such the figures for travel for 2019 may represent an underestimation of the actual emissions for that year.

	2019	2020	2021	2022
Greenhouse Gas (CO2e kg)				
Scope 1 – Gas	-	-	-	-
Scope 2 – Electricity	112,352	16,659	14,209	18,181
Scope 3 – Business travel	74,181	20,981	2,255	79,644

INSIDE BACK COVER

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