



**Financial Services
Commission**

Summary Paper

Compliance with the UK Corporate Governance Code

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Why has the FSC published this paper?

The FSC is committed to transparency and open regulation. It is therefore important that our stakeholders are aware of how we seek to ensure that key principles of good governance are applied within the Commission.

One method of achieving this is by publishing our self assessment on the extent to which we comply with the "UK Corporate Governance Code" (the Code). Whilst the Code is primarily aimed at companies rather than regulators and therefore is not directly applicable to the FSC, it nevertheless contains many useful principles which do have an application within the Commission. We are not the only regulator to adopt this approach. The Financial Services Authority in the United Kingdom produces a statement of compliance with the Code in its annual report. We do however believe that we have gone further by detailing our level of compliance with each principle.

The UK Corporate Governance Code (formerly the Combined Code) sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. In May 2010 the Financial Reporting Council issued a new edition of the Code. This follows a review of the Code carried out during 2009.

The Code is not mandatory, other than for UK listed companies, it is rather a statement of best practice.

Structure of the paper

The Code contains main and supporting principles and provisions. We report on how we apply both main and supporting principles. In doing so we either confirm that we comply with the Code's provisions or, where we do not, provide an explanation.

Our level of compliance

Whilst, as stated above, the Commission is a creation of statute rather than a company and therefore a number of code provisions do not apply, it is our aim to comply with the relevant provisions of the Code except where departure from the provisions are justified in particular circumstances.

Compliance with the Combined Code of Best Practice

Code Provision

Position of FSC

A.1 Leadership

The Role of the Board

Main Principle

Every company should be headed by an effective board, which is collectively responsible for the success of the company

Compliant

The Commission is a statutory body corporate established by the Financial Services Commission Act, 2007 ("FSCA"). It consists of the Chief Executive as ex-officio member and seven other persons, at least two of these persons have significant experience of regulation and supervision of finance services business in another jurisdiction. The Chief Executive and the other members are appointed by the Minister with responsibility for financial affairs. The Commission has a separate Chairman appointed from within the seven members of the Commission.

Supporting Principles

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

Compliant

The chairman is responsible for presiding over each meeting and ensuring the maintenance of an effective Board. The Board's role is to approve the FSC's strategy as formulated by the CEO and ensure that necessary resources are available, and that appropriate controls are in place to deliver it. In addition the Board has the responsibility for financial performance, internal controls and risk management. The Board uses an annual agenda and review timetable to ensure that relevant matters are given due consideration. These include;

The FSC strategic plans and annual operating budgets

Risk and Threat Identification

Market Intelligence

Human resources

The Board holds an annual away afternoon to consider threats and issues likely to affect the jurisdiction. The outcome of which is taken into account when the Board reviews and determines the FSC's strategy.

All directors must act in what they consider to be the best interest of the

In order to demonstrate this objectively, all Commission members have completed a declaration of interests

Code Provision

Position of FSC

company, consistent with their statutory duties.

which details shareholdings, directorships and other forms of remuneration.

The list of Directorships held by each Commission Member is published on our web site.

All members are required to state when they have a conflict of interest and may not participate in nor attend any element of meetings to which the conflict relates. This assists in ensuring the independence of the Board.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

Compliant

The Commission meets four times a year. All Divisional Managers and Heads provide an update to the Board at each meeting. The Commission scrutinises management performance including the attainment of agreed goals and objectives.

They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

Financial performance is also reported at each meeting. The Audit Committee reviews the adequacy of the systems of control of financial controls whilst a separate risk assessment is reviewed annually by the Commission.

They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.

The Nomination Committee leads the process for the appointment of the posts of Chief Executive and Commission Members and make recommendations to the Commission as appropriate. By statute the power to remove the Chief Executive rests jointly with the Minister and the Commission. The Committee also looks at succession planning.

The Remuneration Committee reviews the performance of the most senior executives against the aims and objectives set for them and determines their remuneration (including any bonus structure) accordingly. The Committee will also, when necessary, make changes to senior executive's terms and conditions.

Code Provisions

A.1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision.

Compliant

The Commission meets four times per year. There is a formal agenda which contains within it matters specifically reserved to Commission decision.

The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

As this self assessment is published on the FSC website and the role of Commission and Chief Executive is set out in statute, there is no additional need to detail the Commission's operations in the FSC annual report.

Code Provision

Position of FSC

A.1.2 The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

Compliant

The annual report makes the necessary individual identifications. The Commission's web-site, additionally, discloses members of the Audit, Nomination and Remuneration and Budget committees.

The web-site also sets out the number of meetings of the board and those committees and individual attendance by directors.

A.1.3

The company should arrange appropriate insurance cover in respect of legal action against its directors.

Not applicable

The FSC is covered by a statutory immunity.

A.2 Division of Responsibilities

Main Principle

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Compliant

Code Provision

A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board

Compliant

There is a clear division of responsibilities between the chairman and the chief executive. Their responsibilities are clearly delineated, set out in writing and agreed annually by the Board.

A.3 The Chairman

Main Principle

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Compliant

The chairman is responsible for the leadership of the Board, ensuring its effectiveness is all aspects of its role and setting its agenda.

Supporting Principle

The chairman is responsible for setting the board's agenda and ensuring that

Compliant

Code Provision

Position of FSC

adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should also promote a culture of openness and debate by facilitating the effective contribution of non executive directors in particular and ensuring constructive relations between executive and non executive directors.

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders.

The Chairman facilitates the contribution and discussion of the Board.

To enable the Board to function effectively and assist Directors to discharge their responsibility full and timely access is given to all relevant information. The Chairman reviews a set of papers, including the agenda, executive reports and documents regarding specific matters prior to the Board meeting in order to ensure that information supplied to the Board is clear, concise and accurate. The Chairman is responsible for overseeing that the secretary provides Board members with these supporting documents ahead of the proposed meeting.

Code Provision

A.3.1 The chairman should on appointment meet the independence criteria set out in B.1.1 below. A chief executive should not go on to be chairman of the same company. If, exceptionally, a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report

Compliant

The Chairman meets the independence criteria.

A.4 Non-executive Directors

Main Principle

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Compliant

Supporting Principle

Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and

Compliant

As detailed above.

Code Provision

Position of FSC

defensible.

They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

 Code Provisions

A.4.1 The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary.

Compliant

The FSC has appointed a non executive member as “senior independent member”

The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive director has failed to resolve or for which such contact is inappropriate.

A.4.2 The chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman’s performance and on such other occasions as are deemed appropriate.

Compliant

The Chairman is non executive. The Chairman meets with non-executive Members prior to each Board meeting

The Chairman’s performance is appraised by the Senior Independent Director following consultation with other Board Members.

A.4.3 Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

Compliant

Any concerns would be recorded in the Board minutes. In the only case where a member of the board resigned a copy of his resignation letter was provided to all board members.

Section B: Effectiveness

B.1 The Composition of the Board

Main Principle

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Compliant

As per the FSCA at least two of these persons shall have significant experience of regulation and supervision of finance services business in another jurisdiction. The current Board has a broad range of experience gained in a variety of financial sector backgrounds.

Supporting Principles

The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.

Compliant.

The nomination, audit and remuneration committee meetings are held separately before the Board meeting. Only those who make up the committees are entitled to be present unless invited by the Committee.

The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.

No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.

Code Provision

The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether

Compliant

All non-executive directors are independent.

There are none that meet the criteria of the principle which are regarded as bringing independence into

Code Provision

Position of FSC

there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

has been an employee of the company or group within the last five years;

has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;

has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;

has close family ties with any of the company's advisers, directors or senior employees;

holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

represents a significant shareholder; or

has served on the board for more than nine years from the date of their first election.

question.

It should be noted, however, that a number of the non-executive Board Members are also directors or officers of regulated firms. In order to ensure their independence their financial and other interests are declared upon appointment and individual members are excluded from any discussion or decisions on firms in which they may have an interest. A list of such interests is published on the Commission's web-site.

B.1.2 Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

Compliant

Whilst the FSC would count as a small company, we fully comply with the full requirement as 7 of the 8 members of the Board are independent non-executive directors.

B.2 Appointments to the Board

Main Principle

There should be a formal, rigorous and

Appointments to the Commission are not made by the



Code Provision

Position of FSC

transparent procedure for the appointment of new directors to the board.

FSC. Such appointments are made the Minister with responsibility for financial services from a short list prepared by the Commission.

Supporting Principles

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

Under the FSCA the Board is required within four weeks of the creation of a vacancy to nominate no fewer than three suitable persons to the Minister for consideration. The legislation requires that board members meet specific criteria;

Part II of the Financial Services Commission Act

Establishment of the Financial Services Commission.

3.(1) There is hereby established the Financial Services Commission which consists of–

(a) the Chief Executive as ex officio member;

(b) seven other persons appointed by the Minister in accordance with subsection (4). At least two of these persons shall have significant experience of regulation and supervision of finance services business in another jurisdiction

Board appointments are generally timed to ensure that there is an orderly succession without a significant number of members retiring at any one time.

Code Provisions

B.2.1 There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

Compliant

The nomination committee comprises the Chairman, the Senior Independent Member, the Chief Executive and two other members of the Board. The committee leads the process for the appointment of the posts of Chief Executive and Board Members and make recommendations to the Board as appropriate.

The Chairman would be replaced by the Senior Independent Member when the committee is dealing with the appointment of a successor to the chairmanship.

The terms of reference of the Nomination Committee are published on the FSC website.

B.2.2 The nomination committee should evaluate the balance of skills,

Compliant

The Minister with responsibility for financial services is

Code Provision

Position of FSC

experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment

responsible for the appointment of Board members. The Commission will raise with the Minister with responsibility for finance on how best to comply with this provision.

B.2.3 Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

Compliant

All non executive members are subject to a specific term. The total term of office for non executives has a statutory maximum of nine years.

B.2.4 A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.

Compliant

A separate section of the Annual Report describes the work of the Nomination Committee, will shortly be developed by the FSC, including the process it has used in relation to board appointments.

B.3 Commitment

Main Principle

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Compliant

Code Provisions

B.3.1 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.

Compliant

The Chairman is appointed to the Board by the under Section 3(2) of the Financial Services Commission Act. The Commission has an annual reappointment process in which the Chairman is reappointed on an annual basis.

Code Provision

Position of FSC

B.3.2 The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.

Compliant

B.3.3 The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

Compliant

The Contract with the Chief Executive restricts the taking on of such appointments without the approval of the Chairman. Approval would not be given in conflict with this principle.

B.4 Development

Main Principle

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Compliant

All Board members receive induction training on joining the Board and receive regular industry and regulatory update briefings to ensure that their knowledge remains current. The Board are also invited to meet with senior management personnel of the FSC. This is achieved via detailed industry sector briefings provided on a rolling basis at Board meetings. Furthermore all Board members are apprised on a quarterly basis of forthcoming legislation and regulatory developments.

Board members are also invited to join the workshops provided by the FSC staff to enhance their knowledge.

Supporting Principles

The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its

Compliant

Members receive full updates regarding the activities of the Board and as detailed above the FSC provide the necessary resources for developing and updating the Boards' knowledge and capabilities.

Code Provision

Position of FSC

directors' knowledge and capabilities.

To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.

Code Provisions

B.4.1 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

Compliant

The Board has formal induction training programme for all Board Members including time with senior management which takes place prior to the attendance at their first meeting.

B.4.2 The chairman should regularly review and agree with each director their training and development needs.

Compliant

Training and development needs are identified as new regulatory developments are discussed at Board meetings and in the Board evaluation.

B.5 Information and Support

Main Principle

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Compliant

To enable the Board to function effectively and assist Directors to discharge their responsibility full and timely access is given to all relevant information. The Chairman reviews a set of papers, including the agenda, executive reports and documents regarding specific matters prior to the Board meeting in order to ensure that information supplied to the Board is clear, concise and accurate. The Chairman is responsible for overseeing that the secretary provides Board members with the supporting documents ahead of the proposed meeting.

Supporting Principles

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

Compliant.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information

All Directors have unfettered access to the advice and services of the Company Secretary, the appointment and removal of whom is a matter for the Board, who are required to under the FSCA to designate an employee of the Commission to be the Secretary to the Board. The Secretary assists the chairman in planning the Board's work, drawing up meeting agendas, maintenance of minutes, drafting of material for consideration and the distribution of information and provision of any

flows within the board and its committees and between senior management and non executive directors, as well as facilitating induction and assisting with professional development as required.

The company secretary should be responsible for advising the board through the chairman on all governance matters.

necessary practical support.

Code Provisions

B.5.1 The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

Compliant

A firm of lawyers in Gibraltar have been appointed to provide such advice if necessary, at the Board's expense.

B.5.2 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.

Compliant

As above.

B.6 Evaluation

Main Principle

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Compliant

Supporting Principles

The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

Compliant

The Board uses a structured evaluation process to assess and improves its performance. This is completed via an annual self appraisal by the Board members; these are discussed with the Chairman.

Individual evaluation should aim to show whether each director continues to contribute effectively and to

demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).

Code Provisions

<p>B.6.1 The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.</p>	<p>Non-compliant Annual Board evaluation of the Chairman is in place. The performance evaluation process is described in the FSC's web-site.</p>
<p>B.6.2 Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. A statement should be made available of whether an external facilitator has any other connection with the company.</p>	<p>Not Applicable</p>
<p>B.6.3 The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.</p>	<p>Compliant</p>

B.7 Re-election

Main Principle

<p>All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.</p>	<p>Compliant All Board Members are appointed for a three year term and, subject to satisfactory performance, reappointed for a further three year term.</p>
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Code Provisions

<p>B.7.1 All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Nonexecutive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed</p>	<p>Not applicable</p>
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decision on their election.

B.7.2 The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

Compliant

A press release is issued by the Commission on all appointments/reappointments.

Section C: Accountability

C.1 Financial And Business Reporting

Main Principle

The board should present a balanced and understandable assessment of the company's position and prospects.

Compliant

Supporting Principles

The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Compliant

Code Provisions

C.1.1 The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and there should be a statement by the auditor about their reporting responsibilities

Compliant

C.1.2 The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company

Not applicable

C.1.3 The directors should report in annual and half-yearly financial

Not applicable

statements that the business is a going concern, with supporting assumptions or qualifications as necessary.

C.2 Risk Management and Internal Control

Main Principle

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

Compliant

The Board has in place systems and procedures for managing risk.

Code Provisions

C.2.1 The board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls.

Compliant

On a quarterly basis the Board is responsible for reviewing the Risk and Threat identification record which is prepared by the executive and challenged and reviewed by the Board.

C.3 Audit Committees and Auditors

Main Principle

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

Compliant.

Code Provisions

C.3.1 The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as

Compliant.

The Board has established an audit committee which comprises three executives one of whom is the senior independent member. The role of the Audit Committee amongst other matters is to monitor the integrity of the financial statements, review the Commission's internal financial controls and to approve the terms of engagement of the external auditors. They undertake tasks on behalf of the board and report to the Board, identifying matters in respect of which it considers that

chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience

action or improvement is needed. Recommendations on any steps to be taken are considered by the board.

Whilst there are as many meetings as the audit committee's role and responsibilities require, there are no fewer than two meetings during the year, held to coincide with key dates within the Financial reporting and audit cycle.

The Board has two non executives who have recent and relevant financial experience. Both members of the board have qualifications from professional accountancy bodies.

C.3.2 The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- to monitor and review the effectiveness of the company's internal audit function;
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and
- to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity

Compliant

The terms of reference are available on the FSC website and include those detailed in C.3.2

and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

<p>C.3.3 The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities</p>	<p>Compliant</p> <p>The terms of reference are available on the FSC website.</p>
<p>C.3.4 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.</p>	<p>Compliant</p>
<p>C.3.5 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.</p>	<p>Compliant.</p> <p>The Audit Committee are responsible for scrutinising, challenging and reviewing the scope and function of the Internal Audit as proposed by the Executive.</p> <p>The Audit Committee formally approves the annual internal audit plan. The Audit Committee will also review all of Internal Audit's proposed workload and reviews and monitors management's responsiveness to the internal auditor's findings and recommendations.</p>

The executive is required to report formally annually to the Audit Committee;

I. with a presentation of the updated business plan from which the Internal Audit plans are derived;

II. to summarise significant issues, risks and themes arising from its work, together with a note of management's progress

The audit committee review and approve the internal audit function's remit, having regard to the complementary roles of the internal and external audit functions.

C.3.6 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

Compliant.

The audit committee have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.

The audit committee meet annually with the external and auditors, without management, to discuss matters relating to its remit and any issues arising from the audit

C.3.7 The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

Compliant

Section D: Remuneration

D.1 The Level and Component of Remuneration

Main Principle

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Mainly Compliant

Remuneration of Board Members is at a level commensurate with other such regulatory bodies for non-executive appointments.

The remuneration of the Chief Executive is set out in his contract of employment.

Supporting Principles

The performance-related elements of executive directors' remuneration should be stretching and designed to promote the long-term success of the company.

The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance.

They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases

Non-Compliant

The Chief Executive's remuneration is set out in his contract of employment and this will be revised in 2012.

Code Provisions

D.1.1 In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in

Schedule A to this Code

Compliant

The Remuneration is approved by the Minister.

D.1.2 Where a company releases an executive director to serve as a nonexecutive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.

Not currently applicable

D.1.3 Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for nonexecutive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board.

Holding of share options could be relevant to the determination of a non-executive director's independence (as

Compliant

set out in provision B.1.1).

D.1.4 The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

Compliant

Remuneration is set at a level which expects the non executive to sit on relevant committees of the FSC. Furthermore the Chairman is remunerated for additional work. There is a provision for early termination contained within the Chief Executive Officer's contract of employment.

D.1.5 Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

Non Compliant

A Commission member shall be appointed for three years. However, the Minister with responsibility for financial services can, after consultation with the other members of the Commission declare his office as a member of the Commission to be vacant if he;

(a) has been absent from three consecutive meetings of the Commission without the permission of the Chairman;

(b) has become bankrupt;

(c) has been convicted of a criminal offence punishable by a term of imprisonment of 3 months or more;

(d) is incapacitated by physical or mental illness;

(e) is in material breach of the terms under which he was appointed; or

(f) is otherwise unable or unfit to discharge the functions of a member;

D.1 Procedure

Main Principle

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Compliant

Not applicable save as to the Chief Executive as the only executive director.

As stated above, the Chief Executive's remuneration is established at the time of the appointment and re-appointment. There is no formal current provision to reward performance by increased remuneration during the Chief Executive's term of office, although the Commission may do so if it sees fit.

Supporting Principle

The remuneration committee should consult the chairman and/or chief

Not applicable

executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care should be taken to recognise and avoid conflicts of interest.

The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration.

Code Provisions

<p>D.2.1 The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company.</p>	<p>Compliant</p> <p>The FSC has established a Remuneration Committee which covers, inter alia, the remuneration of the Senior Executives at renewal. Three Board members sit on this committee. The Senior Independent Member chairs this committee.</p> <p>The committee's terms of reference are on the FSC web site.</p> <p>No remuneration consultants have been used</p>
<p>D.2.2 The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.</p>	<p>Compliant</p>
<p>D.2.3 The board itself or, where required by the Articles of Association,</p>	<p>Compliant</p> <p>Board member's remuneration is recommended by the</p>

the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.

Chief Executive and Senior independent member. It is usually agreed that remuneration will only increase by the rate of inflation.

D.2.4 Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

Not applicable

Section E: Relations with Shareholders

E.1 Dialogue with Shareholders

Main Principle

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Compliant

The Board meets regularly with bodies representing its regulated entities.

Supporting Principles

Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman should ensure that all directors are made aware of their major shareholders' issues and concerns. The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

Compliant

As above. The Board also reviews the results of the annual questionnaire sent to licensees.

Code Provisions

E.1.1 The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to

Compliant

The Board meet regularly with bodies representing its regulated entities.

attend meetings if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

E.1.2 The board should state in the annual report the steps they have taken to ensure that the members of the board, and, in particular, the nonexecutive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

Compliant

The Board meet regularly with bodies representing its regulated entities.

E.2 Constructive Use of the AGM

Main Principle

The board should use the AGM to communicate with investors and to encourage their participation.

Compliant

Whilst the Commission as a Statutory Board is not required to hold an AGM, never the less, the FSC engages in outreach sessions to the stakeholder community.

Code Provisions

E.2.1 At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should, in particular, propose a resolution at the AGM relating to the report and accounts.

Not applicable

For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

E.2.2 The company should ensure that all valid proxy appointments received for general meetings are properly

Not applicable



recorded and counted. For each resolution, where a vote has been taken on a show of hands, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:

- the number of shares in respect of which proxy appointments have been validly made;
 - the number of votes for the resolution;
 - the number of votes against the resolution; and
 - the number of shares in respect of which the vote was directed to be withheld.
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REMUNERATION FOR EXECUTIVE DIRECTORS

The remuneration committee should consider whether the directors should be eligible for annual bonuses. If so, performance conditions should be relevant, stretching and designed to promote the long-term success of the company. Upper limits should be set and disclosed. There may be a case for part payment in shares to be held for a significant period.

The remuneration committee should consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules.

In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in less than three years. Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liabilities.

Any new long-term incentive schemes which are proposed should be approved by shareholders and should preferably replace any existing schemes or, at least, form part of a well considered overall plan incorporating existing schemes. The total potentially available rewards should not be excessive.

Payouts or grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the company's objectives, including non-financial performance metrics where appropriate. Remuneration incentives should be compatible with risk policies and systems.

Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block. Consideration should be given to the use of provisions that permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct.

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.