

Industry Seminar – 16 November 2016

Business Culture: Fiduciary Flags, Facts and the Future

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Good morning everyone and welcome to our presentation entitled Business Culture; Fiduciary Flags, Facts and the Future.

I am joined on stage by Alice Joy and Steve Chandler who will be presenting later and you will note that Gillian is currently on maternity leave – however fear not – she will be making a virtual appearance shortly and we are delighted to announce the recent safe arrival of Baby Browning – an event which was a key deliverable for the Division this year.

We hope that you find the next 40 minutes a valuable use of your time and please note that we will have time for questions at the end of the presentation.

So let's begin.

You will have heard from William yesterday that the theme for this year's Industry Presentation is "the Interaction of Business Culture with regulation in the present decade". Applying this theme to our own presentation we wish to spend some time:

Slide: Presentation Overview

- Under Fiduciary Flags – sharing some of the cultural indicators that we have observed this year and that we will continue to look for during our ongoing supervision in 2017 and this will be highlighted by a clip from Gillian sharing her thoughts with team members in this area.
- Under Fiduciary Facts – Alice will take a look at key trends in the sector and how these compare with recent years.
- Under The Future – we will hear from Steve Chandler on Innovations, Fintech and the Lending Credit and Finance Project which forms a key element of the Divisions responsibilities.

And finally I will return to give you an overview as to what you can expect from the Division next year. I'll also give you some clues as to the topic of next year's thematic review.

Slide: Key message

The key message we would like you to take away today is that: “We are working together to ensure the Culture of the Bailiwick supports good quality business”.

Slide: The Team

We thought that today may provide a useful opportunity to share with you the Fiduciary Team and divisional structure.

Hopefully, thanks to a number of initiatives, not least our Quarterly Open Breakfasts, you will recognise a number of the names.

The Open Breakfasts have been extremely well supported throughout 2016 and will continue to run as a useful opportunity for informal dialogue on current themes and initiatives.

Gillian and I would like to take this opportunity to thank each member of our team for their incredible support and commitment through what has been another extremely busy year.

We would also like to thank you, our licensees, for your support in providing returns, feedback and for hosting visits this year.

And finally we would like to thank the GAT Committee for their continued and valued engagement. Indeed throughout our presentation you will hear of a number of initiatives where the Division and GAT are working together and we are grateful for this partnership.

Before I hand over to Gillian I wanted to provide a brief overview of this year’s Thematic Review of Client Money.

Slide: Client Money Thematic – Objectives

Our rationale for choosing this topic was that we felt it is an area which followed on logically from last year’s thematic which looked at “Fiduciary Decision Making in Respect of Assets Under Trust”.

Secondly the thematic provides a useful opportunity for us to conduct a litmus test of standards and practice regarding Client Money - particularly in light of crystallised risks in the sector.

As ever thematics provide us with a good opportunity to understand current practices and challenges faced by local firms and to share these within the industry.

And finally it enabled us to assess the need for Client Asset Rules to ensure that the jurisdiction complies with International Standards and these Rules are currently being progressed – therefore you should expect to see a Consultation Paper early in 2017 and we continue to liaise with GAT

in this area.

Slide: Client Money Thematic – Process

Turning to the thematic process.

Similar to last year a questionnaire was sent to all full fiduciary licensees which addressed the following key areas:

Client Money Accounts and their operation; Banking Arrangements in place for local firms; Procedures, controls and staff training; Handling of breaches and overdrafts; and finally AML arrangements and I'll provide feedback on these areas on the next slide.

We subsequently conducted onsite visits to 8 licensees who were chosen to provide a cross section of the sector with differing PRISM Impact Ratings/Different Sizes of firms/ and different ownership structures and we purposefully included a bank owned business.

And again a thank you to those firms which were the lucky winners of a visit!

As stated the aim of a thematic is to share good practice and to identify areas for improvement and we expect to issue our report shortly – so what did we see?

Slide: Client Money Thematic – Findings

Under Client Money Accounts & their operation we saw that:

- Approximately 2/3rds of firms have procedures in place for determining whether a particular banking institution is appropriate to hold their clients' funds.
- The onsite visit programme also showed that in practice firms were actively discussing the suitability of banks at board level, indeed one firm had been sufficiently concerned to write to all clients regarding a particular banking institution and were considering their ongoing relationship with that bank at the time of our visit;

Slide: Client Money Thematic – Findings

69% of firms indicated that they had documented policies, procedures and controls for the operation of client money accounts, of those that didn't the vast majority had other controls in place in order to control the movement of client funds.

The firms visited were also able to demonstrate compliance with the majority of GIFCs standards – even if the process by which they met a particular standard wasn't always fully documented;

Slide: Client Money Thematic – Findings

And finally on the subject of AML arrangements over 80% of firms receive full CDD prior to accepting client funds into a structure, the outlier being the International Financial Group where approximately 65% of firms receive full CDD before accepting funds;

So to wrap up this section – in terms of timelines – as mentioned earlier we expect to issue the full report shortly.

Shortly you will hear from Alice who will provide an overview of the Facts and Figures relating to the fiduciary sector.

However without further a do, or pregnant pause, let's first hear from Gillian as she shares her thoughts on Fiduciary Cultural Red Flags.

Slide: Fiduciary Cultural Red Flags and Video

[Gillian, Alice and Steve's presentations]

Slide: Expectations – 2017

Thanks Steve

So this brings us to the final part of the presentation where we take a look at what you can expect for next year?

Well our primary objective remains the same, which is to execute high quality risk based – prudential, financial crime and conduct regulation which places PRISM and risk based supervision at the very heart of all that we do – again this will be delivered via a series of Full Risk Assessments and Engagement visits and indeed another Thematic Review – but broadly 2017 should look much like 2016. Other informal engagement will continue the fiduciary open breakfasts as discussed, meetings arising from the Innovation Soundbox which Steve mentioned – and indeed other ad-hoc meetings in response to various issues as they arise.

- Thematics will continue and more on that in a second.
- Also as Steve has just told us the Lending, Credit and Finance Project will remain a key initiative both for the Division and indeed the wider Bailiwick.
- Cross –commission policy work will continue including progressing with the Revision of Laws Project
- and Andy Sloan has recently issued a Discussion Paper regarding the implementation of Pensions Regulation to the Bailiwick –
- and the Fiduciary Division sits on the Working Group with Roger Berry and Stephen Ainsworth representing the local industry.
- Our divisional policy work will also continue with May Rondel leading the way on a

number of issues here including:

- Private Trust Companies Guidance Note and a specific application form for Discretionary Exemptions for private trust companies,
- Personal Fiduciary Licences where we are working with GAT, GIFA and the NED forum (to provide greater clarity around the up to 6 directorships & applicable exemptions)
- Regarding the Financial Resources Requirement we are seeking to bring it in line with the GIFCS standard and GAT are assisting with a review at the moment
- and PII cover is also being considered also in line with the GIFCS standard.
- As mentioned earlier the development of Client Asset rules is underway and a discussion paper is expected shortly.
- And finally on this slide and in order to ensure Guernsey continues to be regarded as a credible contributor to international regulatory policy, in the TCSP space, we continue to play a central role with the development of the GIFCS Standard and the associated strategic implementation.

Slide – Potential Thematic Reviews

By now you will be aware that a key part of PRISM is an annual thematic review per sector as mentioned earlier.

Each year we highlight a number of potential topics. The three completed thematics are now shaded grey – leaving you with 5 potential themes for next year – so take a good look!

To reiterate a note of caution – not all thematics will follow the same process. This year's approach was similar to last year's however next years may look and feel different – but they always improve our understanding of risks in a certain area and facilitate identification and understanding of emerging risks and may be conducted in conjunction with another division.

So to conclude the presentation – the key message we would like you to take away is that: "We are working together to ensure the Culture of the Bailiwick supports good quality business".

Thank you for listening and myself, Alice and Steve would be happy to take your questions.