



The Gibraltar Financial Services Commission

Experienced Investor Fund Directors Thematic Review Outcomes

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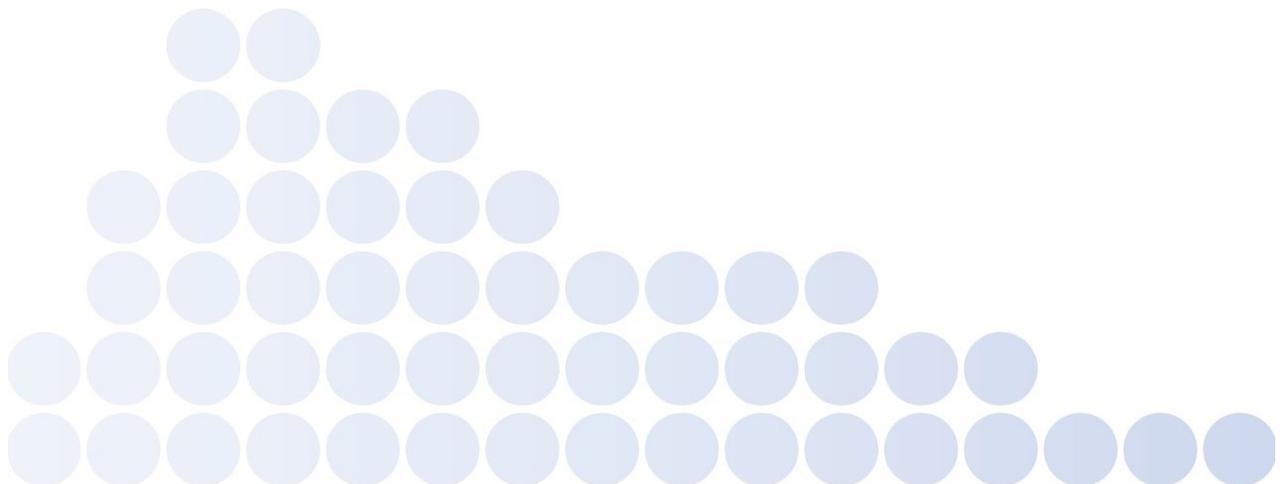
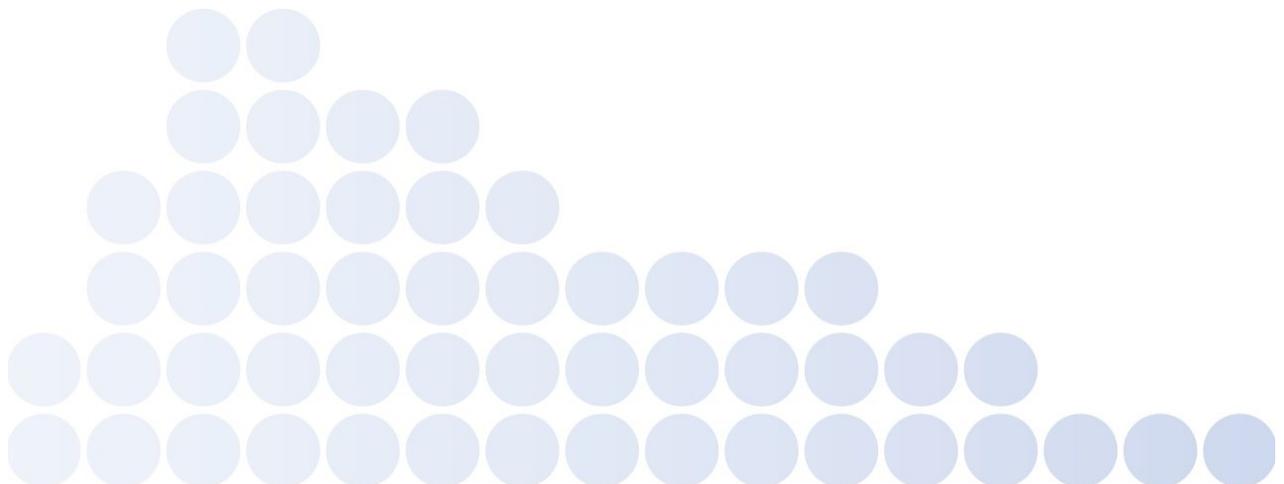


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Foreword

Thematic reviews are an important tool for supervising licensees and delivering our regulatory objectives. They can help assess risks relating to an issue or product across a number of licensees in a variety of situations that affect a broad range of consumers. They also allow investigation into key risks, which can provide a useful platform for further detailed work in areas of particular concern.

Our EIF director thematic review has provided the opportunity to carry out a detailed assessment of the specific risks presented by the EIF director community and also raised awareness of both our expectations and applicable standards. It has included meeting with all EIF directors via workshops and individual interviews.

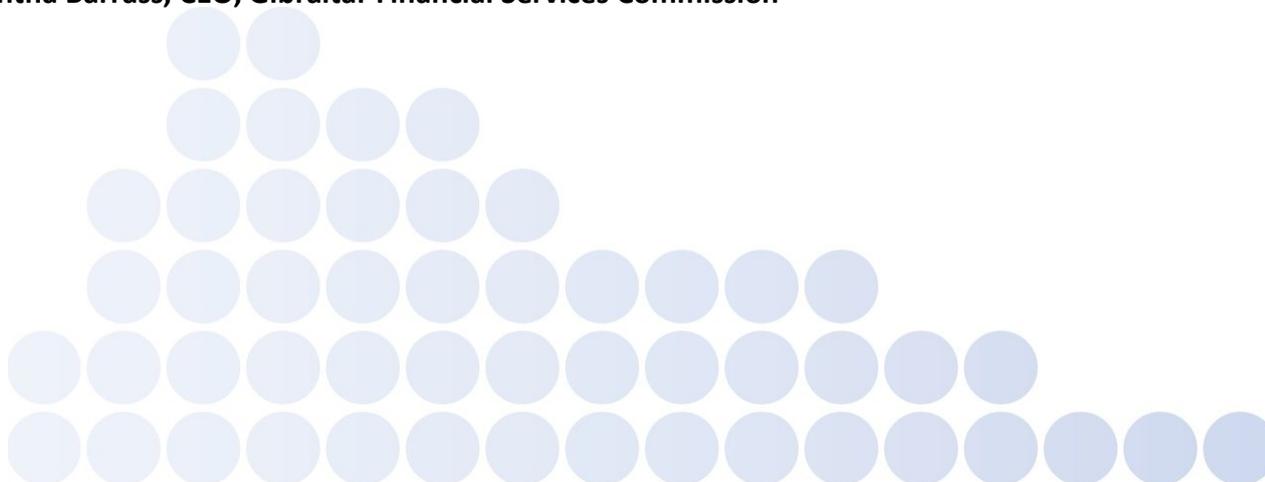
Following the attention and comment received in response to our original EIF director publications, it has been pleasing to note that the feedback we have received from EIF directors regarding our workshops and interviews has been overwhelmingly positive. We are keen to maintain this positive momentum and support the development of the EIF director community.

Going forward we will be providing individual feedback and action plans for EIF directors to address any outstanding concerns we may have. We will also be arranging an annual event to help maintain awareness of relevant standards and encourage the ongoing development of all EIF directors.

This work has been important both for EIF directors and the GFSC, and as a result, investors and other key stakeholders can be more confident that Experienced Investor Funds will deliver what they expect, and are organised and operated to appropriate standards.



Samantha Barrass, CEO, Gibraltar Financial Services Commission



1. Background

Background

- 1.1 The Experienced Investor Fund (EIF) regime is a popular element of Gibraltar's financial services offering, due to the opportunity it offers to be swift to market without prior approval by the GFSC. The GFSC has carried out a significant amount of work to manage the risks arising from some EIF directors' actions and has been actively engaged in mitigating the risks incurred. As a consequence, the GFSC decided to focus our thematic work upon EIF directors.
- 1.2 In October 2015, we published two documents that signalled the start of the thematic work, and both our [Strategy & Expectations Paper](#) and the accompanying [Policy Statement](#) provided the background to how we would approach the review (and our expectations more widely) of individual EIF directors.
- 1.3 In January 2016, the GFSC held four workshops for all EIF directors, in which we discussed three case studies based around a mixture of fictional and real-life examples. Each workshop was followed by a question and answer session with a panel including the GFSC's CEO and both the GFSC Directors of Regulatory Operations and Strategy & Planning, accompanied by a representative from the EIF director community. Overall, these workshops provided an opportunity to discuss relevant standards and raise awareness of both our expectations, requisite international standards and applicable fiduciary duties. They also gave EIF directors an opportunity to interact with each other and share knowledge and experience.
- 1.4 During March and April 2016, we followed the workshops with individual interviews of all EIF directors. These interviews gave the GFSC a chance to better understand EIF directors and the individual environments in which they operate. They also allowed us to discuss director's individual concerns and the EIF director thematic work in general.
- 1.5 Both the workshops and interviews were focused around the GFSC's expectations of EIF directors regarding oversight, corporate governance, due diligence and record-keeping, communication with investors, ethical and competency issues, and risk management. They also focused on the risks associated with conflicts of interest (including relationships with promoters), marketing strategies, EIF directors' relationship with the GFSC and the types of investor being attracted to EIFs. We also asked each EIF director to provide examples of good and poor practice for an EIF director, in order to continue to raise awareness of appropriate standards, and assist new EIF directors.
- 1.6 This publication sets out our summary findings - in addition to outlining the GFSC's strategy for addressing and managing the risks posed to investors and the reputation of Gibraltar by EIF directors more broadly in the future.
- 1.7 Overall, the thematic review proved to be particularly useful for both the GFSC and EIF directors, and we have been pleased with the increased awareness and professionalism of the EIF director community in Gibraltar.

2. Summary of Findings

2.1 There are a number of key findings that have arisen from this thematic review of EIF directors. They are summarised below:

Overall

2.2 The overall standard of EIF directors who participated in our thematic review was good, with numerous examples of good practice identified. We also identified various risks to our regulatory objectives, that we will be addressing individually with the relevant EIF directors via ongoing supervisory action or, where appropriate, enforcement activity.

2.3 The thematic review – particularly the interviews and workshops - provided a useful platform for raising awareness of EIF director's duties and obligations, sharing knowledge amongst directors and enabling the GFSC to improve our understanding of the EIF market and the individuals operating within it.

Positive aspects

2.4 During our thematic review of EIF directors, we identified a number of positive aspects. These include the following:

- There is a significant pool of knowledgeable, collaborative and experienced EIF directors operating in Gibraltar;
- Many of the EIF directors have a wide-range of experience in terms of location, financial sectors, asset classes, strategies and fund sizes;
- The majority of EIF directors are engaged, responsive and keep themselves up to date in terms of relevant market information and training; and
- A significant proportion of EIF directors demonstrated a clear understanding of their duties and obligations in addition to a sound ethical approach.

Key concerns

2.5 During our thematic review of EIF directors, we also identified a number of concerns with certain EIF directors, including:

- Lack of sufficient challenge and oversight in relation to external service providers, such as legal advisers and fund administrators;
- Limited due diligence (particularly on an ongoing basis) and insufficient risk management;
- Unidentified or poorly managed conflicts of interest and a lack of independence;
- Lengthy periods without being an active EIF director or not communicating with other EIF directors;
- Not keeping up to date in terms of training or relevant market information;
- Not having a suitable complaints-handling process;
- Not devoting sufficient time to their EIF directorships – often due to other commitments;

- Not being constructive, respectful and sufficiently transparent with the GFSC; and
- The mind and management of the directors and the EIF not being within Gibraltar or the immediate locale.

3. Future Plans

3.1 As a result of our thematic work, the GFSC has made several changes to our processes and we will be consulting upon various proposed policy changes in the coming months. We will also be carrying out further work with the EIF director community individually. The key changes and future work are summarised below:

Surrendering Licences

3.2 We will liaise with any licensees who wish to surrender their EIF director licence, and would remind all licensees to ensure that all relevant fees are paid and licenses are surrendered correctly – including in hard copy format to the GFSC offices.

3.3 For any further questions regarding surrendering your EIF director licence, please contact: Authorisations@fsc.gi

Consultation

3.4 We have several proposed policy changes that we wish to consult on. These proposed changes include our approach to inactive EIF directors, whether to remove the ‘restricted’ EIF director designation and whether to maintain the corporate EIF director offering.

3.5 We will be consulting formally with all EIF directors on these proposed policy changes, and further details will be provided in a separate consultation paper.

3.6 The consultation paper will be published in the coming months and the consultation period will be a month. Details regarding how and when to respond will be provided in the consultation paper.

EIF Director Return

3.7 The current EIF Director Return has been updated so that it provides the GFSC with more relevant detail in order to better understand the EIF director community and enable us to more effectively mitigate any applicable risks to our regulatory objectives.

Annual Event

3.8 We propose to organise an annual event for EIF directors to help foster the EIF director community, maintain oversight and raise awareness of our expectations and relevant standards.

3.9 We intend to hold the first annual EIF director event on the one year anniversary of the publication of our ‘Thematic Review Outcomes’ document, in January 2018, to provide a solid period to assess the progress made as a result of the EIF director thematic work. This event will then occur on an annual basis in January each year going forward.

Follow-Up Work

- 3.10 Following the publication of this document, individual feedback and recommendations will be provided by the GFSC to ensure that EIF directors are aware of (and able to meet) our expectations on an ongoing basis. The feedback and recommendations will be based upon the findings of this thematic review and also our wider supervisory work.
- 3.11 Each EIF director will also be assessed as part of our supervisory work on an ongoing basis, focusing upon the risks identified during the thematic work. The GFSC will also maintain an open and proactive dialogue with higher risk EIF directors to support a clearer understanding of the risks they pose to our regulatory objectives.
- 3.12 Enforcement action against EIF directors will be considered on a case-by-case basis and taken forward in respect of individuals who do not meet our fit and proper criteria. This may include a re-authorisation process, licence restrictions, specific action plans or the removal of licences where necessary.

Further Information

- 3.13 If you have any queries or comments regarding this publication or our EIF regime in general, please contact Tamara Viagas-Ozdemir at: tviasgas-ozdemir@fsc.gi / (+350) 20040232 or write to us at:

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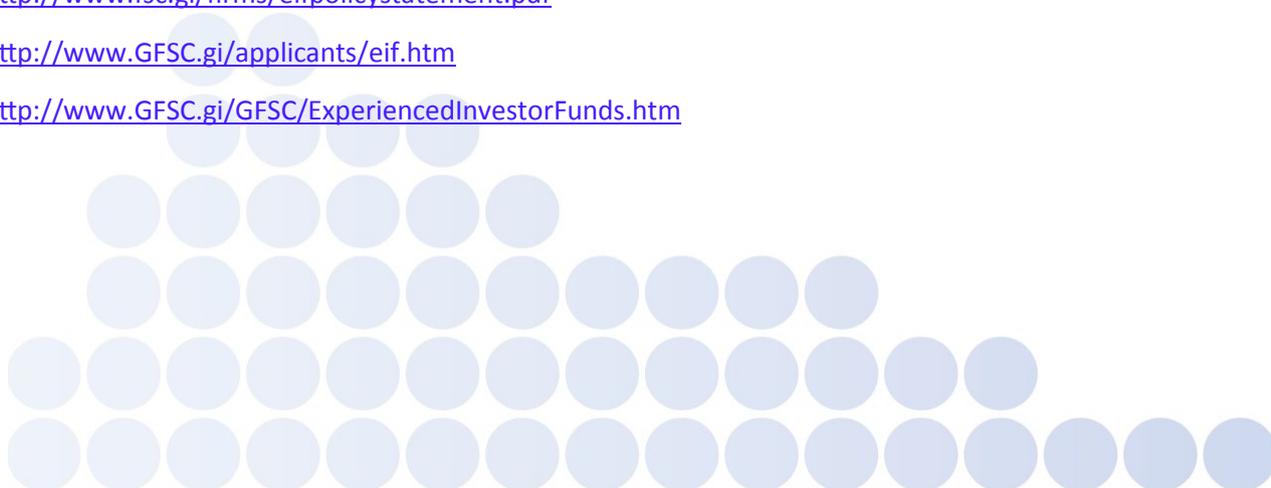
- 3.14 Readers may also wish to refer to the following links for further details:

<http://www.fsc.gi/firms/strategyandexpectations.pdf>

<http://www.fsc.gi/firms/eifpolicystatement.pdf>

<http://www.GFSC.gi/applicants/eif.htm>

<http://www.GFSC.gi/GFSC/ExperiencedInvestorFunds.htm>



Appendix

EIF Director Workshops - January 2016: Feedback Summary

For each of the four workshops we held for EIF directors during January 2016, feedback forms were supplied in order to obtain their views as to what aspects of the workshops were successful and where the GFSC could improve. A summary can be found below, including by individual question.

Overall Comments

The feedback provided by the attendees at the workshops was overwhelmingly positive. For example, when asked how they had found the workshop, 91% of respondents gave only positive comments. A very clear trend also emerged in the responses that the EIF directors had appreciated and welcomed the opportunity to interact with both fellow EIF directors and the GFSC. Most responses said the workshops had been of value and the case-study format was also generally well-received, with numerous EIF directors requesting that the GFSC hold similar events in the future.

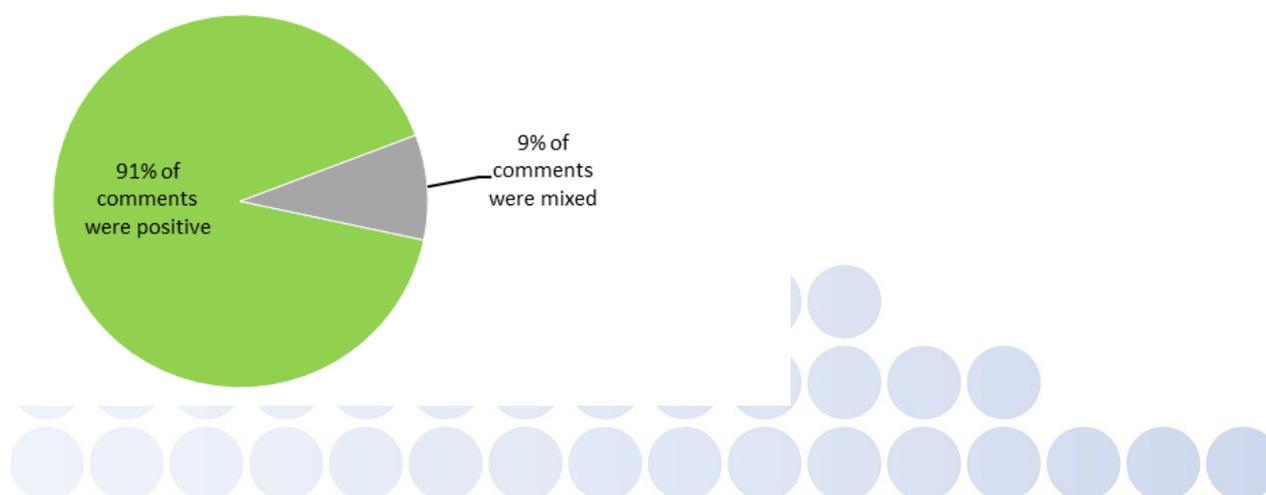
Virtually all respondents (94%) either agreed or strongly agreed with each of the following statements:

- The workshop objectives had met their expectations;
- The information presented had been helpful;
- There had been enough time to achieve the stated objectives; and
- They were satisfied with the organization of the workshop.

Analysis by Question

Question 1: How did you find the workshop today?

44 respondents provided comments. Of these:



Although this was an open-ended question, there were some clear positive trends:

	66% welcomed the opportunity to interact with other EIF directors and GFSC staff .
	59% had found the workshops to be of value , commonly stating they had been 'useful', 'helpful' or 'informative'.
	20% included a general positive comment , such as 'excellent', 'good' and 'positive'.
	16% said they found the workshops interesting .
	11% praised the clarity and structure of the workshops.

There was, however, some constructive criticism made in 9% of the comments. These all related to Case Study 2, which was described as 'too extreme' and 'too black and white'. Some of the further comments included:

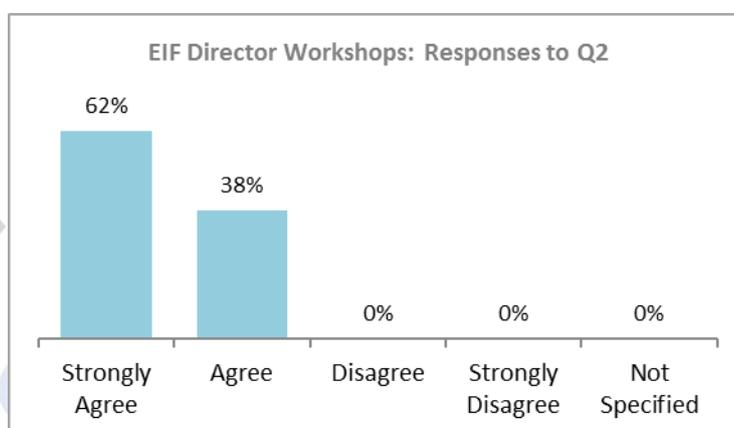
- 'Very interesting, stimulating and enjoyable! Very good idea to bring EIF directors together and give them the context (i.e. case studies) to discuss relevant EIF issues and responsibilities.'
- 'Excellent, very good opportunities to participate. Good format with case study examples.'
- 'Interesting and educational. Should be held on a yearly basis.'
- 'It's a good idea to get together as a quorum of EIF directors to discuss and bring up ideas and solutions to current EIF issues'
- It was very nice that Samantha introduced herself to all the participants. Very positive introduction.'

Question 2: Did the workshop objectives meet your expectations?

100% agreed that the workshop objectives met their expectations.

Comments included:

'Exceeded expectations'; 'More interactive than expected'; 'Useful to interact with other directors'; 'Practical, relevant and well-organized'; and 'Just right'.

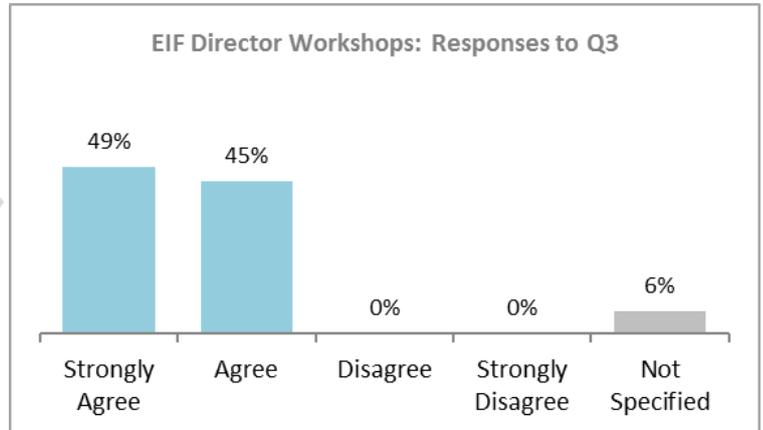


Question 3: Was the information presented helpful?

94% agreed that the information presented was helpful.

When asked to provide further comment, only 10 respondents did so, including:

- 7 were positive**, saying they had liked the case study format
- 3 included negative** comments regarding how realistic the second case study was.

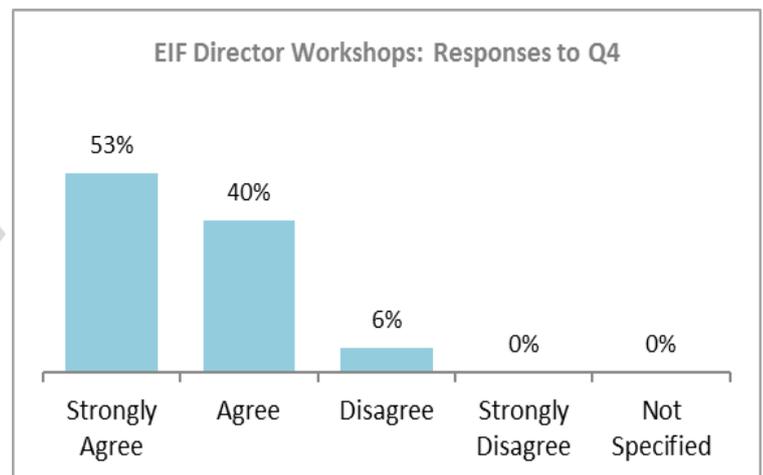


Question 4: Was there enough time to achieve the stated objectives?

94% agreed there was enough time to achieve the stated objectives.

When asked to provide further comment, only 10 respondents did so, including:

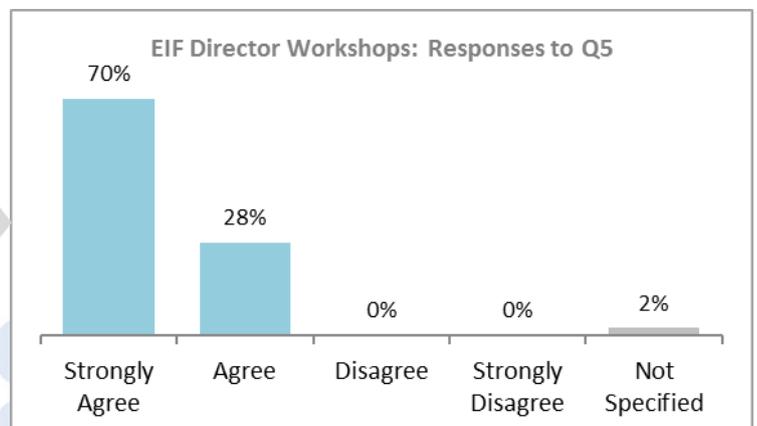
- 6 said they would have liked more time, particularly to discuss the case studies in greater depth.
- 3 simply stated they thought the time allowed was sufficient.
- 1 said the workshop had run late.



Question 5: Were you satisfied with the organisation of the workshop?

98% agreed they were satisfied with the organisation of the workshop.

When asked to provide further comment on the organisation of the workshop, only one respondent did so, saying the workshop had been 'well-organised'.



Question 6: Any other comments or suggestions?

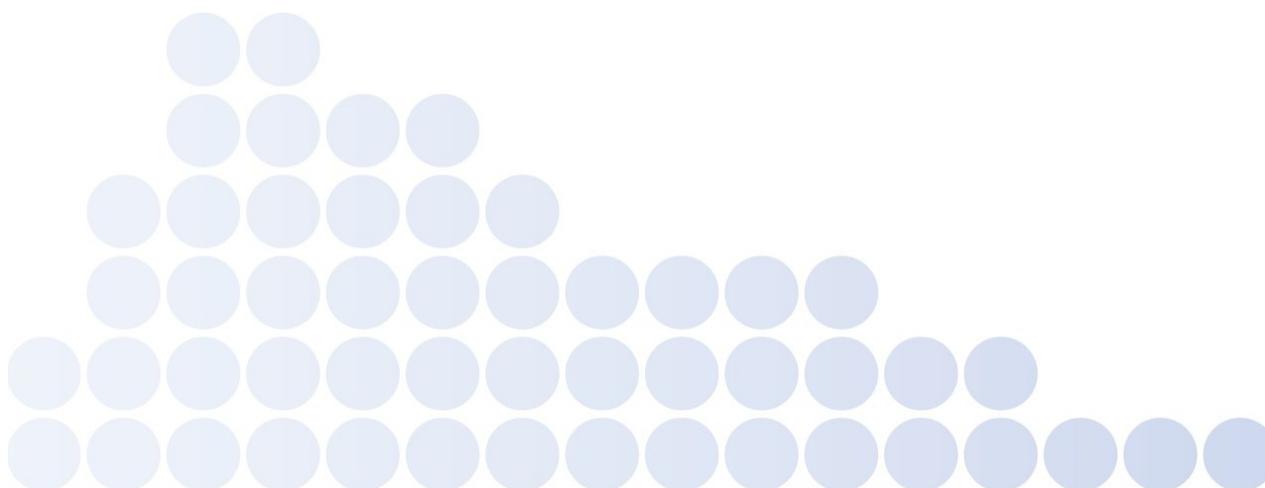
47% of all respondents made an additional comment. Of these:

10 pointed out that they **would very much like to see similar events held regularly in future.**

4 found it **helpful to meet and interact with other EIF directors.**

4 made **general positive comments**, including:

- o 'excellent idea';
- o 'very well-run session';
- o 'worthwhile exercise'; and
- o 'a good opportunity to meet GFSC staff'.



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