



Financial Services
Commission
Gibraltar

2013

Annual Report

*To be seen by our
stakeholders as the model
international financial
services regulator*

Chairman's Report for the year ended 31 March 2013

Welcome to the Annual Report of the Gibraltar Financial Services Commission (the Commission). This report contains a description of the work of the Commission as well as its reports and accounts.

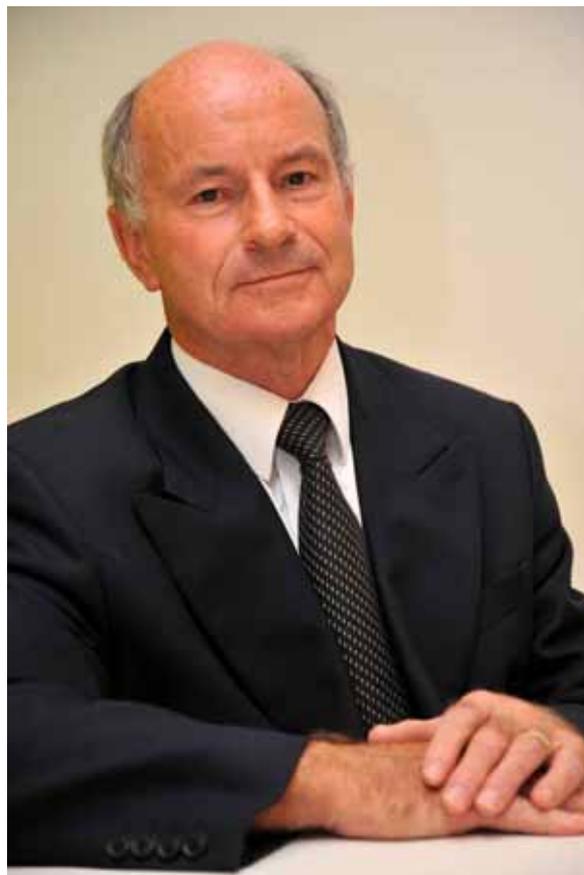
The Commission and its Statutory Duties

During the year, the Commission's primary focus has continued to be to deliver on its statutory duties. These duties are set out in the Financial Services Commission Act 2007 and include the following regulatory objectives:

- the promotion of market confidence;
- the reduction of systemic risk;
- the promotion of public awareness;
- the protection of the good reputation of Gibraltar;
- the protection of consumers; and
- the reduction of financial crime.

Gibraltar is a full member of the EU Internal Market in Financial Services and is subject to the full panoply, and benefits, of EU financial services directives. In respect of those areas of financial services business where EU law applies, the Commission is required to supervise and regulate financial services business in accordance with European Union obligations and, in those areas, to establish and implement standards and supervisory practices which match the standards and supervisory practices governing the provision of financial services in the United Kingdom.

The Commission is also required to advise the Government if, at any time, it considers that legislation does not provide it with sufficient powers or does not have such financial, technical and other resources, and such employees, as are necessary to enable it to supervise and regulate financial services business to internationally accepted standards.



International Regulatory Reform

Following the global financial crisis which began in 2008, there have been, and continue to be, concerted moves by all the international financial regulatory bodies, as well as by many national governments, to strengthen financial regulation and supervision. The Commission has been active in keeping abreast of all the discussions and developments and, where possible, participating in the formation of policy. The final architecture of the new regulatory system, both within the EU and more widely, has still to be determined; but there can be no doubt that in the years ahead it will continue to impact as much on financial services firms in Gibraltar as in other jurisdictions. Some of the internationally required regulatory changes have been delayed but the scope and depth of the international regulatory reform continues to increase. Some national governments, including the United Kingdom, have redesigned their financial regulatory

structures and have introduced much more prescriptive forms of regulation and supervision. The regulatory burden on financial services firms globally is set to continue to increase for a number of years to come.

Matching UK Standards

If the Commission is to meet its statutory requirement to match UK standards, it is clear that in a rapidly changing regulatory environment, there will always be changes both in regulation and supervisory practices in Gibraltar. The Commission, however, will not simply copy the regulatory and supervisory practices of the United Kingdom. The Commission interprets its statutory requirement to match UK standards as delivering the same regulatory outcomes as the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) aims to do, but not necessarily in the same way. Indeed, the current change in the regulatory structure in the UK makes an identical approach both impossible and undesirable.

To focus on the regulatory and supervisory processes themselves is not, in the Commission's view, a productive approach. Given the differences between the UK and Gibraltar markets and social environments, the simplistic replication of regulatory processes may, in fact, lead to the end objective being missed or achieved to a lesser degree.

The difference between the Gibraltar and UK environments will occasionally mean that supervision in Gibraltar is tighter than in the UK. On other occasions the Commission will be able to adopt a case-by-case approach more than the UK does, but with no reduction in overall supervisory standards. The Commission has been, and continues to be, resolute in delivering sound and effective regulation to the highest international standards. Yet it is equally resolute in ensuring that regulation is delivered in a way which is conducive to, and encourages, financial services business in Gibraltar.

In the longer term, the criteria of matching the UK, which was designed at a time before the development of a significant EU wide regulatory framework and the current economic crisis, may no longer be fit for purpose. The Commission has started to

consider this issue and will continue to do so in the year ahead before making recommendations to Government on potential changes to the statutory provisions in this area.

The Work of the Commission

Regulatory supervision forms the backbone of the Commission's work. This includes the assessment of applications from firms wishing to conduct regulated activities, on-going supervision of regulated firms and the taking of disciplinary or enforcement action where necessary. On-going supervision of regulated firms is guided by the Commission's risk assessment process and includes the review of regular returns and a programme of on-site visits. The Commission also issues consumer-focused guidance and issues alerts warning consumers of unregulated enterprises targeting businesses in Gibraltar or purporting to be regulated in Gibraltar.

The Commission has a wide range of powers including the issuance of directions or the imposition of conditions upon a licensee. In extreme cases, a licence can be revoked.

It is important that the Commission uses its resources as efficiently and effectively as possible. We are aware that the burden of regulation is another cost imposed on business in what are already difficult economic times. In order to achieve this, we focus upon the risks faced both by the Commission and the firms it regulates and how these risks can be mitigated. We also concentrate on areas where the risks to consumers are the highest: with, for example, lighter regulatory regimes for experienced investors.

In addition to its supervisory duties, the Commission performs a number of other tasks, including advising Government on new financial services legislation, undertaking additional tasks requested by Government and monitoring and participating in the development of international financial services regulation.

The Commission's supervisory framework is not designed to ensure that any given institution cannot fail. That task is unattainable, and to even attempt to achieve it would stifle financial services business and

be detrimental to consumers. Consumer protection remains a central goal of the Commission, but it is achieved in different ways. The Commission is committed to retaining a balance between seeking to mitigate risk while fostering innovation and competition. The primary responsibility for the management of a financial institution rests with its board and executive management. The Commission's supervisory framework is designed to be proactive in seeking to ensure that the board and the executive management of regulated firms properly discharge their responsibilities. As the Commission's funding is an industry cost, the allocation of Commission resources has to be on a risk-based and proportionate basis.

Internal Governance

The Commission comprises 8 members including the Chief Executive Officer. The other members are all non-executive. During the year, both Pepe Caruana and Franco Cassar stood down when their statutory 9-year terms of office came to an end, in July and October respectively. Throughout their tenures, both Pepe and Franco served the Commission with dedication and distinction and I would like to thank them for their profound contribution to the development of the Commission and its policies since 2003. Pepe was replaced by Edgar Lavarello, a partner at PricewaterhouseCoopers in Gibraltar and Emma Perez succeeded Franco; Emma is the Chief Executive Officer of SG Hambros Bank in Gibraltar. Edgar has joined the Audit and Nominations Committees while Emma has become a member of the Budgetary Review and Performance and Review Committees. Dr Jonathan Spencer has assumed the chairmanship of the Audit Committee.

A full list of all the Commission directors, the Commission's sub-committees, including their terms of reference and their membership, can be found on the Commission's web-site: www.fsc.gi.

On April 5th this year, Marcus Killick announced that he is to stand down as Chief Executive Officer of the FSC after ten years in post. For ten years Marcus has led the Commission with great skill, dedication and integrity to establish the FSC as a highly respected financial regulator both in Gibraltar and internationally. He has been a

great champion both for the Commission and Gibraltar. I would like to take this opportunity to express my personal thanks and the thanks of the entire Commission for his exceptional tenure. The Commission is grateful that Marcus has agreed to remain in post for several months to assist with and ensure a smooth transition to his successor. The Commission is now actively engaged in identifying a new Chief Executive Officer who can lead the FSC over the challenging years ahead and who I hope will be able to take up post in the final quarter of this year.

Conclusion

The past year has continued to be demanding on both the Commission and the industry. The pace of international regulatory reform and requirements, particularly in the European Union, will continue to increase over the coming years. However I remain optimistic that by working closely with the financial services industry, we will succeed in delivering cost-effective regulation to high international standards and to the benefit of both the industry and its customers.

Alan Whiting
Chairman
10 July 2013

To provide financial services regulation in an effective and efficient manner in order to protect the public from financial loss and enhance Gibraltar's reputation as a quality financial centre

Chief Executive's Report for the year ended 31 March 2013

This is my 11th and last annual report. It has been a privilege to serve as Commissioner and subsequently Chief Executive over the last ten years and to work with many talented individuals during that time. A significant number remain with the Commission, whilst others have moved on to other organisations, retired or, in the case of Chris Collins, our former Head of Insurance, sadly passed away.

It has also been a pleasure to have served during the terms of two Chief Ministers and the Honorable Gilbert Licudi, in his capacity as Minister with Responsibility for Financial Services, all of whom have a manifest commitment to the preservation of Gibraltar's reputation as a quality international finance centre. Of further benefit is the recent appointment of the Honourable Albert Isola as the new Minister with Responsibility for Financial Services, an individual with immense experience in this area.

At the time of writing we are in the process of recruiting my successor. Whoever he or she is, as you can see from the Risk Register in this Annual Report, they have many challenges ahead. Some seem to be perennial; others have arisen in the last twelve months. For some of the risks the likelihood of them occurring has receded over the past year. Regretfully the dark cloud of others seems ever closer.

Let me begin with what has not happened since my last report. We have not seen a collapse of the Euro (despite some near misses). Social cohesion has not collapsed under the weight of unemployment and the destruction of individual wealth. Gibraltar has not felt the cold wind of recession felt by so many of its Mediterranean colleagues. The finance sector has not shrunk.

However, some things have happened. The most negative of these was the discovery by the Commission that bonds used to capitalise two insurance companies, operating primarily in the Italian market, were fake. Whilst immediate action was taken the fact that such companies were allowed to operate, even for a day, required the FSC to analyse the obligations it placed on the industry concerning due diligence. We also strengthened our own requirements and



monitoring. The collapse of a further insurance company, primarily operating in the UK solicitors' indemnity market, has again, amongst other things, demonstrated the need for good corporate governance. As all these cases remain the subject of active investigation by the FSC it would be inappropriate to comment further.

Regretfully, inappropriate behaviour within some financial firms and in some cases fraud, remain a feature globally. Whether Libor, the mis-selling of Payment Protection Insurance or the recent rise in pension liberation frauds, all lead to a reduction in public trust in financial institutions. This erosion must be stopped if we are to regain the growth experienced until a few years ago.

I have, without regret, been a nag on the issue of culture within the finance sector both locally and internationally. The manipulation of Libor was not ultimately a failure of regulation or supervision, it was the inevitable consequence of the loss of a moral approach to doing business. The contempt shown to clients and colleagues in

the industry beggars belief. Without an ethical approach to doing business the finance industry will never regain the public trust it has lost. The Gibraltar Funds & Investments Association (GFIA) must be congratulated on the introduction of its Code of Conduct for directors, let us hope others follow their lead.

Regulators must play their part in this, but in order to do so the regulations they enforce and their capability to supervise must be fit for purpose. In the Gibraltar context I believe this means we need, more than ever before;

- A Financial Services Ombudsman
- A harmonised regime for the approval of senior executives
- The bringing into force of the Financial Sector Skills Council legislation
- The enactment of legislation to give us regulatory cooperation powers that meet international standards and allow us to become signatories of the International Organisation of Securities Commissions (IOSCO) Mutual Memorandum of Understanding
- Better enforcement powers
- Changes to legislation and regulations implementing EU directives enacted over previous years that have a number of flaws and omissions in them
- Focus upon effective corporate governance, and, more importantly cultural changes in the way some businesses operate.

This is not a set of demands or a shopping list and I am delighted that a number of the above are actively being addressed by Government. Rather, if we are serious about delivering quality financial services, and I believe we are, then we need the regulatory and supervisory infrastructure to enforce it. There is inevitably a cost associated with these changes but, as the saying goes and BP knows only too well, "if you think safety is expensive, try an accident". The Government's commitment on a new package of tax transparency further validates my belief that quality and reputable financial services will be at the heart of our future growth.

Those who have read my previous annual reports are aware that I am not a fan of regulation for regulation's sake. I am

disappointed and disturbed by the sheer volume of directives, regulations, binding technical standards and guidance notes emanating from the EU. Whilst some are necessary others appear to be rushed and questionably prioritised, with scant consideration given to those who have to implement or apply them. Unrealistic deadlines are set and then inevitably missed. The Divisional reports below set these out and our responses to them. Of course, safeguards must be in place to prevent the problems of the past but capital cannot work effectively whilst so constrained by requirements.

As a simple example of the challenge ahead, before its demise, the UK's Financial Services Authority had 220 people working on the EU's Solvency II and estimated it to cost £100 million. The cost to the UK industry itself will dwarf this at an estimated £1.8 billion.

With the granting of Qualifying Recognised Overseas Pensions Scheme (QROPS) status to Gibraltar a number of firms have started to operate in this area. Until now the supervision of pensions has been spread around three divisions, depending on the activity concerned. Given the increase in activity in this area and the supervisory issues it brings, I decided to transfer all pension supervision to the Fiduciary Division this year. This will give a more harmonised and consistent approach. We have also requested Government to amend the schedule of the 1989 Act to make pension administration and the provision of services to QROPS a separately licensable activity.

Furthermore, and as part of our commitment to playing a full role internationally in the development of regulatory standards the FSC joined the International Organisation of Pension Supervisors (IOPS). IOPS was formed in 2004 and is an independent international body representing those involved in the supervision of pension funds, including pension supervisors from over 70 countries worldwide.

In respect of international fora generally the FSC continues to play an active, positive role, including speaking at International Organisation of Securities Commissions training events on corporate governance in both Spain and New Zealand and participating in the Financial Action Task Force typologies exercise. Whilst I will be standing down as chairman of the Group of International Insurance Centre Supervisors

we will continue to provide administrative support to that group. We also participate, where appropriate, in the Crans Montana forum.

The Work of the Divisions on 2012/2013

Audit Supervision

General overview

The Audit Supervision team continues to be responsible for regulating Statutory Auditors and Audit Firms – “Auditors” – who conduct statutory audits in Gibraltar. The duties conferred by the Financial Services (Auditors) Act, 2009 (the Auditors Act) include that of:

- the registration, approval and removal of Auditors;
- the registration, approval and removal of Auditors from EEA states;
- the monitoring of continuing professional education of Auditors;
- the upkeep of a public register of Auditors;
- ensuring that all Auditors are subject to a system of quality assurance controls;
- public oversight of Auditors; and
- investigations and other enforcement action.

Developments in the regulation of Auditors

During the year, the team has continued to enhance the oversight of Auditors, especially in relation to the development of the quality assurance reviews as required under Section 29(1) of the Auditors Act. The majority of the work carried out by the Division during the year has been specifically in relation to this aspect of the Act. The Division has continued to work closely with the Institute of Chartered Accountants in England and Wales (ICAEW) to develop the programme of inspections. The timetable for the full review visits to be carried out in 2013 has been established and all relevant Auditors advised. The first set of visits commence in June 2013. The support contract with the ICAEW is for a further two years. However with effective knowledge transfer, the Audit Division expects to be in a position at the end of the contract to carry out this role without external assistance.

The Division continues to use the Annual Returns submitted by Auditors as a monitoring tool. The purpose of the Annual Return is to collate information and allow an opportunity for Auditors to confirm compliance with International Auditing Standards, the International Ethics Standards Board for Accountants Code of Ethics, continuous professional development and other auditing requirements as stipulated by the Auditors Act.

Over the next couple of years, the Audit Division will continue to enhance and develop a sound and efficient supervisory Division, especially given the continued advancement of the public oversight monitoring programme.

Enforcement action

Inspections are permitted by the Commission under Section 30(7) of the Auditors Act.

Inspectors were appointed during the year to carry out a follow-up review of an Auditor, in order to assess whether shortcomings and deficiencies in processes and procedures had been adequately addressed based on a submitted action plan. The findings of the inspection were such that the Commission considered the matter resolved and no further action was taken.

Action also commenced in relation to an Auditor whose good repute was seen to have been compromised.

Financing activities

Fees are levied in the form of annual fees and application fees of Auditors equivalent to staff costs, financial costs and operating costs for the execution of the public oversight of the audit industry.

Legislative and Regulatory Developments

Two proposals are still under consideration at EU level and are therefore being monitored by the Audit Division. These proposals are:

1. amendments to the 8th company law Directive on statutory audits of annual accounts and consolidated accounts (Directive 2006/43/EC); and
2. regulation which provides for specific requirements regarding the statutory audit of public interest entities, large listed companies, banks and insurers.

The proposals could bring significant change to the EU audit market and would significantly affect relationships between Auditors and their clients. If finalised, the amended Directive would need to be transposed at local level. Some of the key amendments include:

- mandatory audit rotation;
- mandatory audit tendering;
- restrictions on the provision of non-audit services;
- requirements for Audit Committees;
- a single market for Auditors, allowing Audit Firms to provide services across the EU under International Standards of Auditing and specific requirements;
- extension of the Audit Report.

Insolvency

The Insolvency Act was passed by the Gibraltar Parliament on 8 September 2011. The Act will be a significant piece of legislation for insolvency practitioners, financial institutions and other businesses in Gibraltar. Although there are still a number of matters pending for the implementation of the Act and Regulations in Gibraltar, the Financial Services Commission has been designated as responsible for the licensing and regulation. The Audit Division will therefore be taking over this responsibility during 2013. In order for this to be developed successfully, the Division will work closely with the Insolvency Working Group currently established in Gibraltar.

External relationships

The FSC's relationship with the Auditors Advisory Panel and the Gibraltar Society of Accountants (GSA) has allowed effective communication with the audit industry in Gibraltar and has therefore enabled audit quality to be enhanced. The Auditors Advisory Panel will continue to try and meet on a quarterly basis or as and when is necessary. The purpose of the panel is to:

- discuss how to develop and enhance the supervision of the Auditing profession in Gibraltar;
- promote best practice, ethics and standards in auditing in Gibraltar;
- provide a forum for discussion of legislative or international

developments which may affect Auditors in Gibraltar;

- maintain and develop a productive relationship between the Financial Services Commission as the regulator for the profession and the audit industry in Gibraltar.

Some of the topics considered during the year have been Auditor independence and the provision of non-audit services, Independent Accountants Reports, continuous professional development and other approval requirements. Through co-operation with the Advisory Panel and the GSA, the Division has published newsletters communicating expectations and findings.

The team has continued to increase its presence internationally, especially through its membership in the Independent Forum of Audit Regulators (IFIAR). During the year, the Division attended two IFIAR Plenary meetings and an audit inspection workshop. Attendance at organised IFIAR activities provides an opportunity for independent audit regulators to meet and discuss inspection processes, learn and leverage from each other and consider similarities and differences among practices and methodologies. This information sharing will lead to a better understanding of the member's respective oversight regimes and the identification of better practices in inspecting audit firms. With this attendance, the Division has been forging key relationships with other audit regulators that will prove useful in the development of the inspection programme and the general growth of the Division.

Banking and Investment Services Supervision

General overview

The Banking & Investment Services Supervision team is responsible for regulating banks, e-money firms and investment firms, as well as payment service providers and bureaux de change. The Division is currently responsible for supervising approximately 64 entities.

During 2012 firms generally experienced a stressed economic environment and more difficult trading conditions. As a result, the Division has increased its focus on dealing with firms with capital and financial issues. The growth, development and peculiarities

of the e-money sector have also resulted in substantial resources being assigned to this particular sector. In one specific case, the team has been working closely with a firm in order to ensure an orderly wind down of its operations and transfer of its business to a new licensee whilst ensuring that any impact on customers is kept to a minimum. This particular instance has been considerably resource intensive for the team. The initial high-costs of establishing an e-money operation and other associated resource requirements are not without their implications and the Division continues to work closely with firms to ensure that best practice is adopted across the industry. It is envisaged that all firms within this sector will be subject to a full risk assessment and on-site review in the coming months.

During 2013/14 the Division will also be further developing its approach to themed visits and will be focusing on aspects such as suitability of advice and the provision of 'banking' services.

A total of 4 Internal Capital Guidance (ICG) letters resulting from the supervisory review and evaluations of Internal Capital Adequacy Assessment Process reports (ICAAPs) were issued during the course of the year. The team continues to review ICAAPs and is currently carrying out 12 such evaluations. The Supervisory Review and Evaluation Process (SREP) which this encompasses now forms part of the risk assessment methodology and has been fully integrated into this process.

Legislative and Regulatory Developments

The Division has continued to develop regulatory and supervisory processes and, where relevant, has issued specific industry guidance. The various CRD Guidance Notes were revised and reissued during March 2013 following a consultation period. The changes primarily related to legislative amendments and developments.

A number of other consultation papers have also been issued. These relate to supervisory developments and guidelines issued by bodies such as International Organisation of Securities Commissions (IOSCO) and the Basel Committee. It is expected that this approach will continue during the current year.

The European Banking Authority (EBA) and the European Securities & Markets Authority (ESMA) also continue to issue consultation papers and guidelines covering different

aspects of compliance with the various directives. These are communicated to the industry via our various web technology tools.

As announced in last year's report, a consumer guide on payment services was also published during the course of this year. The Commission will continue to issue useful and informative guidance for consumers in specific areas identified in order to further promote investor education.

The Capital Requirements Directive IV (CRD IV) which was expected to have been published in 2012 has only just recently being agreed by the EU Parliament. It is now envisaged that this will have effect early to mid-2014. As a result, the Division will be enhancing its focus on the preparatory work needed to roll out the Common Reporting Format (COREP) which the CRD IV requires.

The Division also continues to monitor developments with regards to the MiFID II and PRIIPS (Packaged Retail Investment Products) proposals. These continue to be progressed through the various levels of the European Union's institutions.

A self-assessment against the revised Basel Core Principles was carried out during the course of the year. This assessment has demonstrated that our regulatory processes and supervisory procedures continue to meet international standards. A similar assessment against the published revised IOSCO Principles continues and is expected to be finalised during 2013.

Stakeholder relations

The Head of Division continues to maintain close contact with the industry via meetings with the Gibraltar Bankers' Association (GBA) on a quarterly basis and also meets representatives of the Gibraltar Funds and Investments Association (GFIA). A new association has been formed by e-money institutions – the Gibraltar Electronic Money Association (GEMA) – The Head of Division and senior members of the team are working closely with the new association.

Fiduciary Services Supervision Division

General overview

The Division is responsible for the supervision of 67 groups of company managers and professional trustees all of which are subject to risk assessments. The Division has

performed well against its business plan for the year. All of the 21 firms identified for a risk assessment at the beginning of the year have been visited. In addition to this, 10 supervisory meetings and 13 Focused Visits (a considerable increase on last year) were conducted during the year. The Division will embark upon a similar business plan for the oncoming year.

The Division continued to use risk assessments and the scrutiny of returns submitted by firms as its primary supervisory tools. There is a continuing emphasis placed on ensuring that firms are meeting their solvency requirements and the monitoring of actual performance and comparisons with previous years. Following the review of the Return of Trusts and Companies under Management, which were due by 10 March 2013, the Division can report a reduction in the amount of companies under management by 1,672 from 31,689 to 30,017. There has however been an increase in the number of trusts under management by 151 from 3,965 to 4,116. This reflects the continuing movement by firms to retain and attract quality value business rather than high volume business. The majority of firms provide the full range of services to clients that include the provision of either corporate or individual directors, nominee shareholdings, secretarial services and the provision of registered office facilities. There are fewer firms that have based their business model on the provision of secretarial services and registered office facilities only.

The risk assessment of firms has raised a number of common themes. This will lead the division to continue to focus on reviewing the systems and process firms have in place in relation to the handling of client money. Moreover, this coming year will also see extra focus being placed upon reviewing compliance with AML/CFT requirements and corporate governance arrangements. It is important that firms have sound and robust systems and processes in place to comply with their regulatory requirements whilst at the same time providing a quality service to clients thereby continuing to enhance Gibraltar's reputation as a quality finance centre.

This year has also seen a review of the Statement of Compliance that all firms are required to submit within four months of their financial year end. This has led to the addition of a number of questions in relation

to the preparation and filing of accounts, risk profiling of clients, sufficiency of financial resources and the use of Private Trust Companies.

Industry developments

Further to the June 2012 amendment to the Income Tax Act 2010 by the enactment of the Income Tax (Amendment) Act 2012, allowing for the importation of QROPS, the industry has seen a number of firms expanding and others embarking on this line of business. The Division will ensure that firms providing trustee services to QROPS are complying with the requirements that apply to them whilst also keeping under review the need to introduce specific rules. It is also intended that themed visits will be conducted throughout the oncoming year to review the arrangements firms have put in place to deliver this service.

Stakeholder Relations

The Division has formal relations with the Association of Trust and Company Managers ("ATCOM"), with meetings held on a quarterly basis to discuss various matters of mutual interest including the communication of the expectations and concerns, and wherever possible, the review of rules that govern the provision of fiduciary services. The Division also informs ATCOM of any proposed changes to any of the regulatory returns and always welcomes its feedback.

Funds and Pensions Supervision

General overview

The Division is responsible for registering and supervising funds, namely Experienced Investor Funds "EIFs", as well as fund service providers: EIF directors, Fund Administrators, Collective Investment Scheme Managers and Depositaries. The Division is also responsible for the supervision of Occupational Pension Institutions and for the conduct of business requirements of firms offering consumer credit.

During the year, the Division was responsible for supervising approximately 17 entities that are subject to risk assessments. EIFs and EIF directors are not subject to risk assessments and other firms such as depositaries are primarily supervised by the Banking and Investment Services Division and are, therefore, not included in this figure.

The Commission joined the International Organisation for Pension Regulators this year; this illustrates the commitment to

meeting international standards to assist in effectively regulating pension schemes and therefore protecting members.

The consumer guide on consumer credit has been published on our website to help increase awareness and provide information on the requirements as they affect consumers. Furthermore, the consumer guide on pensions has also been improved and updated.

Legislative and regulatory changes

Last year I explained how the Division had provided regulatory input into the changes introduced by the Financial Services (Experienced Investor Fund) Regulations 2012 (EIF Regulations) including the introduction of a pre-establishment registration process; use of external fund administrators and further disclosure requirements. As a large part of the Division's work is devoted to registering and supervising EIFs, changes to the EIF Regulations have had a considerable impact on processes and practices of the Division.

The Division has recently finalised development of the EIF Notification forms to request information in relation to good practice and common issues that the Division commonly encounters. This is expected to streamline the EIF notification process further.

Last year the team developed an EIF annual return; this return has provided the team with a better understanding of specific funds as well as proving a useful tool to better understand the industry as a whole. An EIF director return was also rolled out. The aim of this was to better understand how directors conduct their roles and responsibilities. However, whilst the EIF director return provided a useful insight into how directors discharge their responsibilities, it was clear that many responses were somewhat sparse and therefore not entirely useful to the FSC. We therefore wrote to EIF directors explaining the areas where further information was needed. Submission of these returns were made in April 2013 and the Division will be working with the EIF Directors forum, Gibraltar Funds & Investments Association ("GFIA") and Funds Panel to consider future developments.

The Division has also been very involved in working on the Alternative Investment Fund Managers Directive. The transposition deadline for the Directive is 22 July 2013. The

Commission has written to affected licensees and has produced various information pages covering the main areas on its website. The Commission has updated its information pages on the web-site and will soon be working with the industry to ensure that licensees are ready for the Directive. This is proving to be a major work theme and is expected to continue requiring substantial resources going forward.

During 2011, the Division assumed responsibility for ensuring that firms offering consumer credit comply with the relevant conduct of business requirements. The Division is working with the firms concerned on some final areas to ensure compliance. It is noted that further work will be needed in respect of Annual Percentage Rates.

Stakeholder relations

The Funds Panel has been created in this past year as a sounding board and initial point of consultation with the industry. This is proving very successful. The Division is finding that discussions with the panel are very useful and it is receiving a lot of valuable practical information which the Division believes is helping to improve the local product.

The FSC continues to work well with the GFIA and meetings are held regularly to discuss mutual issues of interest. The team and GFIA are currently working together on a number of areas such as seeking further clarification in respect of some aspects of the Financial Services (Experienced Investor Funds) Regulations and discussions on controls that the industry can put in place in respect of Protected Cell Companies.

Insurance Supervision

General overview

The Insurance sector in Gibraltar continues to grow, albeit primarily through business growth of existing insurers rather than as a result of new licensees.

During the year ending 31 March 2013 three new insurers were licensed. Two others surrendered their licences; one following a merger with other Group companies and the second, which had been in run-off since 2005, having successfully discharged its liabilities. During the same period two new insurance intermediaries were licensed. At 31 March 2013 there were 66 licensed insurers. 57 have exercised their right to

passport into the United Kingdom. Gibraltar insurers now passport their services and write business in all EEA Member States. The Insurance Division also supervises 34 insurance intermediaries and 8 insurance managers.

We estimate that Gibraltar motor insurers that underwrite UK risks continue to account for more than 10% of the UK motor insurance market and that this business comprises 85% of the premiums written by all Gibraltar insurers. Net premiums and assets of all Gibraltar insurers both grew by close to 20% from 2010 to 2011, driven largely by the increased premium rates that were achieved in the UK motor market during the period. We expect to see further growth in premiums in 2012 when final returns are submitted to the FSC in the middle of 2013, albeit at a more modest rate, which is consistent with the increasing maturity of the Gibraltar insurance sector.

As has been referred to previously in this report, the second half of 2012 proved to be a challenging time for the insurance industry in Gibraltar. The FSC had to take major enforcement action against three Gibraltar insurers during that period.

In the case of Lemma Europe Insurance Company Limited the FSC acted in August to close the company to new business as soon as it became clear that following a significant increase in reserves for prior year claims the company had breached minimum EU solvency requirements. The FSC's investigations identified that there were doubts about the recoverability of reinsurance and the ability of management to govern the company in an appropriate manner. Additionally, the company's shareholders were unable or unwilling to contribute additional capital to restore the solvency position of the company to adequate levels. The FSC therefore took the decision that policyholders' best interests would be best protected by the appointment of a liquidator. Despite being initially opposed by the company, the FSC successfully petitioned the Supreme Court of Gibraltar to place the company into provisional liquidation in September 2012 with the company placed into formal liquidation in January 2013. The FSC has worked closely with the Provisional Liquidator/Liquidator to ensure that policyholder interests are protected insofar as this is possible.

The majority of the company's policyholders and claimants are based in the UK and the provisional liquidator immediately entered discussions with the UK's Financial Compensation Scheme to ensure that eligible individuals received compensation, with those facing potential hardship being the immediate top priority.

The FSC commenced a formal investigation into the circumstances that led to the failure of the company. The investigation has been considering whether the company was managed in a sound and prudent manner at all times and whether disciplinary action should be taken against any individuals associated with the company. The investigation was on-going at the end of the period under review.

Almost concurrently, but unlinked, FSC investigations identified that two Gibraltar insurers, Hill Insurance Company Limited and De Vert Insurance Company Limited had been subject to major external frauds that eliminated much of the capital of each company. The FSC worked with the Gibraltar-based directors of each company to mitigate losses and to move the companies to a position where they too were placed into provisional liquidation in the case of Hill in September 2012 and then formal liquidation in January and February 2013 respectively.

As a result of the frauds the FSC has been working closely with law enforcement agencies in Gibraltar and other European jurisdictions where those responsible for the frauds are based.

The FSC commenced further investigations into both companies. This has led to the FSC taking action in respect of a number of individuals who the FSC considers failed to meet the standards required and expected of them for ensuring that adequate systems and controls were in place and for ensuring that the companies conducted their business in a sound and prudent manner. Our investigations continue and it is possible that further enforcement actions will be taken against additional persons.

The circumstances of both cases also led the FSC to agree with the industry a stronger regime for enhancing the confirmations provided by Statutory Auditors and Audit firms for the capitalisation of licensed companies.

Legislative and regulatory changes

The key issue that the Gibraltar insurance industry and the FSC continue to address is the implementation of Solvency II. The ongoing delays at EU level in finalising dates for the transposition and implementation of the Directive cause frustration to all.

The European Insurance and Occupational Pensions Authority (EIOPA) has recently issued a consultation paper with its proposals for guidelines for the interim implementation of aspects of the new Solvency II regime. The FSC expects to be able to confirm to EIOPA before the end of 2013 that it intends to comply with the final guidelines. As a result the FSC will continue to work with the Gibraltar Insurance Association and individual Gibraltar insurers to ensure that they themselves make satisfactory progress in acting to meet the new requirements.

Stakeholder Relations

The on-going development of the Gibraltar insurance industry and increased demands that are expected of supervisors means that the FSC continues to look to strengthen its supervisory team. It will remain focused on recruiting individuals with strong financial analysis skills, who will be able to support the team as it faces the challenges of meeting Solvency II disclosure and report analysis requirements.

In preparing ourselves to regulate under the new Solvency II regime, members of the Insurance Division will continue to participate in numerous training seminars organised by EIOPA.

The FSC remains committed to maintaining a team that is acknowledged for its technical excellence, with relevant accounting, actuarial and insurance professional qualifications, and strong inter-personal skills. By doing so it will ensure that in its on-going supervision it keeps abreast of emerging market issues as well as identifying regulatory issues that might affect individual entities.

The Insurance Division conducts quarterly meetings with the Gibraltar Insurance Association to discuss matters of mutual interest. Most recently discussions have focussed on topics such as the proposed EIOPA guidelines on Solvency II Interim Measures, the Role of Insurance Managers

and the FSC's supervisory approach regarding Capital Adequacy, Reserving for Technical provisions, Risk Management and Corporate Governance.

Enforcement

Protecting the Public

During the past year, the FSC has issued two public warnings.

One of these concerned a Seychelles company which sought to attract investors into various investment schemes promoted by the company on its website. The latter claimed that the company's head office was in Gibraltar, when in fact the latter was merely a mail forwarding address.

The other public warning issued concerned another non-Gibraltar company, which purported to operate from a Gibraltar office address to which it had no legitimate connection. It offered investments and funds services via its website with only a Spanish mobile number as its contact point.

Regulatory Co-operation

Enforcement is also responsible for handling requests from and to other regulators.

The FSC received 32 requests for assistance from other regulators, whilst the FSC itself requested assistance from other regulators on 15 occasions.

In addition to requests for assistance, Enforcement also deals with a far greater number of routine due diligence requests from international regulators.

Enforcement Action

On 8 May 2012, Jens Erik Sorensen pleaded guilty to two counts of money laundering at the Supreme Court and was later sentenced to 16 months imprisonment. Sorensen was previously the principal of Sorek Services Limited and related entities, which had their licences revoked by the FSC in 2010.

On 1 June 2012, the FSC provided assistance to a Royal Gibraltar Police operation, during which three premises were targeted and two persons were arrested and later charged. The operation was targeted at retailers carrying on bureau de change business without being licensed by the FSC.

On 4 October 2012 David Wayne Bennett, one of the beneficial owners of Starlight Marine Limited, which had defrauded

investors and conducted investment business without a licence, was made bankrupt following civil action by the solicitors acting for the FSC in Romford County Court.

Internal Developments

The number of staff has changed from 46 in 2012 to 44 in 2013. This workforce will continue to allow the FSC to continue to effectively supervise the finance sector and ensure that service level standards are being met.

This year has also seen a number of employees depart from the organisation and we wish them success in their future endeavours. The leavers include Michael Adamberry, Brett Bass, Michelle Garcia and Lizanne Wood, Richard Wood. The new staff members who joined us in Insurance Supervision over the last year are:

Natalia Borg;

Kayleigh Buhagiar;

Lianne Gilbert.

Over the past year, the FSC has focused on ensuring its internal processes continue to create a working environment that allows us to meet our organisational objectives and which employees are proud to work in. In order to formally recognise these efforts, the FSC has received Investors in People accreditation since 2007 and in June 2013 was awarded the prestigious Gold Standard. Being reaccredited demonstrates our exceptional commitment to developing people, allowing employee access to both informal and formal opportunities for training and development, people management strategies which are continually developed and improving a wealth of knowledge and expertise that is shared across the organisation.

Our internal focus has also led to improvements being made to our performance management systems, including our appraisal and 360 feedback programmes through which employees are given the opportunity to provide feedback on their line managers. The improvements to the processes demonstrate that the FSC is committed to ensuring that our staff are resourced and developed to conduct the tasks that each individual is expected to carry out on a day to day basis. At the same time we want to ensure that we can recognise exceptional contribution to the organisation and identify any structural or other areas of

improvement that are not enabling our employees to contribute, to the fullness of their own abilities, towards the organisation's objectives.

The FSC continues to be committed to working with the finance sector in order to increase its own skills and understanding and therefore secondment opportunities are available to professionals from within the local industry to join the FSC team for a period of six months. This scheme has proven to be a beneficial learning opportunity to the involved parties over the last twelve months. Ernest Lima worked within the Banking and Investment Supervision Division for a twelve month period on a part time basis and Aaron Payas, also from Hassans has spent six months with the Funds Division.

The FSC has worked closely with the Commonwealth Secretariat again this past year in assisting regulatory development in a number of Commonwealth countries. This year saw two members of the St Vincent and Grenadines Financial Services Authority spend two weeks with the FSC gaining knowledge in relation to our application and professional fund notification process. Another inwards secondment is also taking place in June and an individual from the Kenyan Insurance Regulatory Authority is working within the FSC Insurance Division for a three month period. The FSC is also in the process of organising an outwards secondment whereby a member of the IT team will be spending a couple of months at St Vincent and Grenadines Financial Services Authority.

The FSC once again is providing students, with the opportunity to join the FSC for a period of two weeks as part of a summer intern programme. This programme aims to provide students with interesting work experience and provide an insight into the functions and role of a regulator. In some cases, individuals can join the FSC for longer periods of time. For example, a Trainee Actuary worked within the Insurance Division for a ten week internship during 2012. In order to spread awareness of these opportunities and provide more general career advice, the Deputy Chief Executive Officer and Internal Operation Manager have visited both Comprehensive schools and the Gibraltar College to deliver presentations to A-level students. The FSC also participated in this year's Careers Fair to increase awareness of the employment opportunities

we can offer.

The FSC staff remain dedicated to their development and as a result undertake studies and training in a range of areas. A total of 116 internal and external courses have been attended by FSC staff during the course of the year. These courses represent an influx of internal training relating to improving our legislative knowledge and the introduction of new or enhanced HR processes. Staff have also been attending Webinars on relevant topics as well as attending local and externally organised events. One of these courses involved once again working with Bill Snaith and Jane Walker from Dynamic Decision Making so that members of staff could undertake a Core Competency Development Programme. This will result in them gaining a CMI Level 5 Certificate of Management and Leadership.

The table below provides details of our employees' qualifications. The increase in the qualifications since last year serves to demonstrate the Commission's and staff's commitment to increasing their knowledge and skill base.

1st Degree (e.g. BA, BSc)	36
2nd Degree	8
Professional qualification (incl. Accountant, Lawyer, Actuary)	16
Industry qualification (Incl. STEP, ICSA, CII, CMI, CIPD, CISI, AAT, CEFA, CIPD, ICA, CLT International)	23

The FSC adopts a number of practices to limit the negative effects we may have on the environment. Therefore employees use public transport systems to travel to on-sites and risk assessment visits in order to reduce the Commission's carbon footprint. Records are kept of electricity and cooling consumptions and we are mindful of the use of air conditioning. This year will see modifications being made to the office so that the lighting systems operate by sensors ensuring minimal electricity consumption. Recycled paper is used for certain work and where possible we utilise timers on our electronic appliances. The Operations team ensure we are kept up to date with Health and Safety best practice by attending available courses.

Commission Finances

During 2012-2013, the Commission benefited from an increase in fees giving an overall increase in fee income of £186,370.

However, 2012-2013 has been a turbulent time for the finance sector and significant amounts of legal and professional fees have been incurred as a result of a number of large investigations being carried out. Therefore, during the year ended 31 March 2013 there was a decrease in reserves of £40,723.

The Commission continues to seek to minimise the cost of regulation to licensees but it is vital that the FSC has the resources to undertake its statutory duties. Therefore, in order to absorb the financial costs of any major regulatory action occurring in the future, the Commission will be creating a contingency fund. The legislation in respect of this is soon to be finalised.

Key themes for 2013/14

Introduction

Some progress has been made, in addressing the key themes for 2012/13, in particular the issuance of a Command Paper on regulatory cooperation. However, the key themes for 2013/14 are generally very similar to 2012/13.

Clearly our work on existing and forthcoming EU directives continues to involve a considerable amount of Commission time. One of the biggest challenges for us and indeed other regulators will be the new Capital Requirements Directive. This will be a massive, complex and expensive task requiring significant effort and cooperation between ourselves, Government and the industry

Similarly, as part of developing our business plan for 2013/14 the Commission, as previously, identified a number of risk areas on which focus must be placed.

Each year the Commission goes through a formal process of identifying the risks to which it is exposed and proposed mitigation. Prepared initially by the Executive, it is then presented to the Board for consideration. Following Board endorsement the individuals then build the mitigation into their draft Divisional business plans. These too are then submitted to the board which makes such

changes as it considers appropriate. The Divisions then incorporate those changes before a finalised plan is submitted for final Board approval. Once this has been done, the Divisions prepare their programme for the following business year and the Commission's budget is set.

Clearly, exogenous events may impact delivery of the plan or require changes to be made. However, it does allow the Commission to plan for, resource and prioritise, to mitigate the threats to its ability to meet its statutory duties.

As in my 2011/12 and 2012/13 reports, I highlighted areas that we considered would be of material benefit, not only to the effectiveness of regulatory supervision but also to consumers, the industry and the growth of the finance sector of Gibraltar as a whole. A number of these require legislative backing and therefore we will continue to work with Government on bringing them to fruition.

These are:

- Improved Corporate Governance and Enterprise Risk Management in the industry
- Enhancing professionalism in the industry
- A formal mechanism for dealing with consumer complaints
- The introduction of a harmonised regime for the approval of senior executives
- Extending the Commission's enforcement and regulatory cooperation powers
- Updating of regulations
- The creation of a formal process for reviewing Commission decisions

Improved Corporate Governance, Culture and Enterprise Risk Management in the industry

Whilst significant emphasis has been placed on issues of capital and solvency, these are insufficiently effective without a business having an effective corporate governance regime and, in particular, the board having

full and up to date understanding of the risks involved in the firm's activities.

If the crisis has taught us anything, it was that failure to understand risk was a fundamental root cause. Governments did not understand the risks involved in their macro-economic and social policies (e.g. encouraging home ownership for those who ultimately had no means to repay their mortgages). Bank boards failed to appreciate the risks involved in their proprietary trading. AIG's board did not grasp the potential threat in their involvement in activities outside their vast, traditional insurance operation. Regulators underestimated the risks being taken by their licensees and failed to take action before it was too late.

Understanding of the cumulative effect of a number of risks as well as individual risks needs to be considered. Recent events show that risks come, like sorrows, "not as single spies, but in battalions."

Ensuring effective corporate governance must therefore be a priority in our work. This includes the role of non-executive directors (including their independence where appropriate), the adequacy of the information provided by the executive to the board, the quality of the board itself, and the manner in which the board ensures that the firm establishes and maintains effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

In the case of non-executive directors, these need to make sufficient time available to discharge their responsibilities effectively.

By themselves such changes are not sufficient, therefore the Commission will put effort into encouraging a cultural change, particularly in the way certain firms treat their customers.

Enhancing professionalism in the industry

The issue of the adequacy of advice and information provided to clients when they invest in or purchase financial products has again come to the fore. This international issue cannot be ignored in Gibraltar. Whether it is the concern expressed by the Central Bank of Ireland about some Contract for Differences (CFD) providers "failing to

fully inform and provide adequate risk warnings to consumers about the risks that CFD and financial spread betting carries before they begin trading” or the recent UK scandal over Payment Protection Insurance.

It remains the Commission’s view that the key to preventing such concerns arising in Gibraltar is the activation of the 2006 legislation which created the Financial Services Skills Council.

The Commission continues to support the excellent work of the Gibraltar Association of Compliance Officers “GACO” in improving the quality of training in Gibraltar; including its Foundation Course, which was run with the support of the Department of Education. This combined with the work of the Gibraltar Fund Industry Association “GFIA”, Gibraltar Insurance Association “GIA”, Gibraltar Insurance Institute “GII” and the Chartered Institute of Securities and Investments “CISI”, to name but a few, has laid an excellent foundation for the Council’s work. However, the work must now be coordinated and proper standards set and enforced.

Consumers have a right to know that the person on whose advice they entrust their pension or life savings is properly trained and suitably competent. We expect this of our doctor and accountant and therefore we should expect no less from our financial adviser. Indeed, whilst much is spoken, not least by me about the importance of reputation, reputation itself is impossible without such professionalism.

In addition to the Skills Council, consideration should be given in financial terms between those firms that invest in such training and those that do not. Firms, who do invest, present fewer risks of regulatory breaches, have fewer complaints and are less resource intensive for the Commission. Why should such firms effectively subsidise those who fail to make such an investment? Therefore, during the next 18 months the Commission will investigate whether it is possible to provide a real benefit for such firms in terms of their regulatory fees. Such an approach is wholly consistent with the concept “the polluter pays”.

In the end, however, the best way that appropriate qualifications will become the norm will be because the professionals in the sector see the benefits for themselves and their firms. The Associations have done much to develop this belief; an effective Skills Council would improve matters still further.

A formal mechanism for dealing with consumer complaints.

There is no formal mechanism for the investigation and adjudication of complaints regarding services and products provided by licensees. With the exception of complaints relating to payment services, the Commission is not empowered to conduct this role. Whilst we investigate complaints, this is from the perspective of assessing whether a regulatory breach has occurred rather than to seek redress for the complainant.

We are delighted, therefore, at the new Government’s commitment to introduce a complaints handling system.

A harmonised regime for the approval of senior executives

Whilst we accept that our proposals to introduce an Approved Persons Regime did not find favour we consider that the ability to approve persons for senior functions within the regulated sector is an important tool towards protecting the customer, increasing technical competence of practitioners and facilitating good corporate governance. This would also provide redress to those individuals directly affected by the Commission’s decisions (for example in respect of our conclusion on their fitness and propriety), which is currently not provided for in the legislation.

Extending the Commission’s enforcement powers

With the increased range of activities which the Commission has become responsible for, and the additional supervision of the regulated sector, the Commission will also be seeking greater powers to impose administrative sanctions and penalty fees for breaches of regulatory requirements. At present, for most of these occurrences, the Commission can only seek draconian measures (e.g. cancellation or suspension of an authorisation) or seek a criminal prosecution. We believe that there is a halfway house that can be achieved which will provide adequate sanction as well as deterrence without the need for criminal proceedings to be instituted. Such measures, if accepted by Government, would need to have sufficient safeguards that would prevent the Commission from using penalty fees as revenue raising measures, as well

providing a formal and transparent appeals process (see our proposals for a formal review process below).

The Commission's time and resources tend to be dedicated to firms who, through their risk profile, present a greater risk to our regulatory objectives and, in particular, preventing the public from suffering financial loss. With this principle in mind, we will also be seeking to address how fees payable under the supervisory acts can be more closely linked to those firms that pose a greater resourcing requirement for the Commission. One of the considerations (as referred to above) that we are seeking to explore further is recognition of those firms whose officers and front line staff possess qualifications which would mitigate the risk of financial loss to the public.

Updating of regulations

Whilst focus necessarily has been placed on directives and other EU initiatives, the Commission is currently working on a number of non-EU statutory and regulatory provisions that are in need of updating. Some have been unchanged since 1991 and are no longer fit for purpose. We will therefore continue to recommend changes to Government in respect of these.

Similarly, some transpositions of Directives were poorly drafted and need amendment. We will continue to highlight these to Government as and when we identify these.

The creation of a formal process for reviewing Commission decisions

At present, regulatory decisions, whether in respect of licensing or enforcement, only have an appeal mechanism via the Supreme Court. Such a process is inevitably slow and expensive. Persons aggrieved by a decision should not have to go to judicial review; rather we need to develop a swift, effective appeal mechanism. No regulator should be frightened of having its decisions challenged; indeed such a capability enhances the quality of the decision making process itself. It also further demonstrates our commitment to be independent but accountable.

This will become of greater necessity if our request for greater enforcement powers (including those of fining) is granted by Government.

This process could be combined with one covering complaints against the Commission itself. For example, in the UK, rules made under the Financial Services & Markets Act 2000 require the creation of an independent Complaints Commissioner to conduct impartial investigations.

Conclusion

Finally I wish once again to express my appreciation to my team and board and the two Chairmen I have served under, it has been a wonderful ten years and a time of great challenge and change. However, it is still not "Mission Accomplished". I wish my successor well, they will have a great team but the FSC, like every regulator, has a journey still to travel.

Marcus Killick
Chief Executive Officer
10 July 2013

The Risk Register

In line with good corporate governance the Commission maintains a risk register. This is a description of the key risks faced by the Commission in the attainment of its objectives together with an assessment of the likelihood of these risks occurring and their likely impact. It also sets out the proposed action to mitigate the risks identified.

The risk register enables the Commission's board to identify those risks that pose the biggest threats to the achievement of our objectives and

enable those risks that pose the most significant threats to be given priority.

It is an evolving document, regularly reviewed by the Executive and on an annual basis by the Board, and it acts as the foundation of our annual business plan and, from this, our budget.

A number of strategic risks are currently the subject of active mitigation. These include:

Heading	Description	Mitigation
Co-operation with Government	A strong regulatory environment is dependent on a solid working relationship between the Government and the FSC.	Continue to hold regular briefing meetings with Ministers, Authorities and Departments to foster the exchange of information, ideas and legislative developments that support the regulatory environment.
International Regulatory Cooperation	Effective regulation is significantly dependent on the exchange of information with counterparts located outside of Gibraltar. In particular there are significant international expectations concerning regulators being part of multilateral memoranda of understanding (MMOUs). Failure to do so will lead to sanctions being applied and reputational damage to the jurisdiction.	The FSC uses its existing powers to achieve this aim whilst at the same time continues to pursue with Government a change to the legislative framework that will provide a more efficient and effective exchange mechanism that will permit Gibraltar to become an A Signatory to the IOSCO MMoU.
Stakeholder Interfaces	Stakeholder engagement is crucial for the rapid deployment and understanding of regulatory standards. A breakdown in communication can make effective regulation more difficult.	Maintain and improve the consultation programmes with industry representative bodies as well as individual firms.
Client Money and Assets	Protection of client funds and assets held and administered by regulated and non-regulated firms	Continue with the on-site visit programme of regulated firms. Seek Government's view to strengthen the legislation covering the operation and controls over such accounts. Seek Government's view to the inclusion of other activities, not currently covered by the FSC regulatory regime to fall within its scope (e.g. lawyers, estate agents)
Corporate Governance of firms	Poor corporate governance practices may lead to the public suffering direct financial loss.	Engage with the industry to produce a guidance note that would increase the corporate governance arrangements of firms including the qualification of sales and compliance staff as well as others conducting key managerial roles within an organisation.

Heading	Description	Mitigation
Administrative Sanctions	The FSC's ability to take regulatory action under present arrangements falls short of international expectations requiring the FSC to take regulatory action to the level of evidence in criminal proceedings. This is proving to be a drain on the resources of the FSC.	Seek to engage with Government on obtaining dissuasive administrative powers for the FSC under all of the Supervisory Acts.
Consumer Choice	Withdrawal of one or more major product providers leading to the public seeking to find alternative sources for these products which may not be as well protected as those regulated by the FSC.	By continuing to provide an effective but yet efficient regulatory regime. Help maintain the attractiveness of Gibraltar for existing product providers Assist in the development of new regulated products via technical support and participation in consultation Assist, where requested and appropriate, Government in of the jurisdiction., to attract new providers.
FSC Staff skill set and experience	The risk that the FSC staff is inexperienced or unqualified to perform its statutory functions.	Continue with the strong training and development programme for existing staff to equip them with the necessary skills and experience. Continue to recruit new members of staff with the right balance of skills, experience or potential to attain these within a short period of staff.
Key-man continuity	The FSC needs to be able to continue to function even with the loss of one or more of its current key personnel.	Internal processes are well distributed and there is no reliance upon any one or more individuals for the FSC to continue in operation. The Executive is to continue to explore further possibilities of distributing workloads and functions across an even wider cross section of staff.
Approved Persons	The persons who are not fit and proper undertake functions within regulated firms.	Seeks Government's consent to the introduction of a unified regulatory mechanism that will ensure that only those persons with the necessary skills and experience undertake responsible roles in regulated firms.
QROPS	The lack of effective regulation of QROPS providers and pension administrators increases the risk of the public suffering direct financial loss and a risk to the reputation of Gibraltar and the removal of Gibraltar as a QROPS approved jurisdiction by HMRC in the UK. There is a risk that certain Trustees conducting QROPS business do not have the relevant knowledge, experience and resources and are outsourcing significant administration functions to other Jurisdictions	The FSC has highlighted to Government the need to regulate both pension schemes and pension administrators. The FSC considers that the provision of this service should be a separately licensed activity and restricted to providers with demonstrable ability and resources to undertake it. Outsourcing to persons outside the jurisdiction should also be subject to regulatory controls and oversight.
Economic Crisis	The current international economic crisis poses an ongoing risk to the finance sector in Gibraltar	The Commission will examine the viability of existing business plans and strategies of firms in relation to an on-going and prolonged economic crisis.
Developing International Standards	The risk that the FSC is unable to keep up with increasing international standards emanating from international standard setting organisations and the EU.	Continue to employ competent staff for this role including the role of the Policy and Research Manager to maintain abreast of all such developments.

Heading	Description	Mitigation
Membership within the European Supervisory Authorities (ESAs)	<p>Due to Gibraltar's unique status within the EU (i.e. it is not a Member State in its own right) it is not currently recognised or considered as a member of the European System of Financial Supervisors (ESFS), which comprises the three ESAs.</p> <p>This restriction has meant that Gibraltar and more importantly the Commission, has been in breach of key EU Directives governing the financial sector.</p>	The Commission will continue to press this matter with the UK's FCA and PRA as well as the ESAs.
Key new EU Directives	Ensuring that the FSC is equipped to deal with the regulatory requirements of all financial services directives for which it is given responsibility for.	The Commission is working to identify any resourcing requirements well in advance of transposition dates to ensure it can fulfil its obligations effectively.
Direct Costs of Regulation	As new regulatory requirements are imposed and the level of regulation increases, the FSC could face a larger expenditure budget	Provide for effective financial control and checks to ensure that operating costs of the FSC are maintained under control and seek to ensure tight budgetary control over existing and planned capital and operating expenditure.
FSC Board Experience	After the forthcoming retirement of Alan Whiting and the stepping down by Marcus Killick, all but one of the other Members will have served less than three years on the FSC Board. There is a risk that corporate memory may be lost as a result.	Seek staggered appointment dates for the appointment of Board Members in the future to prevent such a reoccurrence.
Euro	The effects on the finance centre and the jurisdiction's economy as a whole should the EURO collapse as a currency.	Continue to monitor exposure of individual firms to the EURO, parental liquidity and business continuity arrangements of the main players in each of the sectors.
Finance Centre Skills Council	The lack of formal qualification requirements to sell products in Gibraltar poses a threat to consumers.	Seek Government's action to give effect to the Finance Centre Skills Council to establish the minimum qualifications that sales staff would need to attain before being allowed to sell or recommend products to customers.
Robust mechanisms for AML/CFT	Ensure that Gibraltar's regulatory framework effectively deters the finance centre from being used as a conduit for illegal activities.	Continue to participate in Government's working group to establish the changes required to the regulatory and legislative framework to continue to meet international standards in this area and in particular, the revised FATF recommendations and the forthcoming 4 th Money Laundering Directive.
Transposition of a number of Directives.	There have been a number of drafting errors that have resulted in difficulties in implementation of key EU directives.	The Commission has identified a number of these errors to Government and will continue to do so.
Taxation Reputation	The use of licensees as part of tax evasion or aggressive tax avoidance impacts the reputation of the sector and may lead to both external measures and existing players exiting in order to avoid damage to their own reputation.	Working with the industry to ensure they don't unwittingly assist in such activities. Continued emphasis on reminding firms that assistance in tax evasion constitutes money laundering as with any other predicate offence and taking appropriate action where such assistance is found.

Corporate Governance Report for the year ended 31 March 2012

The Commission is a statutory body established under the Financial Services Commission Act 2007 (the Act). The Commission consists of the Chief Executive as ex-officio member and seven other persons appointed by the Minister with responsibility for Financial Services.

At least two of these persons must have significant experience of regulation and supervision of financial services business in another jurisdiction. The Commission appoints one of its members to be the Chairman of the Commission. Appointment of the Chairman is for a period of one year.

Members may be reappointed Chairman any number of times consecutively. Commission members are appointed for three years and upon such terms as may be specified in the instrument appointing them. This is renewable. However, with the exception of the Chief Executive, Members may not be reappointed if they have served a term of nine years or more.

When there is a vacancy to be filled the Commission must, within four weeks of the creation of the vacancy, nominate no fewer than three persons to the Minister. Should the Minister decline to nominate a person from the nominations made by the Commission, the Commission shall, within a period of a further four weeks, nominate no fewer than three further persons.

Should the Minister decline to appoint a person from the nominations made by the Commission, the Minister may then appoint any person whom he believes to be suitability qualified to be a member of the Commission. If he does so, such appointment is subject to ratification by a resolution by Parliament.

The Commission currently has eight members. Following the departure of Mr Franco Cassar and Mr Joseph Caruana who had each served a term of 9 years, Mr Edgar Lavarello joined the Commission in July 2012 and Ms Emma Perez in October 2012.

Commission Members were;

- Alan Whiting
27 January 2005 - 25 January 2014
- Marcus Killick
Chief Executive Officer
- Bruno Callaghan
28 May 2013—27 May 2016
- Joseph Caruana
30 July 2003 - 29 July 2012
- Franco Cassar
1 October 2003—30 September 2012
- Nigel Feetham
28 May 2007 – 27 May 2013
- Edgar Lavarello
30 July 2012 – 29 July 2015
- Emma Perez
1 October 2012 – 30 September 2015
- Jonathan Spencer
6 October 2011 – 5 October 2014
- John Tattersall
1 October 2009 – 30 September 2015
- Melo Triay
4 March 2011 – 3 March 2014

Functions of the Commission

Under Section 6(1) of the Act, the functions of the Commission are:

- to supervise Authorised persons in accordance with this Act and the Supervisory Acts;
- to consider and determine applications for authorisations, licences, recognitions and registrations made under the Supervisory Acts;
- to monitor compliance by Authorised persons with such legislation, rules, codes and guidance made under this Act or any Supervisory Acts;
- to monitor compliance by Authorised persons with legislation, rules, codes and guidance relating to the prevention of financial crime;

- to monitor financial services business carried on in or from Gibraltar and to take such appropriate action as it is empowered to do against persons carrying on such business without the necessary authorisation, licence or registration;
- to carry out the duties and discharge the functions imposed on, or given to, it under this or any other Act;
- to determine subject to the approval of the Minister the terms of service of the Chief Executive;
- to determine the number and skill mix of employees required by the Commission to carry out its functions and to determine their terms and conditions of employment;
- to monitor and oversee the performance by the Chief Executive of all functions delegated to him by the Commission
- to approve the annual estimates of income and expenditure to be furnished to the Minister; and

in respect of those areas of financial services business where Community law applies, to supervise and regulate financial services business carried on in or from Gibraltar in accordance with Community obligations and in those areas to establish and implement standards and supervisory practices which match the standards and supervisory practices governing the provision of financial services within the United Kingdom.

The wide range of skills contributed by the individuals above enables the Board to achieve the appropriate balance of skills, experience, independence and knowledge to ensure the Board discharges its respective duties and responsibilities effectively.

The Commission has met 4 times in the last year. The Chairman, with the support of the executive directors and the CEO, sets the agenda for board deliberations. The board agenda is focused on strategy, performance, value creation and accountability, and ensuring that issues relevant to these areas are reserved for board decision. The board agenda and supporting documentation is provided to members in advance of the scheduled meeting in a timely and appropriate manner by the Secretary to the Board.

All Divisional Managers and Heads provide an update to the Board on performance against the business plans at each meeting. The Commission scrutinises management performance, including the attainment of agreed goals and objectives.

All newly appointed members to the Commission undertake a formal and tailored induction carried out by the Chief Executive, Secretary to the Board and Heads of each Division at the Commission. In August 2012 the formal induction for Mr Edgar Lavarello and Ms Emma Perez took place., Bruno Callaghan's induction took place in May 2013 To ensure that the Board members have the skills and knowledge required to fulfil their role on both the board and on board committees, the Commission ensures that they receive regular industry and regulatory update briefings. In addition, Board members are invited to attend breakfast briefings on a quarterly basis with Divisions. Furthermore, all Board members are apprised on a quarterly basis of forthcoming legislation and regulatory developments. In some cases, presentations are given by the relevant Division.

Committees of the Commission

Whilst the Board is responsible for making the final decision, it utilises subcommittees to assist in its consideration of audit and remuneration matters. The subcommittees meet on a regular basis and report to the Board. The terms of reference of all the Committees are published on the Commission's website.

Audit Committee

An Audit Committee has been in place since 2004. 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, oversee the internal audit function and to approve the terms of engagement of the external auditors.

The key duties of the Committee are:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the FSC's financial

performance, reviewing significant reporting judgements contained in them.

- to review the FSC'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 FSC's control and risk management systems.
- monitor and review the effectiveness of the company's internal audit function.

The members of the Audit Committee are Dr Jonathan Spencer (Chairman), Mr John Tattersall and Mr Edgar Lavarello (who replaced Pepe Caruana in September 2012 who had served as Chairman). The Committee met on four occasions during the year under review.

Budget Review Committee

The Budget Review Committee's role is to provide an independent challenge to the Commission's budgetary process and to recommend the annual budget to the Commission.

The duties of this committee are;

- to review the draft annual financial budget prepared by the FSC Executive.
- to challenge the underlying assumptions and forecasts with a view of determining the accuracy of the

same.

- to direct the executive to reconsider any item of forecast income or expenditure.
- to recommend, or otherwise, the draft budget to the Commission.

Membership consists of Mr Joseph E (Melo) Triay (Chairman), Mr Alan Whiting, Ms Emma Perez and Dr Jonathan Spencer (who replaced Mr Franco Cassar and Mr Joseph Caruana). The Chief Executive Officer and the Deputy Chief Executive Officer also form part of the Committee. The Committee met twice during the year under review.

Nomination Committee

The Nomination Committee leads the process for the appointment of Commission Members, including the Chief Executive, and makes recommendations to the Commission as appropriate. It is chaired by the Commission's Chairman (Mr Alan Whiting) and its members are the Chief Executive (Mr Marcus Killick) and two other members of the Commission, Mr Joseph E (Melo) Triay and Mr Edgar Lavarello who replaced Mr Nigel Feetham in May 2013.

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 Nomination Committee met three times in the year during the year under review.

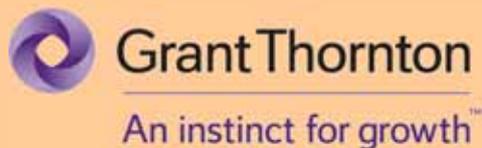
Meeting Number	111	110	109	108	107	106	105	104
Marcus Killick	✓	✓	✓	✓	✓	✓	✓	✓
Joseph Caruana				✓	✓	✓	✓	✓
Franco Cassar			✓	✓	✓	✓	✓	✓
Nigel Feetham	✓	✓	✓	✓	✓	✓	✓	✓
Brian Hilton							✓	✓
Edgar Lavarello	✓	x	✓					
John Tattersall	✓	✓	✓	✓	✓	✓	✓	✓
Joseph E (Melo) Triay	✓	✓	✓	✓	✓	✓	✓	✓
Alan Whiting	✓	✓	✓	✓	✓	✓	✓	✓
Jonathan Spencer	✓	✓	✓	✓	✓	✓		
Emma Perez	✓	✓						
Recent attendance at Commission Meetings by Members								

Performance and Remuneration Committee

The performance and 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 executives' terms and conditions. For this purpose, senior executives shall comprise the Chief Executive Officer and the Deputy Chief Executive Officer. It is chaired by Mr John Tattersall and its members are Mr Alan Whiting and Emma Perez (who replaced Mr Franco Cassar). The Committee will also, when necessary, make changes to senior executives' terms and conditions. The Committee met twice in the year.

Board Evaluation

The Board evaluates its own performance and effectiveness and the Chairman's performance on an annual basis. The Board evaluation provides a valuable feedback mechanism for improving the effectiveness of the Board. The outcome of the evaluation is shared with the whole Board. The Board Charter which sets out the authority, responsibilities, membership and operation of the Financial Services Commission Board has been reviewed and updated over the past year to ensure its relevance.



Independent Auditor's Report to the Financial Services Commission

Report on the financial statements

We have audited the financial statements of the Financial Services Commission for the year ended 31 March 2013 which comprise the income and expenditure account, the balance sheet and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

This report, including the opinion, has been prepared for and only for the Commission as a body in accordance with Section 16 of the Financial Services Commission Act and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Commission's responsibilities for the financial statements

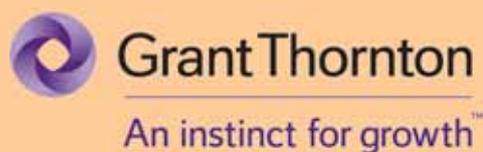
The Commission is responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Commission's preparation and true and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independent Auditor's Report to the Financial Services Commission –continued

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice, of the state of the Commission's affairs as at 31 March 2013 and its deficit for the year then ended;
- have been properly prepared in accordance with the Financial Services Commission Act and other applicable legislation.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Financial Services Commission Act requires us to report to you if, in our opinion:

- we have not obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- proper accounting records have not been kept by the Commission;
- the Commission's Balance Sheet and Income and Expenditure Account dealt with by this report are not in agreement with the accounting records;
- the Commission has not discharged with diligence its obligations in relation to the collection of its revenues.

Adrian Hogg (Statutory Auditor)
For and on behalf of Grant Thornton (Gibraltar) Limited
6A Queensway
Gibraltar

Date : 19 July 2013

Income and Expenditure Account For the year ended 31 March 2013

	Notes	2013 £	2012 £
INCOME			
Fees receivable	3	3,341,911	3,155,541
Interest receivable		6,079	3,312
		<hr/>	<hr/>
TOTAL INCOME		3,347,990	3,158,853
		<hr/>	<hr/>
EXPENDITURE			
Staff expenses	4	2,313,358	2,157,736
Establishment costs		261,999	248,710
Other operating expenses		175,130	119,432
Commission members' fees	5	121,095	122,949
Legal and professional fees	6	396,370	188,445
Auditors remuneration		7,000	8,000
Depreciation	7	46,692	49,265
Other professional charges		24,169	22,187
Authorised Administrator	8	-	(2,912)
Loss on disposal of fixed assets		-	281
Bad debt write-off	9	42,900	-
		<hr/>	<hr/>
TOTAL EXPENDITURE		3,388,713	2,914,093
		<hr/>	<hr/>
(DEFICIT)/SURPLUS		(40,723)	244,760

There are no recognised gains or losses other than as disclosed above and there have been no discontinued activities or acquisitions in the current or preceding year.

There is no difference between the deficit stated above and their historical cost equivalents.

The notes on pages 32 to 39 form part of these financial statements.

Balance Sheet

As at 31 March 2013

	Notes	2013 £	2012 £
FIXED ASSETS			
Tangible assets	7	46,516	81,568
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors and prepayments	10	268,706	602,792
Cash at bank and in hand		706,676	503,794
		<hr/>	<hr/>
		975,382	1,106,586
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(395,362)	(320,895)
		<hr/>	<hr/>
NET CURRENT ASSETS		580,020	785,691
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		626,536	867,259
		<hr/>	<hr/>
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12	-	(200,000)
		<hr/>	<hr/>
NET ASSETS		626,536	667,259
		<hr/>	<hr/>
FINANCED BY:			
GENERAL FUND	13	626,536	667,259
		<hr/>	<hr/>

The financial statements on pages 28 to 37 were approved by the Commission on 19th July 2013 and signed on its behalf by:

Marcus Killick
Chief Executive Officer

Alan Whiting
Chairman

The notes on pages 32 to 39 form part of these financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with Gibraltar Accounting Standards. The particular accounting policies adopted by the Commission are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

The Commission is exempt from the requirement to prepare a cash flow statement under the provisions of Gibraltar Financial Reporting Standard 1 (Revised) on the grounds of the Commission's size.

Income

Annual Renewal Fees due under the Banking, Insurance, Auditors, Occupational Pensions and Financial Services Acts are recognised on an invoiced basis, whilst all other fee income is recognised on a receipts basis.

Interest receivable is accounted for on an accruals basis.

Depreciation

Depreciation has been calculated so as to write off the cost of fixed assets on a straight line basis over their expected useful economic lives at the following annual rates:

Motor Vehicles	20%
Office Furniture and Fittings	20%
Office Equipment: General	20%
Computers	33 $\frac{1}{3}$ %

Pension costs

The Financial Services Commission makes contributions to the Gibraltar Provident Trust (No. 3) Pension Scheme. Costs are accounted for on an accruals basis and are recognised in the income and expenditure account in the year in which they are incurred.

General Fund

The General Fund represents the retained surplus of the Commission.

Authorised Administrator debtor balance

The authorised administrator debtor balance represents the authorised administrator fees less;

- a) the amounts recovered from licensees in the form of a special levy chargeable to entities who benefitted from a transfer of companies and trusts; and
- b) an annual contingency fee payable by all licensees, which amounts to 10% of their annual licence fees.

Both of these fees are excluded from the income of the Commission.

Notes to the Financial Statements

2. TAXATION

Under the provisions of the Financial Services Commission Act, the income of the Commission is exempt from income tax.

3. FEES RECEIVABLE

	2013 £	2012 £
Financial Services Acts	1,431,736	1,426,814
Banking Act	377,000	345,000
Insurance Companies Act	1,287,640	1,155,000
Others	245,535	228,727
	<u>3,341,911</u>	<u>3,155,541</u>

4. STAFF EXPENSES

	£	£
Salaries	1,925,933	1,801,120
Social security costs	71,732	70,346
Pension costs	192,364	173,951
Other staff costs	123,329	112,319
	<u>2,313,358</u>	<u>2,157,736</u>

The Chief Executive Officer received total remuneration, including pension and life insurance contributions of £252,285 (2012: £254,574).

The average number of employees for the year was 45 (2012: 43).

	2013 Number	2012 Number
Regulatory	33	32
Operations & IT	12	11
Total staff employed	<u>45</u>	<u>43</u>

Notes to the Financial Statements

5. COMMISSION MEMBERS' FEES

Fees paid to the Members of the Commission were as follows:

		2013 £	2012 £
Joseph Caruana	Appointed term ended 29 July 2012	5,550	16,037
Franco Cassar	Appointed term ended 30 September 2012	8,018	16,037
Nigel Feetham	Appointed term ended 27 May 2013	16,037	16,037
Brian Hilton	Appointed term ended 30 September 2011	-	13,364
Edgar Lavarello	Appointed 30 July 2012	9,301	-
Emma Perez	Appointed 1 October 2012	7,350	-
Jonathan Spencer		16,037	8,018
John Tattersall		16,037	16,037
Joseph Triay		16,037	16,037
Alan Whiting		26,728	21,382
		<u>121,095</u>	<u>122,949</u>

Alan Whiting was made Chairman following the end of the appointment terms of Brian Hilton. Therefore fees receivable are reflected accordingly.

Notes to the Financial Statements

6. LEGAL AND PROFESSIONAL FEES

Fees paid for legal and professional services, excluding the audit fee, are analysed in the table below by the firm or body to which they are paid. The expense shown in the Income and Expenditure Account takes account of accruals as at the year end and the reversal or prior year accruals.

	2013 £	2012 £
Opening Accruals	(37,700)	(122,495)
Attias & Levy	-	74,292
Deloitte Limited (excluding amounts reimbursed by licensee)	48,186	10,950
ICAEW	46,745	-
Government Actuaries Department	80,594	77,483
Grant Thornton (Gibraltar) Limited	30,000	-
Hassans International Law Firm	4,868	7,500
Isolas	-	45,629
Peter Caruana QC	73,635	-
PricewaterhouseCoopers Limited	55,001	26,660
Triay & Triay	7,971	6,945
Triay Stagnetto Neish	47,380	10,245
Walnut Securities Limited	-	13,536
Others	540	-
Closing Accrual Balance	39,150	37,700
	<u>396,370</u>	<u>188,445</u>

Notes to the Financial Statements

7. TANGIBLE ASSETS

	Office Furniture & Fittings £	Office Equipment £	Motor Vehicles £	Total £
Cost				
As at 1 April 2012	93,855	215,074	921	309,850
Additions	-	11,640	-	11,640
As at 31 March 2013	93,855	226,714	921	321,490
Depreciation				
As at 1 April 2012	69,835	157,527	920	228,282
Charge for the year	8,324	38,368	-	46,692
As at 31 March 2013	78,159	195,895	920	274,974
Net book value				
As at 31 March 2013	15,696	30,819	1	46,516
As at 31 March 2012	24,020	57,547	1	81,568

Notes to the Financial Statements

8. AUTHORISED ADMINISTRATOR

Total costs to date in respect of the Authorised Administration are as follows:-

Expenditure	2013 £	2012 £
Authorised Administrator - Cabor	-	977
Legal Expenses – Cabor	-	(456)
Stationery and Office Supplies	-	63
Bank Charges	-	100
	<hr/>	<hr/>
	-	684
Amounts recovered		
Cabor	-	3,596
	<hr/>	<hr/>
	-	2,912
	<hr/>	<hr/>

Under section 11 of the Financial Services (Temporary Administration of Companies) Act 2010, all the fees and costs of the Authorised Administrator in the carrying out of his powers and functions under this Act shall be defrayed out of the monies and assets of the Companies under Authorised Administration.

If the Companies shall not have sufficient monies, the said fees and costs shall be borne by the Authority.

The Authority may, with the consent of the Minister, levy a special fee upon all the holders of licences under the Principal Act, on such terms as to division between them as it shall consider equitable, to recover any costs incurred by it under this Act.

The raising of a levy shall not prejudice the existence of a debt by the Companies to the Authority for all such fees and costs, which shall rank in priority upon a winding up to any debt due by the Companies to any director or shareholder of the Companies or to any Associated Companies or director or shareholder thereof.

9. BAD DEBT WRITE OFF

The bad debt write-off is in relation to annual fees invoiced to licensees that have gone into liquidation during the year.

Notes to the Financial Statements

10. DEBTORS AND PREPAYMENTS

	2013 £	2012 £
Authorised Administrator fees and costs to be recovered (see below)	144,382	485,918
Trade debtors	31,231	12,057
Other debtors and prepayments	93,093	104,817
	<u>268,706</u>	<u>602,792</u>

Movement on Authorised Administrator fees and costs to be recovered are as follows.

As at 1 April 2012	485,918	800,000
Recovered as part of annual fees	(271,611)	(244,194)
Recovered from firms to whom companies and trusts transferred	(69,925)	(69,888)
As at 31 March 2013	<u>144,382</u>	<u>485,918</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£	£
Trade creditors	383	21,408
Other creditors, including taxation and social security	1,095	38,755
Accruals and deferred income	193,884	60,732
Government of Gibraltar Advance	200,000	200,000
	<u>395,362</u>	<u>320,895</u>

On 24 March 2011, the Government of Gibraltar made available to the Commission an unsecured, interest free advance of £400,000 in respect of costs incurred in relation to the Authorised Administrator costs of Gibland/Cabor/Meridian group of companies. This advance was drawn down during the financial year commencing 1 April 2011 at the Commission's request. Repayment is to be effected in two equal instalments from recoveries made by the Commission from the Contingency Fund to be established for these purposes. The first instalment being in the year commencing 1 April 2012 and the second instalment being in the year commencing 1 April 2013. The first instalment was repaid on 6 June 2012 and the second instalment is due in the next financial year.

Notes to the Financial Statements

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 £	2012 £
Government of Gibraltar Advance (see note 11)	-	200,000

13. GENERAL FUND

	£	£
As at 1 April 2012	667,259	422,499
(Deficit)/Surplus for the year	(40,723)	244,760
As at 31 March 2013	626,536	667,259

14. LEASE COMMITMENTS

	£	£
The Commission leases a property for its own occupation. Annual rentals payable under this lease are as follows: Operating leases which expire:		
After five years	191,970	186,379

15. RELATED PARTY TRANSACTIONS

During the year ended 31 March 2013, Deloitte Limited, of which Joseph Caruana is a director, provided certain services totalling £52,106 (2012: £10,780) to the Commission, of which £3,920 (2012: £4,830) was reimbursed by a licensee. As at 31 March 2013, the Commission owed Deloitte Limited £Nil (2012: £Nil).

During the year ended 31 March 2013, Triay & Triay, of which Joseph Triay is a partner, provided certain legal services totalling £7,971 (2012: £10,419) to the Commission. As at 31 March 2013, the Commission owed Triay & Triay £Nil (2012: £3,474).

During the year ended 31 March 2013, Hassans International Law Firm, of which Nigel Feetham is a partner, provided certain legal services totalling £4,868 (2012: £7,500) to the Commission. As at 31 March 2013, the Commission owed Hassans International Law Firm £Nil (2012: £Nil).

During the year ended 31 March 2013, no amounts were paid to Grant Thornton (Gibraltar) Limited as Authorised Administrators (2012: £977). As at 31 March 2013, the Commission owed Grant Thornton (Gibraltar) Limited £Nil (2012: £Nil).

During the year ended 31 March 2013, PricewaterhouseCoopers Limited, of which Edgar Lavarello is a director, provided certain non-audit services totalling £55,001 (2012: £1,700) to the Commission. As at 31 March 2013, the Commission owed PricewaterhouseCoopers Limited £Nil (2012: £Nil).

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