



Financial Services Commission
Gibraltar

Annual Report 2009



Our Mission Statement

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

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Chairman's Report for the year ended 31 March 2009

Welcome to the Annual Report of the Gibraltar Financial Services Commission (the Commission). This report contains a description of the work of the Commission as well as its reports and accounts for 2008/09.

2008 has proved to be one of significant challenge to the global economy and financial service regulators have had to respond not only to this challenge but also work, both individually and collectively, to identify where supervisory failures have contributed to the problems which have arisen.

2009 will see many of the global supervisory improvements begin to be implemented. This will inevitably have an impact on the way the Commission undertakes its task. As a result the Commission has spent a considerable amount of effort to ensure it remains fit for purpose and ready to implement the changes in a way that continues to facilitate the growth of a sound finance sector in Gibraltar.

As part of this we have not only reviewed our structure but also redesigned our risk assessment methodology. As a result we have been able to focus upon the risks faced both by the Commission and the firms it regulates, and how these risks may be mitigated.

As the Competent Authority under the Market Abuse Act we have also strengthened our capability to take enforcement action where necessary, as well as "patrol the perimeter" to detect, deter and prevent unlicensed financial service activity..

The Commission has also continued to participate in the development of international regulatory standards through its participation in the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO).

2009/2010 will be, if anything, even more challenging to ourselves and other regulators. Supervision will remain a balance between seeking to mitigate risk while fostering innovation and competition. Achieving this balance is particularly important in the current

global economic climate and the Commission remains committed to doing just that.

I commend the report to you.

Brian Hilton
Chairman
3 June 2009

Chief Executive's Report for the year ended 31 March 2009

The Commission and its Statutory Duties

The Commission has a number of statutory duties. These are set out in the Financial Services (Commission) Act 2007 and include the following regulatory objectives:

- (a) the promotion of market confidence;
- (b) the reduction of systemic risk;
- (c) the promotion of public awareness;
- (d) the protection of the good reputation of Gibraltar;
- (e) the protection of consumers; and
- (f) the reduction of financial crime.

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

Day to day decisions such as those concerning licensing, enforcement and staffing issues are delegated by the Commission to the Chief Executive Officer.

Matching UK standards

The Commission interprets this statutory requirement to match UK standards as meeting the regulatory objectives (which both the UK FSA and Commission share), to the same extent as the FSA does, but not necessarily in the same way. Our focus is therefore upon the outcome of those processes - for example

do they achieve the same level of market confidence and consumer protection as do the practices in the UK?

To focus on the 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 a regulatory process may, in fact, lead to the end objective being missed or achieved to a lesser degree.

The differences between the UK and Gibraltar environments will occasionally mean that supervision in Gibraltar is tighter than in the UK; for example the UK does not operate a programme of on-site visits to all its regulated firms, nor indeed does it regulate as wide a range of financial service providers as does Gibraltar. On other occasions the Gibraltar regime can adopt a case-by-case approach more often than the UK does but with no reduction in overall supervisory standards.

The work of the Commission

The main work of the Commission is of regulatory supervision. This includes the assessment of applications from firms wishing to conduct regulated activities, ongoing supervision of regulated firms (both through the review of returns and by a regular programme of on-site visits) and the taking of disciplinary or enforcement action where required. The Commission has a wide range of powers including the issue of directions or imposing conditions upon a licensee. In an extreme case a licence can be revoked.

The Commission is organised by industry groups with three supervisory divisions covering banking and investment services, insurance and a fiduciary services and enforcement division. The divisions are also supported by both administrative and strong IT resources.

It is important that the Commission uses its resources as efficiently and effectively as possible. In order to achieve this, we focus upon

the risks faced both by the Commission and the firms it regulates, and how these risks may be mitigated.

The Commission has responded to recent international regulatory weaknesses by further improving its risk assessment methodology. An internal regulatory risk committee has also been established. We have also examined in depth the causes of regulatory failure elsewhere to determine what lesson we ourselves can usefully learn.

A regular programme of on-site visits to all licensed firms is in place. The visits form part of the risk assessment process and the firm is then placed on the appropriate cycle for future visits. These cycles are normally 12, 24 or 36 months. Being on a short cycle does not automatically mean that the Commission has concerns with the firm. Its size, nature of business and customer type also impact upon how frequently we conduct our visits.

In addition to its supervisory duties the Commission performs a number of other tasks including advising Government on new financial services legislation. It undertakes any additional tasks requested by the Government including the Anti-Money Laundering Guidance Notes. The Commission is the Competent Authority under the Market Abuse and Prospectus Acts.

The Commission has continued to participate in the development of international regulatory standards through its participation in the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO).

Other work includes the giving of assistance where appropriate to other regulators in the conduct of their regulatory responsibilities. The Commission "patrols the perimeter," including monitoring of the media and the internet in order to identify possible unlicensed financial service activity. Where this is detected, swift action is taken to resolve the position. If necessary the Commission will invite the Attorney General to bring criminal charges against those found to be conduct-

ing licensable activity without authorisation.

The Commission receives complaints about licence-holders. These complaints primarily relate to alleged miss-selling of investment products. The Commission's remit does not extend to adjudicating on levels of compensation. Such action, under Gibraltar law, is the responsibility of the Courts and recourse to the Courts, of course, continues to be available to consumers. Notwithstanding this, the Commission takes an active interest in such complaints as these may point to regulatory breaches on the part of the firm.

In 2008 the Commission took over responsibility for the licensing and supervision of Bureau de Change and Money Transmission Services. Additionally, the Government has recently announced that we will assume the role of the public oversight board under the legislation implementing the EU Statutory Audit Directive. This means that we will become the supervisory body for the audit profession in Gibraltar.

The Payments Services Directive will be implemented in the course of the coming year.

Our approach to supervision

The international financial crisis has meant that the phrase "light regulatory touch" has become a term of abuse. According to some regulators the industry must be "afraid" of us. It remains the Commission's view that it can have a light touch but still be aware of, and deal with, the risks the finance sector faces. Supervision should still be by consent. The vast majority of the finance sector is as keen on a well supervised industry as we are. Now is not the time for demons, scapegoats or supervision by testosterone.

It is important, in this time of crisis, that there is no regulatory over-reaction and we should approach regulatory changes with caution, in other words we must continue to adopt the principle "first do no harm".

By virtue of a number of factors, some planned, some by chance, Gibraltar remains

largely unaffected to date. However complacency would be deadly. Proposed changes to EU requirements and international standards will necessitate additional work by the Commission and obligations on the finance industry. Similarly, our revised risk assessment process is designed to ensure the Commission remains fit for purpose.

As a Commission we are fortunate. The Government has defended our independence both in word and spirit and this has been recognised by the IMF. The finance industry, regulator and government have a long tradition of teamwork and cooperation. We are well placed to come out of the global recession with a stronger, bigger sector than before. However such an opportunity will not be given to us, we must work for it.

International Cooperation

The international downturn has demonstrated clearly the interconnectivity of the global financial system and the fact that problems spread like a plague from one jurisdiction to another.

To help deal with this strong international regulatory cooperation is required. Those centres that do not play a role in this will quickly see themselves marginalised and excluded. The Commission has continued to cooperate effectively with other regulators in accordance with international expectations. We have also formally applied to form part of IOSCO's Mutual Memorandum of Understanding and are in negotiation with a number of other regulators on similar agreements.

Enforcement Action

The global downturn has also seen an increase in financial sector crime and our enforcement division has therefore seen increased workloads. This will not abate in the year ahead.

As part of this we work closely with the law enforcement authorities to seek the prosecution of those who commit crimes and to

counter abuse of the financial system. During the year we exercised our enforcement powers on a number of occasions. We also cooperated with a number other regulators in their enforcement actions.

Speed

In a modern finance centre, unnecessary delay is a material impediment to growth. The need to compete requires the ability to respond swiftly both to changing circumstances and to enable the industry to bring out new products and services.

Economic downturns increase rather than reduce this requirement. At the FSC we seek to provide a fast, effective service. We continue to monitor adherence to our service standards and publish the results on a quarterly basis on our website.

Commission finances

The Commission has sought to minimise the cost of regulation to our licensees and has not increased fees for two years. This has had an impact on our reserves. The accounts set out below show a deficit of £102,453 for the year. Whilst we increased our reserves in previous years expressly to deal with such eventualities it is vital that the FSC continues to have the resources to undertake its statutory duties. As a result, we are likely to seek government approval for an increase in fees in 2010.

Staffing

Like every regulator around the world, the Commission has been and continues to be faced with a significant increase in its workload. In addition to the expansion of the risk assessment programme of firms and the increase in work to improve public awareness, the Commission will be working with firms in the year ahead to enhance further the level of training and competency in the finance sector. The costs of undertaking our supervisory activities were further increased as new EU directives were implemented (in particular MiFID) and the financial industry contin-

ued to grow. The Commission also assumed responsibility for the regulation of Pension Fund Trustees.

The increased work of the Commission has required additional resources and during the year we welcomed five new members of staff. This took our numbers of staff (excluding vacancies) to 31 by the end of March 2009.

Whilst there are fewer new pieces of legislation planned for this year the work of the Commission will continue to increase. As a result, further recruitment will take place in 2009/10.

We also continue to build the strength of an already internationally recognised regulatory team at the Commission through our participation in the pilot "Investors in People" programme and our continued commitment to ISO 9001:2000.

I would like to thank all my colleagues for their hard work, professional approach and dedication during the last year.

Marcus Killick
Chief Executive Officer
3 June 2009

Corporate Governance Report for the year ended 31 March 2009

The Commission is committed to transparency and open regulation. It is therefore important that our stakeholders are aware of how we seek to ensure that key principles of good governance are applied within the Commission. The Commission considers that the Combined Code on Corporate Governance (the "Combined Code") issued by the United Kingdom's Financial Reporting Council as a suitable model of best practice that it should follow.

Whilst the Combined Code is primarily aimed at listed companies rather than regulators and therefore is not directly applicable to the FSC, it nevertheless contains many useful principles which do have an application within the Commission and, the Commission complies with the provisions of the Code to the extent that compliance is proportionate and consistent with the Commission's responsibilities as a regulator.

The Commission publishes, on its website, a self assessment on the extent to which it complies with the Combined Code.

Commission structure

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

The Commission consists of the Chief Executive as ex officio member and seven other persons appointed by the Minister with responsibility for financial services. At least two of these persons must have significant experience of regulation and supervision of finance services business in another jurisdiction.

The Commission appoints one of their members to be the Chairman of the Commission. Appointments as Chairman are for a period of one year. Members may be reappointed Chairman any number of times consecutively.

Commission members are appointed for three years and upon such terms as may be specified in the instrument appointing them. When there is a vacancy to be filled the Com-

mission must, within four weeks of the creation of the vacancy nominate no fewer than three persons to the Minister. Should the Minister decline to appoint 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 an appointment is subject to ratification by a resolution of the Parliament.

Functions of the Commission

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

- (a) to supervise Authorised persons in accordance with this Act and the Supervisory Acts;
- (b) to consider and determine applications for authorisations licences, recognitions and registrations made under the Supervisory Acts;
- (c) to monitor compliance by Authorised persons with such legislation, rules, codes and guidance made under this Act or any Supervisory Acts;
- (d) to monitor compliance by Authorised persons with legislation, rules, codes and guidance relating to the prevention of financial crime;
- (e) 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;
- (f) to carry out the duties and discharge the functions imposed on, or given to, it under this or any other Act;
- (g) to determine subject to the approval of the Minister the terms of service of the Chief Executive;
- (h) to determine the number and skill mix of employees required by the Commis-

sion to carry out its functions and to determine their terms and conditions of employment;

- (i) to monitor and oversee the performance by the Chief Executive of all functions delegated to him by the Commission;
- (j) to approve the annual estimates of income and expenditure to be furnished to the Minister; and
- (k) 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 eight members and meets four times each year. The chairman is Brian Hilton (Appointment Term: 1 October 2002 - 30 September 2011) and the Senior Independent Member is Mark Boleat. (Appointment Term: 30 September 2000 - 30 September 2009). The other Commission Members are;

- Marcus Killick (CEO)
- Franco Cassar (Appointment Term: 1 October 2003 - 30 September 2009)
- Joseph Caruana (Appointment Term: 30 July 2003 - 29 July 2009)
- Nigel Feetham (Appointment Term: 28 May 2007 - 27 May 2010)
- Robert Vasquez (Appointment Term: 1 August 2006 - 31 July 2009)
- Alan Whiting (Appointment Term: 27 January 2008 - 26 January 2011).

Members are appointed for a period of three years. This is renewable, however, with the exception of the CEO, Members may not be reappointed if they have served a term of nine years or more.

The Commission has established committees to assist it in its role. Details of each mem-

ber's attendance at both Commission and committee meetings are set out on the Commission's website at www.fsc.gi. The terms of reference for the committees are also on the Commission website.

The Commission conducts an annual self assessment of its performance. An annual assessment of the Chairman is also undertaken, led by the Senior Independent Director.

With the exception of the Chief Executive Officer, all Commission members are considered independent as none have any day to day executive role within the Commission, are not connected to any senior official within the Commission and, by the nature of the Commission's structure, cannot be shareholders of the Commission.

On an annual basis, the Commission holds a "Blue Skies Day". This event, which occurs at the time of the June board meeting, is also attended by senior executives of the Commission. It is an opportunity for the Board to evaluate the risks it faces in its ability to fulfil its statutory duties. From this it is able to develop its business plan for the following year and budget accordingly.

At the September Commission meeting the Executive presents its draft business plan for the forthcoming financial year.

A revised business plan taking into account the views of the Commission together with a draft budget is considered by the Budget Review Committee in December of each year. The business plan is finalised at the Commission meeting in January.

The Commission monitors performance against the objectives set in the business plan at each Commission meeting.

Committees of the Commission

The Commission has four standing sub committees.

Nomination Committee

This leads the process for the appointment of the posts of Chief Executive and Commission Members and makes recommendations to the Commission as appropriate.

The Committee may also advise the Chief Executive on the appointment of other senior executives in the Commission and shall be notified by him of any short listed candidates for these posts.

It is currently chaired by the Chairman (Brian Hilton) of the Commission and its other members are the Senior Independent Member (Mark Boleat), the Chief Executive (Marcus Killick) and two other members of the Commission (Nigel Feetham and Robert Vasquez). Another Commission member would replace the CEO when that appointment is being considered.

There has been no requirement for the Committee to meet in the past year.

Remuneration Committee

Two Commission members together with the Chairman act as the Remuneration Committee. One of these Members is the Senior Independent Member (Mark Boleat), who is Chairman of the Committee. Its other members are the Chairman of the Commission (Brian Hilton) and Franco Cassar.

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

The Committee met once during the year.

Audit Committee

An Audit Committee has been in place since 2004. The role of the Audit Committee amongst other matters is to monitor the integrity of the financial statements, review the Commission's internal financial controls and to approve the terms of engagement of the external auditors. It reports to the Commission, identifying matters in respect of which it considers that action or improvement is needed, and makes recommendation on any steps to be taken. The Committee comprises Joseph Caruana, as Chairman, the Senior Independent Member (Mark Boleat) and Alan Whiting.

The Committee met once during the year.

Budget Review Committee

The role of this committee is to provide an independent challenge to the FSC budgetary process and to recommend the annual budget to the Commission.

Membership consists of Mark Boleat, Franco Cassar, Joseph Caruana, Alan Whiting and Robert Vasquez. The Chief Executive and Chief Operations Officer also form part of the Committee and the Chief Operations Officer acts as the Secretary.

The Committee met once during the year.

Delegation arrangements

Pursuant to Section 9 of the Act, subject to any express provision to the contrary the Commission may delegate the discharge of any of its functions to the Chief Executive or, with the consent of the Minister, to such other person or persons as the Commission may propose. However, the delegation by the Commission of any of its functions shall not affect the exercise by the Commission of such functions.

Accountability arrangements

Whilst the Commission is an independent body, it is accountable for its overall performance to the Government of Gibraltar

through the Minister with responsibility for financial services.

Section 6(2) of the Act requires The Commission to advise the Minister if, at any time, it considers that the Act and the Supervisory Acts do not provide it with sufficient powers, or otherwise do not enable it, or it does not have such financial, technical and other resources, and such personnel, as are necessary to enable it—

- (i) to supervise and regulate financial services business carried on in or from Gibraltar to internationally accepted standards; or
- (ii) to discharge its functions under the Act or any other Act.

As a further part of this accountability, under Section 16(5) of the Act the Commission, within five months after the end of the financial year, must prepare and submit to the Minister a written report of its operations for that year together with a copy of the audited accounts for that year and the Minister shall lay a copy of such report and of the audited accounts on the table of the Gibraltar Parliament at the earliest possible opportunity.

Section 17(1) requires that the Commission prepares and furnish to the Minister annual estimates of income and expenditure, including capital expenditure, not later than 3 months prior to the commencement of each financial year and such additional information and explanations as he may require.

Under Section 17(2) the Minister may at any time and from time to time appoint any person or persons to conduct a value for money review of the expenditure budget of the Commission and to report thereon to the Minister and the Minister shall lay in the Parliament a copy of any such report within 30 days of its receipt by him.

Under Section 20 if at any time it appears to the Minister that the Commission has failed to comply with any of the provisions of this or any other Act, the Minister may, by notice in writing, require the Commission to make good the default within such time as may be specified in the notice. If the Commission

fails to comply with the requirements of such a notice the Minister may apply to the Supreme Court for an order requiring the Commission to remedy the default specified and the Supreme Court may make such order on the application as it thinks fit.

Accounting records for the financial statements

The Commission is required by the Financial Services Commission Act 2007 to keep proper accounting records of its income and other receipts and expenditures during each financial year and to prepare accounts which give a true and fair view, in the case of the balance sheet of the finances as at the end of the financial year and in the case of the income and expenditure account, of the surplus or deficit for that financial year.

In preparing those accounts, the Commission:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- states whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepares the accounts on the going concern basis unless it is inappropriate to presume that the Commission will continue in operation.

The Commission also makes available to the auditors, as and when required, all the accounting records and all other relevant records and related information, including minutes of all Commission meetings. It also safeguards the assets of the Commission and takes reasonable steps for the prevention and detection of fraud, error or non-compliance with law or regulations.



INDEPENDENT AUDITORS' REPORT TO THE FINANCIAL SERVICES COMMISSION

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Report on the financial statements

We have audited the financial statements of the Financial Services Commission for the year ended 31 March 2009 which comprise the income and expenditure account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Commission's responsibilities for the financial statements

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

Auditors' 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 auditors' judgement, 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 entity'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 entity'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.

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 2009 and its loss for the year then ended.

INDEPENDENT AUDITORS' REPORT TO THE FINANCIAL SERVICES COMMISSION - continued

Report on other legal and regulatory requirements

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to report to you our opinion as to whether the Commission has kept proper accounting records, whether the Commission's Balance Sheet and Income and Expenditure Account dealt with by this report are in agreement with the accounting records, if we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, and whether the Commission has discharged with diligence its obligations in relation to the collection of its revenues.

Opinion

In our opinion:

1. proper accounting records have been kept by the Commission;
2. the Commission's Balance Sheet and Income and Expenditure Account dealt with by this report are in agreement with the accounting records;
3. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; and
4. the Commission has discharged with diligence its obligations in relation to the collection of its revenues.

Other matters

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

Colin Vaughan
Statutory Auditor
For and on behalf of
PricewaterhouseCoopers Limited

28 July 2009

The maintenance and integrity of the Gibraltar Financial Services Commission web site is the responsibility of the Commission; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Gibraltar governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income and Expenditure Account For the year ended 31 March 2009

		2009	2008
	Notes	£	£
INCOME			
Fees receivable	3	2,099,523	2,139,760
Interest receivable		55,059	59,039
TOTAL INCOME		2,154,582	2,198,799
EXPENDITURE			
Staff expenses	4	1,648,823	1,409,974
Establishment costs		165,724	144,940
Other operating expenses		107,914	96,159
Commission members fees	5	115,000	90,083
Legal and professional fees		161,405	90,639
Auditors remuneration		6,500	5,500
Depreciation	6	38,883	41,795
Other professional charges		12,786	13,451
TOTAL EXPENDITURE		2,257,035	1,892,541
OPERATING PROFIT/(LOSS)		(102,453)	306,258
Gibraltar Government Contribution		-	170,000
RESULT FOR THE YEAR	£	(102,453)	£ 476,258

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.

The notes on pages 17 to 20 form part of these financial statements.

Balance Sheet

As at 31 March 2009

	Notes	£	£
FIXED ASSETS			
Tangible assets	6	<u>61,983</u>	<u>79,278</u>
CURRENT ASSETS			
Debtors and prepayments	7	81,385	75,641
Fixed term deposits		939,977	904,006
Cash at bank and in hand		<u>36,438</u>	<u>101,282</u>
		1,057,800	1,080,929
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	8	129,822	67,793
NET CURRENT ASSETS		<u>927,978</u>	<u>1,013,136</u>
NET ASSETS		<u>£ 989,961</u>	<u>£ 1,092,414</u>
FINANCED BY:			
GENERAL FUND		<u>£ 989,961</u>	<u>£ 1,092,414</u>

The financial statements on pages 15 to 20 were approved by the Commission on 3 June 2009 and signed on its behalf by:

Marcus Killick
Chief Executive Officer

Brian Hilton
Chairman

The notes on pages 17 to 20 form part of these financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

Accounting convention

The accounts 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 Financial Reporting Standard 1 (Revised) on the grounds of the Commission's size.

Income

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

Interest receivable is accounted for on an accruals basis.

Depreciation

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

Motor Vehicles	20%
Office Furniture and Fittings	20%
Office Equipment:	
General	20%
Computers	33 1/3%

Leasehold Improvements

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

Pension costs

The Financial Services Commission operated a money purchase pension scheme called the Financial Services Commission Retirement Benefit Scheme on behalf of its employees. In 2006 this scheme was replaced by 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.

Government contributions

Government contributions are recognised in the Income and Expenditure Account on a receipt basis.

Notes to the Financial Statements

General Fund

The General Fund represents the retained earnings of the Commission and includes the Special Reserve which is a memorandum account within the General Fund reflecting the accumulated unutilised portion of Government contributions. The Special Reserve is available to the Commission to fund deficits in operating income in future years and is not repayable to Government. As such it is deemed to form part of the General Fund.

2. TAXATION

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

3. FEES RECEIVABLE

	2009 £	2008 £
Financial Services Acts	1,023,977	1,088,693
Banking Act	174,000	184,000
Insurance Companies Act	859,000	787,000
Others	42,546	80,067
	<u>£ 2,099,523</u>	<u>£ 2,139,760</u>

4. STAFF EXPENSES

	£	£
Salaries	1,350,995	1,145,671
Social security costs	44,056	35,853
Pension costs	115,189	96,351
Other staff costs	138,583	132,099
	<u>£ 1,648,823</u>	<u>£ 1,409,974</u>

The Chief Executive Officer received total remuneration of £257,219 (2008: £263,044) comprising a basic salary of £184,770 (2008: £178,835), a bonus in respect of the previous year of £17,883 (2008: £16,000) and benefits of £54,566 (2008: £68,209).

The average number of employees for the year was 33 (2008: 27).

Regulatory	27	22
Administration	6	5
Total staff employed	<u>33</u>	<u>27</u>

Notes to the Financial Statements

5. COMMISSION MEMBERS' FEES

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

		2009	2008
		£	£
Oonagh McDonald	Retired 28 May 2007	-	2,875
Mark Boleat		15,000	12,375
Brian Hilton		25,000	14,875
Joseph Caruana		15,000	12,375
Franco Cassar		15,000	12,375
Alan Whiting		15,000	12,375
Robert Vasquez		15,000	12,375
Nigel Feetham	Appointed 28 May 2007	15,000	10,458
		<u>£ 115,000</u>	<u>90,083</u>

The fees paid to the Members of the Commission increased from £11,500 p.a. to £15,000 p.a. with effect from 1 January 2008. With the new governance arrangements the Commission now has a Chairman. The fee for the Chairman has been fixed at £25,000 p.a. The Chairman and Commission Members fees will increase annually in line with the average increase in Commission staff salaries.

6. TANGIBLE ASSETS

	Office Furniture & Fittings £	Office Equipment £	Motor Vehicles £	Total £
Cost				
As at 1 April 2008	82,766	146,035	25,339	254,140
Additions	1,000	20,707	-	21,707
Disposals	-	(9,606)	-	(9,606)
As at 31 March 2009	<u>83,766</u>	<u>157,136</u>	<u>25,339</u>	<u>266,241</u>
Depreciation				
As at 1 April 2008	46,731	105,509	22,622	174,862
Charge for the year	11,933	24,327	2,623	38,883
Disposals	-	(9,487)	-	(9,487)
As at 31 March 2009	<u>58,664</u>	<u>120,349</u>	<u>25,245</u>	<u>204,258</u>
Net book value				
As at 31 March 2009	<u>£ 25,102</u>	<u>£ 36,787</u>	<u>£ 94</u>	<u>£ 61,983</u>
As at 31 March 2008	<u>£ 36,035</u>	<u>£ 40,526</u>	<u>£ 2,717</u>	<u>£ 79,278</u>

Notes to the Financial Statements

7. DEBTORS

	2009 £	2008 £
Trade debtors	23,228	-
Other debtors and prepayments	58,157	75,641
	<u>£ 81,385</u>	<u>£ 75,641</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£	£
Trade creditors	1,205	930
Accruals and deferred income	128,617	66,863
	<u>£ 129,822</u>	<u>£ 67,793</u>

9. GENERAL FUND

	Other Retained Earnings	Special Reserve	Total
As at 1 April 2008	424,048	668,366	1,092,414
Result for the year	(102,453)	-	(102,453)
Transfer from Special Reserve	102,453	(102,453)	-
As at 31 March 2009	<u>£ 424,048</u>	<u>565,913</u>	<u>989,961</u>

10. LEASE COMMITMENTS

	£	£
The Commission leases a property for its own occupation. Annual rentals payable under this lease are as follows: Operating leases which expire:		
After five years	<u>104,859</u>	<u>100,100</u>

11. RELATED PARTY TRANSACTIONS

Nigel Feetham is a Member of the Commission and also a partner of Hassans. During the year the Commission paid £1,100 to Hassans to provide certain legal services. These were contracted on an arm's length basis and are not considered to be significant in the context of the business of the parties.

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