



Annual Report 2014



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Chairman's Report

Chairman's Report for the year ended 31 March 2014

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 and European Regulatory Reform

Following the global financial crisis which began in 2008, there have been, and continue to be, significant moves by all the international and European financial regulatory bodies, as well as by many national governments, to strengthen financial regulation, with a particular impact on prudential requirements for banks and insurers. The Commission has been active in keeping abreast of all the discussions and developments; including developing and delivering the necessary implementation plans for new European Directives. There can be no doubt that in the years ahead these developments will continue to impact as much on financial services firms in Gibraltar as in other jurisdictions and in the near future it will be important for the Commission to consider the strategic implications of remaining well positioned to deliver effective regulation.

New regulatory developments will inevitably place strain on the Commission's resources, and the need to strengthen such resources will form an important part of a new strategic plan which is currently being prepared.

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 the need for changes both in regulatory practices in Gibraltar and in the underlying legislation. 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.

To focus on the regulatory 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 regulation in Gibraltar is



Chairman's Report

tighter than in the UK. On other occasions the Commission will be able to adopt a case-by-case approach more readily than the UK does, but with no reduction in overall regulatory standards. The Commission has been, and continues to be, focused on delivering sound and effective regulation to the highest international standards. It is also important for the Commission to ensure that regulation is delivered in a way which supports the safe development of financial services business in Gibraltar.

The Work of the Commission

The substantive work of the Commission 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. The approach to the allocation of Commission resources is to work to ensure that it is on a risk-based and proportionate basis and on-going supervision of regulated firms is guided by the Commission's risk assessment process, including 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 and we are aware that regulation is a cost for firms. 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. Going forward, we will need to make sure that we keep our approach to risk identification and mitigation under review in order to remain confident that we continue to use our resources effectively and efficiently, focused on where risks are greatest to consumers and the reputation of Gibraltar as an international financial services centre.

In addition to its supervisory duties, the Commission performs a number of other tasks, including advising Government on new financial services legislation and the regulatory implications of new types of financial services business, 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 regulatory framework is designed to be proactive in seeking to ensure that the board and the executive management of regulated firms properly discharge their responsibilities.

Internal Governance

The Commission comprises 8 members including the Chief Executive Officer. The other members are all non-executive. During the year, Alan Whiting, the outgoing Chairman and Nigel Feetham stood down when their terms of office came to an end, in January 2014 and May 2013, respectively. Marcus Killick, the outgoing Chief Executive Officer, stood down in February. Alan, Nigel and Marcus served the Commission with dedication and distinction. I would like to thank them all for their exceptional contributions to the work of the Commission over many years and I was honoured to be elected to succeed Alan after his distinguished chairmanship of the Commission over the last three years.

The departure of a Chief Executive who has served in that role for over 10 years was always going to be disruptive, but the Commission was delighted to be able to appoint Samantha Barrass who brings exceptional experience of financial regulation, most recently in the UK where she served as Executive Director of the Solicitors Regulatory Authority and before that in various roles with the Financial Services Authority and its predecessor body. Her experience and sensitive approach to the Commission's staff in succeeding Marcus has ensured a smooth transition.

Nigel was replaced as a member of the Commission by Bruno Callaghan, Managing Director of Callaghan Insurance Brokers. Bruno is a senior and highly experienced practitioner in the Gibraltar insurance market. Alan was replaced as a Commission member by Adrian Coles, who was Chief Executive of a major UK financial services

Chairman's Report

trade body, the Building Societies Association (BSA), for twenty years, and who brings significant non-executive and financial regulation experience. The Commission was also sad to lose its former Deputy Chief Executive Officer, David Parody, earlier this year who had a distinguished career with the Commission over 23 years. He made a major contribution to the way in which the Commission has developed in recent years and we are very grateful to him for his service.

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

Conclusion and Future Plans

The past year has continued to be demanding for 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, the Government, consumers and international stakeholders, we will succeed in delivering cost-effective regulation to high international standards and to the benefit of both the industry and its customers.

A new CEO brings the opportunity to consider the strategic direction and approach of the Commission, working with the Government and the financial services industry in Gibraltar. The Commission is looking forward to setting out a new strategic plan for this purpose later this year. A review of the legislation underpinning the work of the Commission is also taking place and we look forward to working with the Government on updating the relevant legislation to make it more relevant to the current challenges presented by the financial services sector, and to ensure that the Commission is well placed to meet those challenges.

John Tattersall

Chairman

30th July 2014

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

Our vision statement

Chief Executive's Report

Chief Executive's Report for the year ended 31 March 2014

The Financial Services Commission is the regulator of an international financial services centre, regulating providers of financial services conducted in both Gibraltar and other jurisdictions, particularly the UK.

This sets the context for much of its work over the past year. In particular, the international regulatory response, especially the European response to the global financial crisis which began in 2007, has continued to impact heavily on the industry and the work of the Commission.

An important focus has been Gibraltar's implementation of EU Directives. Particular attention has been on the Commission's work to support Gibraltar's implementation of the Capital Requirements Directive (CRD IV), Alternative Investment Fund Managers Directive (AIFMD) and preparations for the implementation of Solvency II for insurers.

Local developments have also had an impact. The decision of Barclays Bank in October to move out of retail banking in Gibraltar after over 100 years of presence in the jurisdiction raised important issues to do with both the provision of local banking services and the proper management of the exit. Both matters have required the Commission's time and attention; in particular we have commenced the authorisation work on the Gibraltar International Bank application for a banking licence and have had close, on-going engagement with Barclays' management focused on need for the delivery of an exit plan that protects the interests of the local community.

A significant amount of supervisory activity has taken place across all of the sectors regulated by the Commission. A particular focus for attention has been on ensuring that Gibraltar insurers meet our expectations in four key areas; Capital Adequacy, Reserving for Technical Provisions, Risk Management and Corporate Governance. This work has been against our assessment of the various risks and with an eye on the need for Gibraltar insurers to be ready for the implementation of Solvency II at the beginning of 2016. Considerable lead-in work has been required, starting in the year covered by this Annual Report, and will continue to be a significant focus throughout 2014 and 2015.

Experienced Investor Funds ('EIFs') and their directors have also been an important focus for supervisory resource with particular attention being paid to the quality of corporate governance arrangements. In particular, risks relating to such matters as the experience of each EIF board in relation to the asset classes under management and the approach to due diligence on new investment business, have needed to be addressed. A good dialogue with the industry has been established on this matter and work will continue in 2014.

Enforcement activity has focused on identifying and addressing key risks to consumers and the reputation of the territory arising from actual or suspected unauthorised and criminal activity. Important to success on these matters has been an extensive network of relevant international and local relationships which have enabled the necessary identification and mitigation of important risks. Although outside of the reporting year, the signing of a Memorandum of Understanding with the Royal Gibraltar Police in June has underpinned a strong existing working relationship and formalised the necessary framework for that co-operation.

The Commission has also undertaken the enforcement action necessary to deliver a credible deterrent in respect of those whose actions put consumer interests and the reputation of the Gibraltar financial services sector at risk. Individual actions are specific to the facts of each particular case. However (echoing the point made also by my predecessor, Marcus Killick) at the heart of the matters are the ethics and / or competence of senior people running firms. Addressing this point, working with the industry and the Government, will be an important part of the Commission's work going forward.

Local and international engagement with the industry, the Government of Gibraltar and international regulatory bodies continued to be a key focus for the Commission. This engagement is important given the challenges inherent



Chief Executive's Report

in delivering successful regulation of a smaller international jurisdiction, which is also a part of the EU single financial services market.

Close working with the industry is critical to managing the demands of implementing new regulatory initiatives in a way that is both proportionate and effective. Building a strong dialogue with international, EU and UK regulators is necessary to building and maintaining the links needed for the timely and effective delivery of international and European regulatory obligations. Consequently, the success in December of the Commission's application to become a signatory to the International Organisation of Securities Commission's ('IOSCO') Multilateral Memorandum of Understanding ('MMoU') was an important step forward. The IOSCO MMoU delivers a strong international network of cooperation and the exchange of information and has proved to be a very effective tool to combating cross-border financial crime.

The financial statements for the year are set out at the end of the report, showing a surplus of £62,412 and a net liability position of £19,190. This balance sheet position mainly arises from a change in an accounting policy on the recognition of income. Income received was previously recognised on an invoiced basis and, going forward, is now recognised on an accruals basis. This change in accounting policy has no effect on the cash flow of the Commission nor on its ability to meet its current and future obligations. The FSC will be closely monitoring the Commission finances in order to strengthen the overall position and rebuild reserves over the next few years.

Through the creation of the contingency fund, the Commission will be in a position to absorb the financial costs of any unexpected major regulatory action.

This is my first Annual Report as the Chief Executive Officer (CEO) of the Commission and it covers a year of activity that largely took place before I took up post in February. Unsurprisingly, much of my focus, as a new CEO, has been to begin to consider what future strategy will be needed to ensure the Commission is well positioned in the years ahead to continue to deliver effective regulation, strengthening and enhancing the achievements to date.

The backdrop for this work includes:

Significant and on-going EU regulatory initiatives which are 'game changing' in terms of the regulatory implications for the industry and the standards that are set for and the approach taken to overseeing the implementation by domestic regulators of those standards. Similarly, we must expect international initiatives for the assessment and comparison of regulators to place an increasing focus on the way in which regulators approach their remit in their practical operations, not just the legal and regulatory framework for regulation.

Government of Gibraltar policy to broaden, strengthen and deepen the financial services sector, including into new areas - e.g. pensions, listing authority and new insurance products. The Commission needs to be well positioned to provide effective, proportionate and accessible regulation in these new areas;

Innovations in financial services giving rise to new risks - e.g. virtual currencies, copy trading, binary options etc.

It will be important for the Commission to be ready to meet the future challenges, with the right mix of expertise and experience in its staff, the supporting processes and systems and strong relationships with the Government, the industry and other stakeholders, necessary to ensure continued success. Consequently, as also foreshadowed in the Chairman's report, the Commission is preparing a Strategic Plan for publication later this year for this purpose.

Samantha Barrass

Chief Executive Officer

30th July 2014

“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 finance centre.”

Our mission statement

Introduction



About the FSC

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

The Financial Services Commission (FSC) exists “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” and its statutory objectives are set out in the Financial Services Commission Act 2007.

The FSC’s statutory objectives are to;

- Promote market confidence
- The reduction of systemic risks
- To promote public awareness
- To protect the reputation of Gibraltar
- The protection of consumers
- The reduction of financial crime, including the funding of terrorism.

This annual report focuses on main activity areas including;

- Supervision
- Protecting Consumers
- Policy
- Operations
- Corporate Governance of the Commission

Introduction

The FSC supervises a broad range of firms including;

- Auditors
- Banks
- Company Managers
- E-money Institutions
- Professional Trustees
- Payment Services Providers
- Funds
- Insurance companies and Intermediaries
- Insurance Managers
- Investment Firms
- Insolvency Practitioners – expected as from 1 September 2014

Firms that wish to do business in or from within Gibraltar must meet our standards and criteria both at application stage and on an on-going basis. Our supervisory work focuses primarily on the way firms are operated and governed and the identification of risks to consumers and the reputation of the jurisdiction more generally.

Particularly important areas for the application of our approach to supervision over the year included:

For the **insurance sector** on ensuring that Gibraltar insurers meet FSC expectations in four key areas; Capital Adequacy, Reserving for Technical Provisions, Risk Management and Corporate Governance.

Although Gibraltar currently operates under a Solvency I regime the FSC has been involved in on-going dialogue with Gibraltar insurers to ensure that each firm's capital position is adequate to support the business activity undertaken, taking into account the risks to which the firm is exposed. It has specifically imposed or set expectations for higher capital requirements, on both newly licensed firms and existing licensees, which take account of the likely Solvency Capital Requirements (SCR) that the firm will have to meet in 2016. That dialogue will continue throughout 2014 and 2015.

We have been placing increasing attention to reserving matters in its risk assessment of firms. For insurers with a significant liability insurance exposure, and for all motor insurers, the FSC would expect the firm to obtain an independent actuarial review of its technical provisions at least once per year if it does not have its own, in-house actuarial function. Where it does have such a function the FSC would also expect that the firm seek independent validation of its internally produced information on a periodic basis. The FSC's assessment is that the reserving of such firms is now much stronger, with many setting reserves at prudent levels in excess of the actuarial best estimate.

In November 2013 the FSC communicated with all Gibraltar insurers that will fall under the new Solvency II regime regarding the FSC's expectations of them in preparing a Forward Looking Assessment of Own Risks (FLAOR) (based on the ORSA principles). Each firm has confirmed to the FSC that it will submit a FLAOR during the course of 2014. At the end of June 2014 firms provided the FSC with a self-assessment of the progress that they are making in developing their respective FLAORs.

In December 2013 the FSC issued its own Guidance Note on "System of Governance - Insurance - Transition to Governance Requirements established under the Solvency II Directive". This document set out guidance on the systems of governance that the FSC expected firms to have in place to meet sound and prudent management requirements set out in existing Gibraltar legislation and regulations, as well as providing guidance relating to expectations on firms in meeting corporate governance requirements when the Solvency II regime takes effect. The FSC commenced assessing the progress that firms are making in developing appropriate corporate governance arrangements by again requesting that they provide a self-assessment at the end of June 2014. The FSC will continue its dialogue with firms through to the end of 2015.

For the **funds sector** the focus of our work has been on the business plans, take-on processes and risk management arrangements of fund administrators, and corporate governance arrangements in the case of EIFs and EIF directors. Specific attention has been placed on the experience of the board on asset classes; levels of due diligence conducted on investment business and the oversight exercised by EIF directors; control of boards of promoters/investment managers/advisors; and marketing strategies. As a result of this work a significant level of resources has been assigned to the mitigation of risks posed by EIFs and EIF directors.

The FSC Funds Panel has been a particularly helpful forum at which concerns and issues can be raised and discussed. These discussions have assisted in enhancing the FSC approach to supervision of EIFs and fund administrators. Minutes of these meetings are available on the FSC website.

During the period, the FSC issued a newsletter on the IOSCO Principles on Suspension of Collective Investment Schemes Redemptions which outlined 9 key principles. Information has also been issued in relation to amendments to the Prospectus Directive and its potential effect on closed ended funds and on disclosure of Net Asset Value required in audited financial statements.

For **consumer credit** firms work has concentrated on desk based reviews of how firms are meeting conduct of business requirements. The main areas being assessed include credit worthiness assessments, calculation of the Annual Percentage Rate (APR), arrears, disclosure to clients, and pre-contractual information. A meeting was held with firms offering consumer credit to discuss these issues and to discuss on-going supervision of the sector and the FSC's approach in this respect. We also made available an APR calculator to assist firms with calculating this in line with the directive requirements. This can also be accessed via our website.

Introduction

For the **banking sector** the announced exit from the retail space of Barclays Bank posed certain issues and obstacles for the jurisdiction, consumers and other players in the market. The application of Gibraltar International Bank was received and resources have been specifically assigned to this. Throughout, we have been very mindful of the potential risk, gap and consumer uncertainty that the Barclays exit could create in the market and consumers needs have been foremost in our minds during this period. We continue to work with all of the relevant parties to ensure that the impact, both to consumers and the jurisdiction is kept to a minimum.

Interaction with the rest of the industry, as well as those investment firms to which the directive requirements also apply, focused on the preparatory work for reporting under the CRD IV and a number of newsletters were published during the course of the year covering the directive itself and more specifically the Common Reporting (COREP) filing facility which has been put in place for firms that are required to comply with the reporting obligations set out in the Directive. A separate consultation paper on the internal audit function in banks, which builds on the principles issued by the Basel Committee, was issued during the course of the year. This was followed by the publication of a Guidance Note following the consultation period.

More generally, we continued to review and issue Internal Capital Guidance (ICG) letters resulting from the supervisory review and evaluations of Internal Capital Adequacy Assessment Process reports (ICAAPs). 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.

In the **E-money and payment** space, the FSC continued to work closely with firms both directly and through the Gibraltar Electronic Money (GEMA) to ensure that best practice is adopted across the industry. During the latter part of 2013, a full risk assessment was carried out on all firms providing e-money products and services. This proved to be an insightful exercise, as it highlighted common trends and risk areas. Where risks were identified these have been addressed with the individual firms and with GEMA where appropriate, to ensure a consistent is applied across the industry. We are also working closely with the industry regarding the approach to the appointment of agents and distributors.

During 2014/15, we intend to continue to develop our approach to themed visits and will be focusing on aspects such as suitability of advice and the provision of 'banking' services as well as the anti-money laundering controls adopted by Bureaux de Change authorised by the FSC. It is also expected that we will shortly move to publish guidance notes relating to various other consultation papers which were issued during the course of the year.

For the **fiduciary and pensions** sector we continued to use risk assessments and the scrutiny of returns submitted by firms as our primary supervisory tools. The primary supervisory focus during the past year has been on ensuring that Gibraltar Trust and Company Service Providers (TCSPs) meet FSC expectations in a number of key areas; Anti Money Laundering (AML), Client Monies/Assets and Corporate Governance.

The focus of our work also factored in firms whose business plans focus on the provision of services to Qualifying Recognised Overseas Pension Schemes (QROPS) into the risk assessment and reporting regime. These reviews have primarily focused on the member take-on process and the conduct of trustees.

It is expected that resources will continue to be focused on ensuring 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.

The focus of our work in **audit supervision** has been on enhancing our oversight of Auditors, especially in relation to the development of the quality assurance reviews, as required under Section 29 (1) of the Auditors Act. These reviews play a significant role in improving the overall quality of audit work in Gibraltar and therefore the confidence in financial reporting carried out by Auditors.

We have continued to work closely with the Institute of Chartered Accountants in England and Wales (ICAEW) to develop the programme of inspections. The support contract with the ICAEW ends in January 2015 and the FSC will be considering the possibility of the renewal of the contract.

We have continued 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 (IAS), International Ethics Standards Board for Accountants (IESBA) Code of Ethics, continuous professional development and other auditing requirements as stipulated by the Auditors Act.

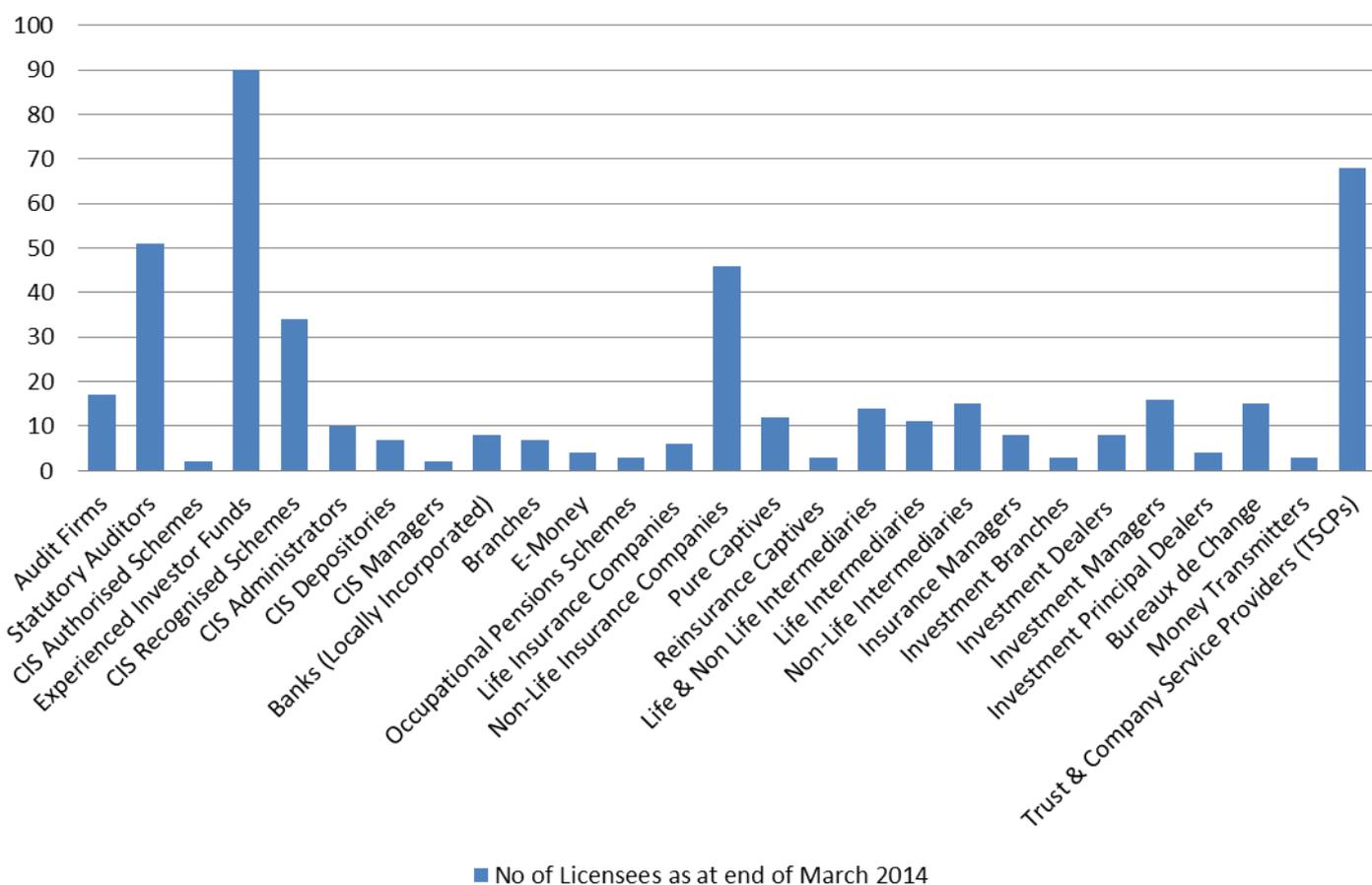
We are aware that continuous improvements can be made to any process and we therefore have a commitment to constantly enhance the supervision of Auditors to ensure further improvements in audit quality.

Part VI Section 29(1)(i) of the Financial Services (Auditors) Act 2009 requires that the overall results of the quality assurance control system be published annually. For reviews commenced during the financial year ending 31 March 2014, the commentary regarding Auditors is included in this Annual Report at Annex 1.

The Insolvency Act was passed by the Gibraltar Parliament on 8 September 2011 and will come into force on 1 September 2014. The Act is a significant piece of legislation for Insolvency Practitioners, financial institutions and other businesses in Gibraltar. The FSC has been designated as responsible for the licensing and regulation of this sector. In order for this to be developed successfully, we will be working closely with the Insolvency Working Group currently present in Gibraltar. During the year, work on Insolvency Practitioners has already started to take up significant resources and it is clear that it is an area where appropriate resources need to be applied in order to effectively understand and regulate this area.

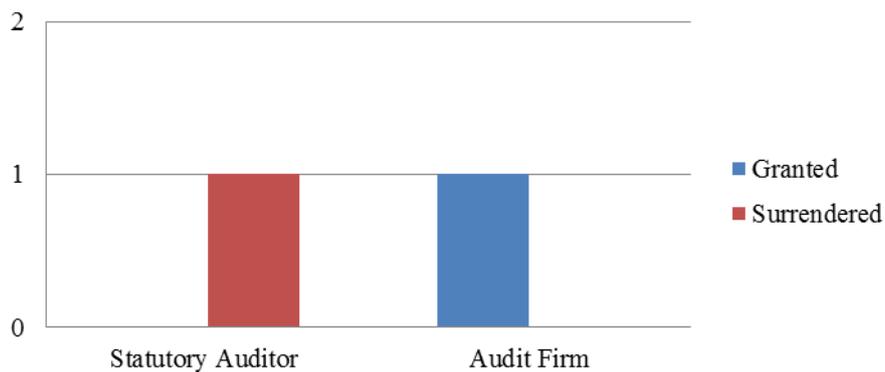
No of Licensees as at the end of March 2014

No of Licensees as at end of March 2014

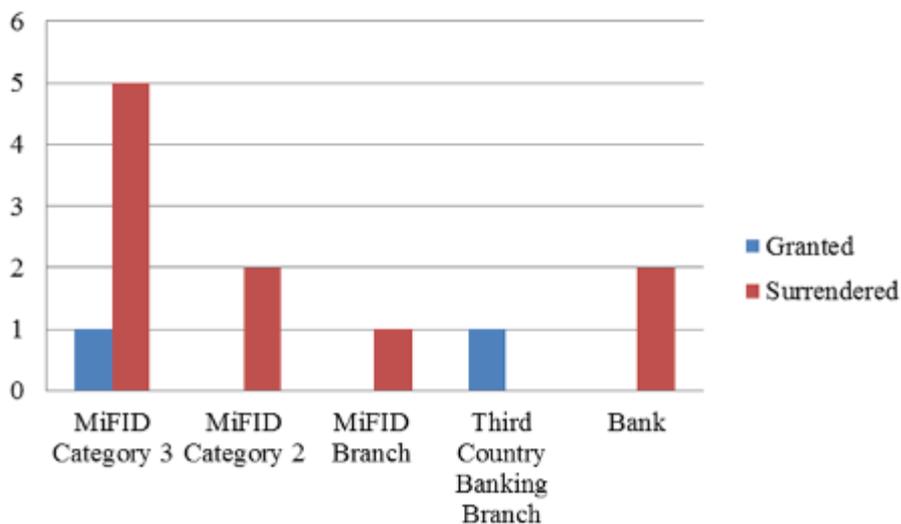


Authorisations 1 April 2013 - 31 March 2014

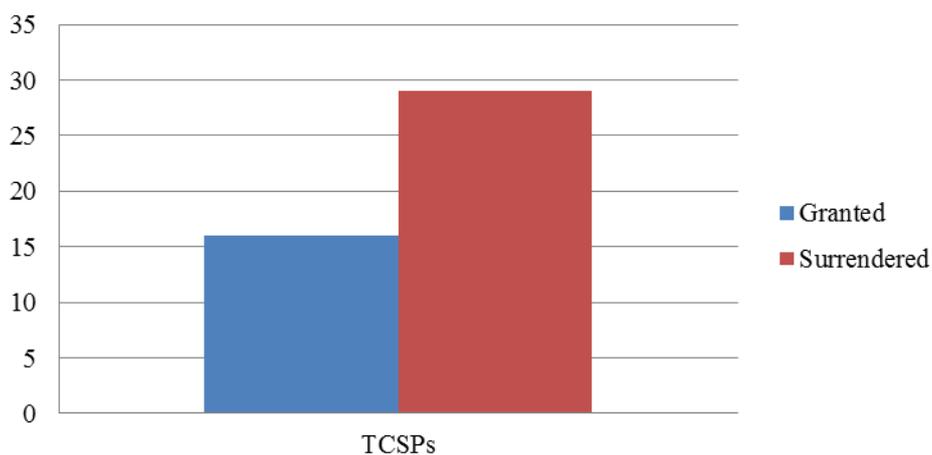
Audit Supervision 01 April 2013 - 31 March 2014



Banking, E-money and Investment Services Supervision 01 April 2013 - 31 March 2014

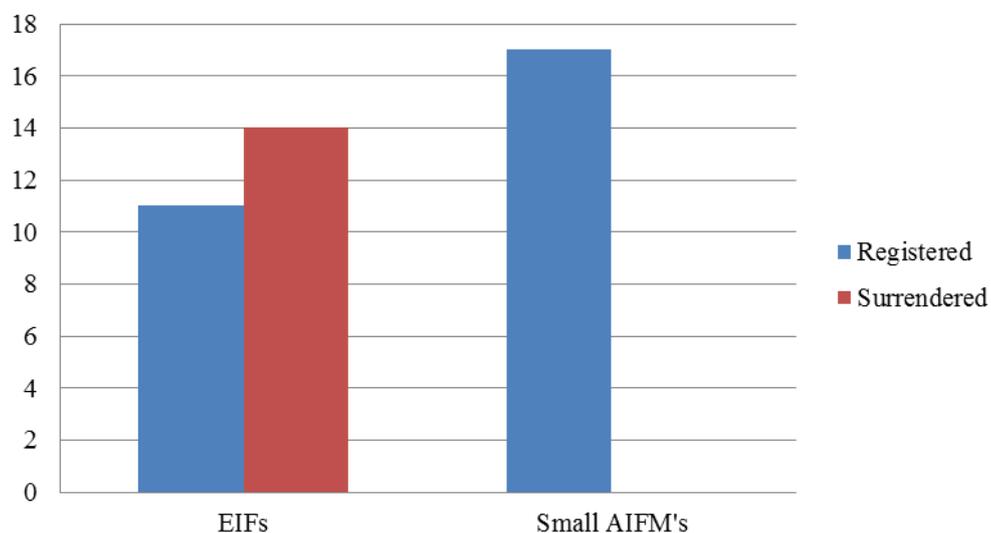


Fiduciary & Pensions Supervision 01 April 2013 - 31 March 2014

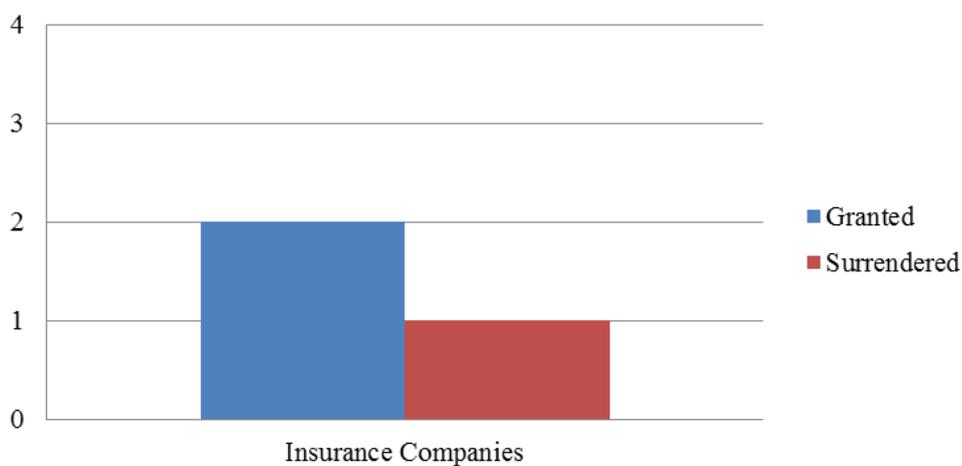


Authorisations 1 April 2013 - 31 March 2014

Funds Supervision 01 April 2013 - 31 March 2014



Insurance Services Supervision 01 April 2013 - 31 March 2014



Protecting consumers

During the reporting period, the FSC published 4 public warnings.

These sought to alert the public to the risks posed by bogus firms; including those purporting to carry on business as an investment manager, an insurance broker, a payment services provider and a binary options trading platform.

Only one of these was incorporated in Gibraltar, but was managed from overseas, with its Gibraltar-licensed company secretary already having resigned from the company.

We also conducted enquiries after complaints were received regarding a foreign company promoting investments into a film production. After representations were received from the film promoter's lawyers, it was deemed that the activities fell outside the scope of financial services activities.

Complaints were received regarding a small number of Gibraltar companies engaged in providing online platforms, via which their customers could trade binary options (also known as digital options) on their own account. The FSC explained that the activities being undertaken by these companies were not caught within the scope of the Supervisory Acts, whilst also providing further information to assist complainants and alerting company managers providing services to these companies of the difficulties being experienced by affected customers.

Routine enquiries also included suspected low-level unlicensed company management firms activity and bogus entities purporting to operate from the offices of genuine, FSC-regulated firms without their knowledge or consent. The FSC also investigated alternative investment schemes which did not involve transferable securities. These investments included so called 'ethical' investments into land, including forestry plantations or alternative energy schemes. Subsequently most of these are later determined as not constituting collective investment schemes. This means they fall outside the FSC's remit, whilst still posing considerable risks to unsophisticated investors. During 2014/15 we will further consider what work can be done to highlight these issues.

Regulatory Co-operation

Our enforcement function is responsible for handling requests for assistance received by the FSC from other regulators or public bodies, and requests for assistance sent out from the FSC to other regulators or public bodies. During 2013, the FSC received 18 requests for assistance and it sent out 9 requests.

Incoming requests sought the FSC's assistance in investigations concerning a suspected land-banking fraud,

irregularities in a UK football club, a Takeover Panel investigation, suspected investment fraud and pensions liberation schemes.

In addition to requests for assistance this year, we also dealt with a far greater number of routine due diligence requests from international regulators, e.g. those forming part of the FSC's 'fit and proper' checks and those received by the FSC from sister regulators overseas.

Financial Crime Information Network (FIN-NET)

During the reporting period, the FSC continued its involvement as an Associate Member of FIN-NET, making use of its Referral submission system and responding to requests received from other members.

We also continued our close cooperation with the Gibraltar Financial Intelligence Unit (GFIU) and the Royal Gibraltar Police's Serious Crime Unit.

Enforcement Action

The 2013 Annual Report highlighted that action had been taken in relation to an Auditor whose good reputation was seen to have been compromised. During the year, the FSC has worked with the Auditor and this has been resolved.

Within the funds sector there have also been a small number of enforcement cases. One in particular has involved a significant investigation and exchanges with other regulators and law enforcement agencies. The FSC is finalising actions in respect of these entities and is therefore unable to provide further details in this respect. It has however become apparent that lack of adequate oversight and control by EIF directors and other service providers was a key risk in these instances as was the marketing of the funds.

The 2013 Annual Report also made reference to enforcement action that arose in respect of three Gibraltar insurers; Lemma Europe Insurance Company Limited, Hill Insurance Company Limited and De Vert Insurance Company Limited. The FSC commenced investigations into all three companies. The conclusions led to the FSC taking action in respect of a number of individuals who the FSC considered 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. Details of actions taken by the FSC against eight individuals were published on the FSC's website. Each of those investigations is now closed.

European and international Initiatives

Our policy work has focused on the Directives and Regulations emanating from the European Union, monitoring draft provisions and various compromise texts that have been produced with the EU, along with reviewing changing standards issues by international standard setting bodies. Since 2010 we have significantly enhanced our approach to identifying significant pieces of EU legislation and keeping pace with these developments to ensure that we are in a position both to implement them and to advise Government of their impact not only on our regulatory regime but also on the finance industry. We are committed to staying abreast of regulatory developments and reviewing new proposals emanating from the various international and European bodies. We continue to realise the importance of the resources dedicated to this area and the tools available to suitably assess the impact upon both the organisation and the industry. We will continue to allocate specific resources within this area to ensure we are suitably prepared for the implementation of newer forthcoming key directives such as the Markets in Financial Instruments Directive II (MiFID).

Looking more closely at the period under review, we have been involved in three major pieces of legislation. These include the AIFMD, CRD IV and Solvency II.

AIFMD

For the past year, a prime focus in our regulation of the funds industry has been on establishing and implementing the relevant processes for entities that would be caught by the Alternative Investment Fund Directive (“AIFMD”).

The AIFMD was published in the Official journal of the European Union on 1 July 2011. The transposition deadline for this Directive was 22 July 2013. The AIFMD aims to create a single market for alternative investment funds to foster efficiency and cross border competition by deregulating national barriers and creating level playing fields through consistent rules for AIFMD.

The FSC has worked closely with drafters and the Funds Panel and created an AIFMD working group to deal with the various policy areas that this Directive has raised. Over twenty information pages have been issued by the FSC setting out the key requirements and some of the processes involved. Various forms and processes have also been developed to prepare the jurisdiction for registration by 22 July 2014.

The FSC is currently concentrating on finalising some key policies, for example, delegation, remuneration, and National Private Placement Regime Small AIFM regime. The FSC is also negotiating Memoranda of Understanding and Cooperation Agreements with non –

EU countries, as recommended by ESMA’s AIFMD Guidance. Work is also commencing on ensuring that the filing requirements of AIFMD to the European Securities and Markets Authority is being met.

All funds that fall under this Directive have had from 22 July 2013 to 22 July 2014 to register or apply for authorisation under AIFMD and therefore has been a large focus for the FSC and the industry overall.

CRD IV

The CRD IV package was published in the Official Journal of the European Union on 27 June 2011. The date of application was the 1 January 2014. The Capital Requirements Regulation entered into force on 28 June 2013, the day following the publication in the Official Journal.

The CRD IV was transposed into local legislation in the form of the Financial Services (Capital Requirements Directive IV) Regulations 2013 which took effect as from 1st January 2014. Firms which are captured by CRD IV are also required to adhere to the EU Capital Requirements Regulations No 575/2013 on prudential requirements for credit institutions and investment firms. The Directive and Regulation repealed Financial Services (Capital Adequacy of Credit Institutions) Regulations, 2007 and the Financial Services (Capital Adequacy of Investment Firms) Regulations, 2007 (Directives 2006/48/EC and 2006/49/EC). The changes in CRD IV have brought about significant challenges both to the FSC and to the Banking and Investment Services industry. The European Banking Authority (EBA) has released a fresh regulatory reporting design labelled Common Reporting (COREP) for the Capital Requirements Directive.

In October 2013, the FSC communicated with some of the Markets in Financial Instruments Directive firms which could be caught under the COREP regime, to determine whether they wished to continue with the current permissions held or whether they would revise their scope of authorisation held, and possibly their business plans, to bring these within the exemptions provided for under CRD IV. A number of firms decided to change their permissions.

A COREP project was initiated by the FSC as a means to address the need to collect and analyse regulatory reporting data from financial institutions in Gibraltar which are required to comply with CRD IV. Under the Implementing Technical Standards (ITS) published by the EBA, the COREP reporting data is harmonised according to strict design specifications and an associated XBRL Taxonomy. Whilst assessing the COREP technology requirements the team realised the wider and longer term implications of centralised European

Legislation and the benefit in taking a more holistic view of its current way of working. It was identified that a more strategic technology refresh will enable the FSC to be more efficient in the use of personnel resources, and better prepared for the challenges of further EU initiatives. To meet the immediate needs of COREP, the team put in place a short-term solution. Invoke Financial Reporting was selected as the vendor of a software facility that could be made available with minimal delay and enabled collection, validation and supervisory assessment of the new regulatory data. The first set of data was received on the 30 June 2014. The division is currently carrying out a cross analysis of the data received against the old set of supervisory returns to ensure that is a consistent and smooth transitional period and that it continues to meet its supervisory obligations using the new set of data.

We have kept in regular contact with both the Gibraltar Banking Association (GBA) and the Gibraltar Funds and Investment Association (GFIA) throughout the design and implementation of the COREP contingency plan. Training sessions on the new reporting tool have been delivered by the FSC and Invoke. The FSC has participated in training sessions organised by the GBA and delivered by PwC on the templates themselves and COREP working groups organised by the GBA.

The EBA will be publishing Binding Technical Standards (BTS) and aim to create a European Single Rulebook in banking. The Single Rulebook aims at providing a single set of harmonised prudential rules for financial institutions throughout the EU. The BTS are legal acts which specify particular aspects of an EU legislative text (Directive or Regulation) and aim at ensuring consistent harmonisation in specific areas. The BTS are legally binding and directly applicable in all Member States. This will represent further challenges for the banking industry that will need to keep abreast of the development of the EBA's BTS and adhere to each of these as they are published.

Solvency II

The key international initiative that will impact the insurance sector will be the implementation of the Solvency II directive, which will become operational on 1 January 2016.

The text of the Omnibus II Directive was published in the Official Journal of the European Union on May 22 2014 and entered into force on May 23 2014. The Omnibus II Directive, among other things, amends the Solvency II transposition date to March 31, 2015 and the application date to January 1, 2016.

The FSC has now established its own Solvency II Implementation Project under the leadership of Ken

Hogg, a former Director, Insurance sector at the UK Financial Services Authority. This project is intended to ensure that the FSC itself is ready to supervise in a Solvency II compliant manner as well as to support the development of an appropriate legislative and regulatory regime in Gibraltar and to support the industry in its own preparations.

We are also keeping abreast of other initiatives which have concluded or will conclude in 2014 and which will be closely monitored by our policy team.

- MIFID II
- Payment Accounts Directive
- EU Regulation on Packaged Retail and insurance based investment products (PRIIPS)
- Undertaking for Collective Investment in Transferable Securities (UCITS V)
- Bank Recovery and Resolution Directive (BRRD)
- Statutory Audit Directive

Other initiatives that have yet to conclude

- Payment Services Directive II
- Insurance Mediation Directive (IMD 2)
- European Long Term Investment Funds (ELTIF)
- Money Market Funds
- European System of Financial Supervision (ESFS)

Stakeholder Engagement

European and international committee engagement

In 2013/14 we have focused on developing and establishing involvement with national EU and regulatory bodies. These forums provide an opportunity where we can share knowledge of our regulatory environment and practical experience of regulatory activity. It also provides a focus for contacts with other organisations which have similar interests in areas regulated by the FSC.

In 2013/14 we attended all the Group of International Finance Centre Supervisor (GIFCS - formerly OGBS) and the Group of International Insurance Centre Supervisors (GIICS – formerly OGIS) meetings. We are an active member and participant in IOSCO which discusses common themes and international regulatory processes and risks being faced by the industry. Following the enactment by the Government of Gibraltar of the Financial Services (Information Gathering and Co-operation) Act 2013 in October last year, the Financial Services Commission (FSC) has become a full signatory to IOSCO.

We participated in the Independent Forum of Audit Regulators (IFIAR). The most recent IFIAR plenary meeting highlighted the need to support smaller regulators, such as Gibraltar, in order to develop the appropriate risk assessment methodology and address how smaller regulators can work together to develop their systems at an appropriate level.

Our Head of Insurance, Michael Oliver, sits on the Executive Committee of the International Association of Insurance Supervisors (IAIS), the insurance industry's international regulatory standard setting body. His membership will continue until October 2014. We have submitted an application to accede to the IAIS' Multilateral Memorandum of Understanding. The FSC considers that Gibraltar's legislation and supervisory practices meet required standards and we are awaiting confirmation that this application has been accepted.

We have also engaged with a number of supervisory authorities in other jurisdictions, including the UK PRA and FCA, to ensure that we meet expectations of it in relation to international supervisory cooperation and information exchange. These have included participation in formal and informal supervisory colleges, regular exchanges of information regarding firms and individuals and discussions of alternative supervisory approaches.

We have maintained an active involvement within the European Supervisory Authorities ('ESAs'). Along with other roles and objectives, the ESAs are responsible for producing technical advice, Guidelines and recommendations for a diverse range of areas and these

are driven by the initiatives coming from Europe. It is important that we remain engaged with the ESAs in order to prepare ourselves and industry for the continued implementation of the regulatory and supervisory changes identified by the EU.

We currently participate in the EBA's supervisory colleges for two banks that meet at least once a year and communicate on an on-going basis. We find these colleges valuable as feedback is received on the home state supervisor's view of the key risks for the banking group. We also participate in mini-colleges for another two banks. Insofar as Insurance is concerned we participate in one European Insurance and Occupational Pensions Authority ('EIOPA') supervisory college, have joined three non-European colleges and have engaged with the UK PRA in informal discussions on Groups of mutual interest.

Our staff have participated in training on Solvency II related topics and on matters relating to developing a supervisory approach in Gibraltar that will be in harmony with approaches operating elsewhere in Europe, and the Group of International Insurance Centre Supervisors (GIICS). Increasing our dialogue and participation with the ESAs is an area that we will focus closely on in 2014/15.

Local Engagement

We regularly communicate with a wide range of stakeholders. We engage with licensees as part of the day to day supervision and we also use a number of communication streams to participate both in the local and international arena. Over the past year we have concentrated on enhancing our participation and improving the support we can offer within a number of established and well represented local industry bodies.

The inclusion in these meetings allows us to develop our relationship with industry. It improves transparency, increases effective communications and fosters positive relations which we continue to build upon. It also serves as another avenue to communicate our expectations.

We have also maintained dialogue with the industry through a number of other means such as, outreach sessions, articles, press releases and other forms of publications.

About us

The number of staff has remained at 45 during 2013/2014 against a background of increasing requirements. For example, FSC teams are also being required to focus on various challenges posed by market developments and increasing EU demands. The implications of this are that in the coming year, the FSC will need to work to ensure that the organisation has the right mix of expertise, experience and capacity to deliver the FSC's current and prospective remits, capable of making forward looking judgement-based decisions.

During 2013/2014 we have delivered robust and effective secondment and internship programmes in order to attract individuals with different skills sets and experience to assist our staff in increasing our regulatory knowledge and effectiveness and supporting the delivery of our regulatory remit. The secondments have been made possible due to a reciprocal working relationship between the FSC and local firms from within the finance sector who have seconded their professionals to join the FSC team for a period of time. This scheme has proven to be a beneficial learning opportunity to the involved parties over the last twelve months.

The FSC continues to provide 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 order to spread awareness of these opportunities and provide more general career advice, the FSC has continued to visit both Comprehensive schools and the Gibraltar College to deliver presentations to A-level students.

The FSC was visited by Investors in People during June 2013 in order to be reaccredited. We were delighted when this was recognised over the course of last year by Investors in People by awarding us with Gold standard. One of the reasons for this result was the FSC's approach to its staff's professional and personal development. The chart below outlines specific details of our employee's qualifications some of which have resulted from the FSC's training programme.

This training has included a range of internal and external courses relating to improving our industry specific knowledge, accounting expertise and leadership qualities. One of these courses involved working with Dynamic Decision Making enabling members of the FSC's non-executive team undertaking a Core Competency Development Programme. This resulted in the group gaining a CMI Level 5 Certificate of Management and Leadership. Going forward we will need to make sure that ongoing training and development makes the best use of the potential offered by the staffs qualifications to ensure

we are focused on being well positioned to meet the future challenges set out in the CEO's section of the report.

Environment

The FSC continues to strive to limit the negative impact we have on our environment. Records are kept of electricity and cooling consumptions and we are mindful

Type of Qualification	
1 st Degree (e.g BA.BSc)	43
2 nd Degree	8
Professional qualification (Incl. Accountant, Lawyer, Actuary)	19
Industry qualification (Incl. STEP, ICSA, CII, CMI, CIPD, AAT, CEFA, CIPD, ICA, CLT International)	23

of the use of air conditioning. We have therefore reduced the amount of energy we use as well as increasing the amount of waste that we have recycled. During the year our Health and Safety team have been busy ensuring we are adhering to local standards. This has involved individuals undertaking a Basic Fire Safety course; the Health and Safety Officer and Staff Representative attending the annual Health & Safety seminar; our Health & Safety annual Risk Assessment paper being undertaken and a team working on updating the FSC's Business Continuity plan. This review will involve considering offsite locations, related timelines and the roles of key individuals. The training has been designed and will be delivered to the different relevant groups during the third quarter 2014.

Corporate Governance Report

Corporate Governance statement for the year ended 31 March 2014

The Commission is a statutory body established under the Financial Services Commission Act 2007 (the Act). The Commission currently has eight members.

Commission members for the period under review were as follows:

Name	Role	Appointment date and term
Mrs Samantha Barrass	Chief Executive Director	Appointed 17 February 2014
Mr Bruno Callaghan	Non-Executive Director	28 May 2013– 27 May 2016
Mr Adrian Coles	Non-Executive Director	27 January 2014 – 26 January 2017
Mr Edgar Lavarello	Non-Executive Director	30 July 2012 – 29 July 2015
Mrs Emma Perez	Non-Executive Director	1 October 2012 – 30 September 2015
Dr Jonathan Spencer	Senior Independent Director	6 October 2011 – 30 September 2015
Mr John Tattersall	Chairman	1 October 2009 – 30 September 2015
Mr Melo Triay	Non-Executive Director	4 March 2011 – 3 March 2014
Mr Alan Whiting	Former Chairman	27 January 2005 – 25 January 2014
Mr Nigel Feetham	Former Non-Executive Director	28 May 2007 – 27 May 2013
Mr Marcus Killick	Former Chief Executive Director	Stepped down 16 February 2014

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. Our current Chairman is Mr John Tattersall.

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 suitably qualified to be a member of the Commission. If he does so, such appointment is subject to ratification by a resolution by Parliament.

In May 2013 Mr Nigel Feetham left the Board and was replaced by Mr Bruno Callaghan. Mr Alan Whiting, our former Chairman stepped down in January after having served a term of 9 years. Mr Adrian Coles joined the Board in January 2014.

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. Should any conflict of interest arise, steps are taken to document the conflict of interest and ensure that the Committee members are not exposed to any situation which may give rise to a conflict.

Corporate Governance Report

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 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. There is a clear division of responsibility between leading the Board and the executive responsibility for the running of the FSC.

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. There is also an opportunity to meet with other members of staff at this time. In May 2013 the formal induction of Mr Bruno Callaghan took place. This was followed by the formal induction of Mr Adrian Coles in April 2014.

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.

On an annual basis the Board holds a Blue Skies away day and this provides an opportunity to discuss strategic issues for the year ahead. The last Blue Skies away day was held in June 2013.

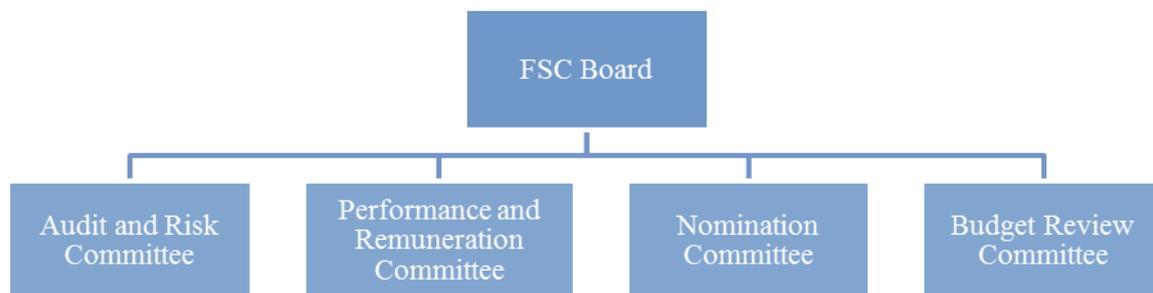
The Board has established the following standing committees:-

- [Audit and Risk Committee](#)
- [Performance and Remuneration Committee](#)
- [Nomination Committee](#)
- [Budget Review Committee](#)

Each standing committee has specific written terms of reference issued by the Board and adopted in committee. All committee chairmen report orally on the proceedings of their committees at the next meeting of the Board.

The terms of reference set forth the purposes, goals and responsibilities of the committees as well as, committee structure and operations and committee reporting to the Board.

Corporate Governance Report



Audit and Risk Committee	Performance and Remuneration Committee	Nomination Committee	Budget Review Committee
Dr Jonathan Spencer (Chairperson)	Mrs Emma Perez (Chairperson)	Mr John Tattersall (Chairperson)	Mr Melo Triay (Chairperson)
Mr Adrian Coles	Mr John Tattersall	Mr Edgar Lavarello	Mrs Emma Perez
Mr Edgar Lavarello	Mr Bruno Callaghan	Mr Melo Triay	Dr Jonathan Spencer
		Mrs Samantha Barrass	Mrs Samantha Barrass

Audit and Risk 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, and oversee the internal audit function and to approve the terms of engagement of the external auditors.

The audit committee comprises of three members of the Committee who are appointed by the Board on the recommendation of the nomination committee and in consultation with the chairman of the audit committee.

In December Mr John Tattersall was replaced as Chairman by Dr Jonathan Spencer and stood down from the Audit Committee to concentrate on his Chairmanship of the Board. At this point Mr Adrian Coles joined the Committee.

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 internal audit function.

At the December Board meeting the Audit Committee made recommendations to the Board that Deloitte be appointed as the FSC auditors for the next three years. The Board approved the Committee's choice. The Auditors met with the Committee during the year without management present.

The Audit Committee has been significantly involved in the development of internal audit (IA) at the FSC. The Audit Committee is responsible for the oversight of this function. The Internal Operations Manager reported at least quarterly to the Committee on internal audit. The IA's role is to review the adequacy and effectiveness of the organisation's governance, processes, controls and risk management in implementing agreed strategies across the whole spectrum of the FSC's activities. It provides the Board, the Audit Committee and Executive with an objective opinion on the results of its reviews. In addition it received and reviewed reports from the IA

Corporate Governance Report

team summarising work undertaken, findings and actions taken by the organisation.

More recently, the Committee has undertaken to focus on the management of risk across the FSC and is now described as the Audit and Risk Committee. The exact function of the Committee will be considered in more depth over the coming months. Specific terms of reference will be drafted and finalised. In addition, the Board and the FSC will consider how it might develop new approaches for risk discussions and decisions, and to ensure that the risk registers is actively managed and reviewed and focus on areas of change.

The ownership and day-to-day oversight and management of individual risks will be considered in more detail, and clearly allocated to individuals at all levels of the organisation. Through direct contact between Committee members and those responsible for key risks, the Board will be able to assure itself that these responsibilities are being carried out effectively.

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.

The Committee met once 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.

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 twice in the year under review.

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. The Committee met most recently in June 2014.

Board Evaluation

The fixed Agenda currently stipulates that the review of Governance will take place in December. This means that the results of the review should be collated before this time so that they can be considered by the Chairman in advance of the December meeting.

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 FSC Board has been reviewed and updated over the past year to ensure it continues to be relevant.

However, it was agreed the effectiveness and suitability of the performance review would be evaluated in early 2014. With the change of CEO this has not yet been conducted. Given that it is important to set aside time to reflect on performance and functioning of the Board and its committees, and identifying and dealing with any areas for improvement, the Board evaluation will be a key agenda item for consideration in September 2014.

**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 ("the Commission") for the year ended 31 March 2014 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 2007 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 ("Gibraltar Generally Accepted Accounting Practice"). 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

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 2014 and its surplus for the year then ended;
- have been properly prepared in accordance with the Financial Services Commission Act 2007 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 2007 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.

Jonathan M Tricker (Statutory Auditor)
for and on behalf of Deloitte Limited
Chartered Accountants & Statutory Auditor
Merchant House
22/24 John Mackintosh Square
Gibraltar

31st July 2014

FINANCIAL SERVICES COMMISSION
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014 £	2013 Restated (note 2) £
INCOME			
Fees receivable	4	3,296,267	3,314,190
Interest receivable		3,896	6,079
		<hr/>	<hr/>
TOTAL INCOME		3,300,163	3,320,269
		<hr/>	<hr/>
EXPENDITURE			
Staff expenses	5	2,787,523	2,313,358
Establishment costs		289,850	261,999
Other operating expenses		179,158	175,130
Commission members' fees	6	125,254	121,095
Legal and professional fees	7	233,068	396,370
Auditor's remuneration		7,000	7,000
Depreciation	8	35,521	46,692
Other professional charges		-	24,169
Bad debt write-off	9	95,890	42,900
		<hr/>	<hr/>
TOTAL EXPENDITURE		(3,753,264)	(3,388,713)
		<hr/>	<hr/>
HM Government of Gibraltar contributions	12	515,513	-
		<hr/>	<hr/>
SURPLUS/(DEFICIT) FOR THE YEAR		£ 62,412	£ (68,444)
		<hr/>	<hr/>

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 surplus/(deficit) stated above and their historical cost equivalents.

The notes on pages 29 to 35 form part of these financial statements.

FINANCIAL SERVICES COMMISSION

BALANCE SHEET

AS AT 31 MARCH 2014

		2014	2013
	Notes	£	Restated (note 2) £
FIXED ASSETS			
Tangible assets	8	28,071	46,516
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors and prepayments	10	640,024	268,706
Cash at bank and in hand		486,966	706,676
		<hr/>	<hr/>
		1,126,990	975,382
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	11	(1,174,251)	(1,103,500)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(47,261)	(128,118)
		<hr/>	<hr/>
NET LIABILITIES		£ (19,190)	£ (81,602)
		<hr/>	<hr/>
FINANCED BY:			
GENERAL FUND	13	£ (19,190)	£ (81,602)
		<hr/>	<hr/>

The financial statements on pages 25 to 35 were approved by the Commission on 30th July 2014 and signed on its behalf by:

Samantha Barrass
Chief Executive Officer

John Tattersall
Chairman

FINANCIAL SERVICES COMMISSION

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

Income from annual renewal fees are invoiced for the year in advance. Because these fees are not refundable they are accounted for on an accruals basis deferred over the period during which services are provided. The annual fees consist of that part of fees invoiced in the current and immediately prior year which relates to the current financial year. That portion of the current year's fees which relates to periods after the balance sheet date is carried forward as deferred income.

Income from application fees as well as ad hoc fees are accounted for on an invoiced 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:

Office furniture and fittings	20%
Office equipment:	General 20%
	Computers 33 ¹ / ₃ %
Motor vehicles	20%

Leasehold Improvements

As in previous years, leasehold improvements are written-off in the year in which they occur.

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 earnings of the Commission.

Authorised Administrator Creditor Balance

The authorised administrator creditor 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.

FINANCIAL SERVICES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern

During the year, the Commission changed its accounting policy on the recognition of income which was previously recognised on an invoiced basis and is now recognised on an accruals basis. This change of accounting policy has resulted in an adjustment to the brought forward reserves of the Commission of £708,138 so that the reserves which were previously showing a surplus of £626,536 have been restated and are now showing a deficit of £81,602. This change in the accounting policy has no effect on the cash flow of the Commission nor on its ability to meet its current and future obligations.

The Commission made a surplus for the year of £62,412 and as at the balance sheet date, had cash reserves of £486,966. The Commission is satisfied, having reviewed its budgets and cash flow projections for the coming year, that it will have sufficient assets to meet its liabilities as and when they fall due.

In addition the Government of Gibraltar has undertaken to provide such financial support as is necessary to enable the Commission to meet its obligations as and when they fall due and accordingly these financial statements have been prepared on the going concern basis as the Commission will continue in operational existence for the foreseeable future.

2. RESTATEMENT OF COMPARATIVES

Income from annual renewal fees are invoiced for the year in advance and accounted for on an accruals basis deferred over the period to which they relate. Until the year ended 31 March 2014, income was accounted for on a cash basis instead of the accruals basis. As a result, the results and balance sheet for the year ended 31 March 2013 have been restated. This has resulted in an increase in accruals and deferred income as at 31 March 2013 of £708,138 and an increase in the deficit for the year then ended of £27,721, being the difference between the restated deferred income recognised as at 31 March 2012 and that recognised at 31 March 2013.

The impact of these adjustments on the previously reported 2013 figures can be summarised as follows:

	As previously reported £	Adjustment £	Reported in these accounts £
<i>Profit and loss account – year ended 31</i>			
Fees receivable	3,341,911	(27,721)	3,314,190
<i>Balance sheet – as at 31 March 2013</i>			
Creditors: Amounts falling within one	(395,362)	(708,138)	(1,103,500)
<i>Retained earnings – as at 31 March</i>			
General Fund	626,536	(708,138)	(81,602)

FINANCIAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

3. TAXATION

Under the provisions of the Financial Services Commission Act 2007, the income of the Commission is exempt from income tax.

4. FEES RECEIVABLE

	2014		2013
			Restated
			(note 2)
	£		£
Financial Services Acts	1,375,675		1,431,736
Banking Act	371,438		376,521
Insurance Companies Act	1,302,018		1,260,398
Others	247,136		245,535
	<hr/>		<hr/>
	£ 3,296,267	£	3,314,190
	<hr/>		<hr/>

5. STAFF EXPENSES

	2014		2013
	£		£
Salaries	2,008,407		1,925,933
Social security costs	74,245		71,732
Pension costs	214,801		192,364
CEO Recruitment	82,348		-
CEO additional contractual payments on retirement	330,085		-
Other staff costs	77,637		123,329
	<hr/>		<hr/>
	£ 2,787,523	£	2,313,358
	<hr/>		<hr/>

The retiring Chief Executive Officer, Marcus Killick, received total remuneration, including pension and life insurance contributions and additional contractual payments of £546,677 (2013: £252,285). The current Chief Executive Officer, Samantha Barrass, received total remuneration, including life insurance contributions of £31,250 (2013: £Nil).

The average number of employees for the year was 47 (2013: 45).

	2014	2013
Regulatory	36	33
Operations and IT	11	12
	<hr/>	<hr/>
Total staff employed	47	45
	<hr/>	<hr/>

FINANCIAL SERVICES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

6. COMMISSION MEMBERS' FEES

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

		2014		2013
		£		£
Bruno Callaghan	Appointed 28 May 2013	13,192		-
Adrian Coles	Appointed 27 January 2014	2,213		-
Joseph Caruana	Appointed term ended 29 July 2012	-		5,550
Franco Cassar	Appointed term ended 30 September 2012	-		8,018
Nigel Feetham	Appointed term ended 27 May 2013	3,146		16,037
Edgar Lavarello	Appointed 30 July 2012	16,337		9,301
Emma Perez	Appointed 1 October 2012	16,337		7,350
Jonathan Spencer		16,337		16,037
John Tattersall		17,813		16,037
Joseph Triay		16,337		16,037
Alan Whiting	Appointed term ended 26 January 2014	23,542		26,728
		£ 125,254		£ 121,095

John Tattersall was made Chairman following the end of the appointment term of Alan Whiting.

7. 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.

	2014		2013
	£		£
Opening accruals	(39,150)		(37,700)
Isolas	22,260		-
Deloitte Limited (excluding amounts reimbursed by licensee)	-		48,186
ICAEW	41,699		46,745
Government Actuaries Department	12,128		80,594
LIR I&R Limited (Actuarial Services)	46,805		-
Grant Thornton (Gibraltar) Limited	10,000		30,000
Hassans International Law Firm	1,600		4,868
Peter Caruana QC (excluding amounts reimbursed by licensee)	32,668		73,635
PricewaterhouseCoopers Limited	-		55,001
Triay & Triay	1,225		7,971
Triay Stagnetto Neish	15,997		47,380
Savills	10,800		-
John Pashley (IT Services)	40,513		-
Others	17,332		540
Closing accrual balance	19,191		39,150
	£ 233,068		£ 396,370

FINANCIAL SERVICES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

8. TANGIBLE ASSETS

	Office furniture & fittings £	Office equipment £	Motor vehicles £	Total £
Cost				
As at 1 April 2013	93,855	226,714	921	321,490
Additions	-	17,076	-	17,076
Disposals	-	(13,874)	(921)	(14,795)
As at 31 March 2014	93,855	229,916	-	323,771
Depreciation				
As at 1 April 2013	78,159	195,895	920	274,974
Charge for the year	7,298	28,222	1	35,521
Disposals	-	(13,874)	(921)	(14,795)
As at 31 March 2014	85,457	210,243	-	295,700
Net book value				
As at 31 March 2014	£ 8,398	£ 19,673	£ -	£ 28,071
As at 31 March 2013	£ 15,696	£ 30,819	£ 1	£ 46,516

9. BAD DEBT WRITE OFF

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

10. DEBTORS

	2014 £	2013 £
Authorised Administrator fees and costs to be recovered (note 11)	-	144,382
Trade debtors	25,863	31,231
Receivable from HM Government of Gibraltar	518,195	-
Other debtors and prepayments	95,966	93,093
	£ 640,024	£ 268,706

FINANCIAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014	2013
		Restated
	£	(note 2)
		£
Trade creditors	-	383
Other creditors, including taxation and social security	-	1,095
Accruals and deferred income	788,078	902,022
Authorised Administrator fees - excess costs recovered	186,173	-
Government of Gibraltar Loan	200,000	200,000
	£ 1,174,251	£ 1,103,500

Government of Gibraltar Loan

On 24 March 2011, the Government of Gibraltar made available to the Commission an unsecured, interest free advance of £400,000. As at 31 March 2014, a balance of £200,000 was outstanding. However, during March 2014, the Minister for Financial Services agreed to a subvention to enable the Commission to settle the remaining balance on the advance in its entirety (note 12).

Authorised Administrator Fees – excess costs recovered

In accordance with the Financial Services (Temporary Administration of Companies) Act 2010, the Commission collected fees from licensees and certain other parties to reimburse the costs incurred by the Authorised Administrator of the Gibrand/Cabor/Meridian group of companies. The Authorised Administrator creditor balance represents the excess recoveries from licensees in this regard, being 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.

In anticipation of the establishment of the contingency fund, the excess recoveries on the Authorised Administrator levy will be transferred to the contingency fund balance.

The movements on the Authorised Administrator fees and the related (creditor)/debtor are as follows:

	2014	2013
	£	£
As at 1 April	144,382	485,918
Recovered as part of annual fees	(271,627)	(271,611)
Recovered from firms to whom companies and trusts transferred	(58,928)	(69,925)
	£ (186,173)	£ 144,382

FINANCIAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

12. HM GOVERNMENT OF GIBRALTAR CONTRIBUTIONS

In March 2014, the Minister for Financial Services agreed to pay the Commission a one-off subvention of £475,000 and to reimburse the Commission's costs in relation to establishing IT systems for the application of the Capital Requirements Directive IV ("CRD IV"). The amount reimbursed in the year in relation to CRD IV was £40,513. In March 2014, it was agreed that £200,000 of the subvention would be used to pay off the remaining balance on the advance in its entirety (note 11).

13. GENERAL FUND

	2014	2013
	£	Restated (note 2) £
As at 1 April	(81,602)	(13,158)
Surplus/(deficit) for the year	62,412	(68,444)
As at 31 March	£ (19,190)	£ (81,602)

14. LEASE COMMITMENTS

	2014	2013
	£	£
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	£ 212,020	£ 191,970

15. RELATED PARTY TRANSACTIONS

During the year ended 31 March 2014, Triay and Triay, of which Joseph Triay is a partner, provided certain legal services totalling £1,225 (2013: £7,971) to the Commission. At 31 March 2014, no amounts were owed by the Commission to Triay and Triay (2013: £Nil).

During the year ended 31 March 2014, Hassans, of which Nigel Feetham is a partner, provided certain legal services totalling £1,600 (2013: £4,868) to the Commission. No amounts were outstanding at 31 March 2014 (2013: £Nil).

During the year ended 31 March 2014, PricewaterhouseCoopers Limited, of which Edgar Lavarello is a Director, provided certain non-audit services totalling £Nil (2013: £55,001) to the Commission. No amounts were outstanding at 31 March 2014 (2013: £Nil).

Deloitte Limited, of which Joseph Caruana is a director, was a related party until Joseph Caruana's term of appointment as a Commission member ended on 29 July 2012. During the year ended 31 March 2013, Deloitte Limited provided certain services totalling £52,106 to the Commission, of which £3,920 was reimbursed by a licensee. No amounts were outstanding at 31 March 2013.

Annex 1 - Report on Audit Supervision

Introduction

Part VI Section 29(1)(i) of the Financial Services (Auditors) Act 2009 requires that the overall results of the quality assurance control system be published annually. The detail set out below related to the reviews commenced during the financial year ending 31 March 2014.

The quality assurance reviews carried out are the equivalent of the risk assessments carried out for other sectors that the FSC regulates and supervises. These reviews do not follow the standard risk assessment process of the FSC as the approach and scope towards assessing Auditors is very different. As the name suggests, the reviews work towards ensuring high quality audits within Gibraltar. This is carried out through an assessment of compliance with applicable auditing standards and independence requirements and the internal quality control system of the Auditor, supported by adequate testing of selected audit files.

During the year, we 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. These reviews play a significant role in improving the overall quality of audit work in Gibraltar and therefore the confidence in financial reporting carried out by Auditors.

The Division has again continued to work closely with the Institute of Chartered Accountants in England and Wales (ICAEW) to develop the programme of inspections. The support contract with the ICAEW ends in January 2015 and the FSC will assess the possibility of the renewal of the contract.

The first onsite quality assurance reviews conducted by the FSC commenced during the year so it is currently difficult to assess specific improvements in this area. It is, however, important to highlight that we feel that the audit industry is developing and improving since the introduction of the Auditors Act particularly in relation to smaller audit firms.

As required by the legislation, all Auditors in Gibraltar are subject to inspections on a six year rotational basis. During the first year of onsite reviews, six Auditors were inspected, ranging from a sole practitioner to a big four Audit Firm. Of these, one was a focused visit limited to a review of the arrangements for joint audits and arrangements for any 'back-to-back'/inter-office signing

arrangements. Some of the reviews carried out during the year also consisted of reviews on specific types of industry e.g. experienced investor funds, gaming and listed companies.

The quality assurance reviews focus on assessing compliance with the regulatory framework for auditing in Gibraltar, including compliance with Auditing Standards, the International Standard on Quality Control 1 (ISQC1) and the International Ethics Standards Board for Accountants (IESBA) code of Ethics.

Some of the findings and concerns identified during the audit inspections carried out during the year ended 31 March 2014 are provided below:

Joint Audits and letterbox companies

One particular area that has been of interest to the Division is that of "letterbox companies". These are companies that have a registered office or correspondence address in their country of registration i.e. Gibraltar, with the main management and operational activities being based elsewhere. The Auditor is then usually based in the country of registration and the majority of the audit work is performed by Auditors in other jurisdictions.

In respect of joint audits and letterbox companies, it is important that Auditors in Gibraltar direct and control these audits in an appropriate manner, so that their involvement cannot be questioned. In some cases, the Auditor needed to further consider specific International Standards on Auditing requirements relating to group audits, including relationships with the component and joint auditors. Audit files therefore need to demonstrate how these matters have been considered, possibly including additional file documentation to support this.

Audit Evidence and documentation

The reviews focus on the sufficiency and appropriateness of the audit evidence documented to support the judgments made in reaching the audit opinion. In a number of cases, better documentation was required to explain and support an important judgement.

Ethics and Independence

The Auditor needs to consider the independence on each audit engagement and ensure that appropriate safeguards are implemented in accordance with the IESBA Code of Ethics. The independence threats that have been apparent

Annex 1 - Report on Audit Supervision

in Gibraltar often relate to long association and the provision of non-audit services. In some cases, there was often a lack of consideration and/or documentation of independence and ethical matters on the audit file. These areas will eventually be improved given the reform of EU audit legislation.

Monitoring

In a number of cases monitoring reviews, including cold file reviews as required by the IESBA Code of Ethics, had not yet been implemented or undertaken.

Accounts Disclosure

As well as audit file reviews, accounts disclosure requirements were considered and assessed. The reviews often identified that some accounts did not meet the necessary standards and disclosure requirements.

None of the reviews carried out during the year have led to significant concerns where enforcement action has needed to be considered. The Division has not introduced grading of the outcome of the visits but reports on the areas that need improvements. In these areas, the Division requests an action plan for any weaknesses identified, both at firm wide level and individual audit engagement level, in order to safeguard audit quality.

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