



Financial Services
Commission
Gibraltar



Annual Report

2011

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

Chairman's Report for the year ended 31 March 2011

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

The Commission and its Statutory Duties

During the year, the Commission's primary focus has been upon its statutory duties. These duties 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 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 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.

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. On other occasions the Gibraltar regime can adopt a case-by-case approach more than the UK does but with no reduction in overall supervisory standards.

The on going changes to the structure of regulation in the UK means that the Commission faces a challenging task in achieving this until such time as the revised relevant UK supervisory practices become clearer.

The work of the Commission

The main work of the Commission is that of regulatory supervision. This includes the assessment of applications from firms wishing to conduct regulated activities, ongoing supervision of regulated firms (through its risk assessment process including the review of returns and 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.

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.

In addition to its supervisory duties the Commission performs a number of other tasks including advising Government on new financial services legislation. It also undertakes additional tasks requested by Government.

The Commission's supervisory framework is not designed to ensure that any given institution cannot fail. Rather it remains a balance between seeking to mitigate risk while fostering innovation and competition. The primary responsibility for the management of a financial institution rests with its board and executive management. The Commission's supervisory framework is designed to be proactive in seeking to ensure that the board and the executive of regulated firms discharge their responsibilities. As the Commission's funding remains finite the allocation of Commission resources has, therefore, to be on a risk-based and proportionate basis.

Conclusion

This is my last year as Chairman of the Commission. During my nine years both as a member and then Chairman I have had the support of knowledgeable and experienced practitioners both in the UK and in Gibraltar in the financial services industry as fellow Board members.

For some 8 years of that time, Marcus Killick has performed the demanding role of Chief Executive most admirably. I could not have wished for a better one. His report, which follows, is not only a full and transparent review of the Commission's activities in 2011 and our plans for the year ahead, but is also a perceptive and thoughtful analysis of the forthcoming changes to international regulation.

I know he and my fellow Board members remain very alive to the danger of overregulation. We will continue to seek a "Gibraltar" approach to regulation which avoids this as much as we can.

I commend his report to you and in doing so express my profound respect and thanks to the Executive and staff of the Commission

for all their hard work, to my fellow Board members for their continual dedication to good regulation in Gibraltar and to the industry itself for its constructive and sometimes challenging approach to our work. We have benefited from the commitment of Government and the Finance Centre to enhancing Gibraltar's standing as an international financial centre of repute. Above all, however, we serve the customers of our financial services industry in Gibraltar and it is to them that we all dedicate our work.

Brian Hilton CB
Chairman
25 July 2011

Chief Executive's Report for the year ended 31 March 2011

Introduction

The year in retrospect

In last year's report I wrote:

"Whilst stock markets have generally improved the very real danger of a second dip remains. Sovereign debt default, historically the domain of Latin America, now casts a shadow over parts of the European Union... There is little doubt that the climate for the short and indeed medium term is anything but benign. The past financial year has seen no immediate end to the international financial crisis. Whilst Gibraltar has remained comparatively untouched and indeed continues to grow and operate a budget surplus, around us the issue of sovereign debt and potential default has required further huge injections of finance into certain countries."

As I write this year's report on the work of the Commission, the cloud of potential sovereign debt default remains very real. Gibraltar continues to grow and Government continues to operate a budget surplus but we are a European focused international finance centre. Europe's problems are our problems. Some refer to our current situation as "post" crisis; it is not; we are "mid" crisis.

I have never been a believer that a regulator should use its annual report as simply a marketing tool for its jurisdiction. If we make comments that are not credible then we are not credible. The Chief Executive's report should set out the issues as he or she sees them. Transparency should never be "rose tinted".

Without doubt this has been an arduous year for the Commission. Whilst we have not suffered the collapse of any banks or investment firms we have dealt with the aftermath of the demise of the Marrache law firm particularly through the work done to protect the clients of its licensed subsidiaries.

Of greater, long term significance however has been the international response to the ongoing financial crisis and the changes to the way in which financial sector firms will be required to be regulated from now on throughout the EU and the rest of the world.

So what was this international regulatory response? This response has been twofold. Firstly to seek to rectify any deficiencies in regulatory structure the crisis has highlighted. This has involved more intrusive supervision, increased regulatory staffing, more tightly enforced rules and even, as in the case of the UK, an entirely new regulatory system.

The second response has been to create a regulatory environment designed to make a crisis of the kind we have seen less likely in the future. Within the EU this has included yet more Directives and the establishment of new European Supervisory Authorities.

Yet these changes, however laudable in their aims, present a number of risks about which we must be vigilant.

Firstly for the Commission a key challenge is the analysis and implementation of the plethora of Directives, Regulations and Consultations emanating from the EU. To provide a snapshot of the sheer amount currently facing ourselves and the industry, the following are a list of the draft and actual Directives etc with which the Commission has had to deal with during 2010/2011 or will have to in the months ahead:

- Undertakings in Collective Investments in Transferable Securities Directive (UCITS) IV;
- UCITS V;
- Solvency II;
- MiFID II;
- Capital Requirements Directive III;
- Capital Requirements Directive IV;
- Omnibus Directive I;
- Omnibus Directive II;
- Alternative Investment Fund Managers

- Directive;
- Payment Services Directive;
- Second E-Money Directive;
- Consumer Credit Directive;
- Securities Law Directive;
- Insurance Mediation Directive;
- Takeover Directive;
- Transparency Directive;
- Directive on close out netting;
- Directive to amend Directives on internal governance of credit institutions and investment firms;
- Framework for crisis management and resolution in the banking sector;
- Instrument creating a framework for standardising pre-contractual information for retail investors about packaged retail investment products (PRIPs);
- Directive on Insurance Guarantee Schemes;
- Directive establishing framework for the approximation of sanctioning regimes in the financial sector;
- Review of the Directive on transparency obligations of listed companies;
- European Markets Infrastructure Regulation (EMIR);
- Amendments to the Investment Compensation Scheme Directive.

This work will not abate, a consultative paper on mortgage lending was issued earlier this year and, more recently, an EU staff working paper entitled "A new European regime for Venture Capital" was published.

The new European Supervisory Authorities whose formal life began in January 2011 represent a significant leap from their predecessor organisations. The European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) will all have greater power to intervene in and direct the work of national regulators. According to the Chairman of ESMA, the creation of these represents a "fundamental" not gradual change on what existed previously.

These new bodies represent yet another challenge for the Commission. We are currently working with the Government of Gibraltar, FSA and the new Authorities

themselves to ensure the Commission is adequately represented. However, whilst we are an EU Competent Authority and the new Authorities will have powers over us, our position in respect of these bodies is not entirely clear. Therefore we have to fight to be heard by, and represented within, these authorities. This we have done since the proposals were announced and we will continue to do so.

These developments have been supplemented by those being undertaken by the international standard setting bodies such as the Basle Committee on Banking Supervision (Basle Committee), the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Financial Action Task Force (FATF). To these we can add the work of the OECD, the Financial Stability Board (FSB), the IMF and others.

To help deal with this the Commission has appointed a Policy and Research Manager part of whose role is to ensure that we keep pace with these developments and 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. Even so, the sheer volume and pace of these present a challenge to every affected regulator (for example we understand the FSA has approximately 50 people working on the Capital Requirements Directives alone). In our case the task is Herculean.

I remain concerned that, despite protestations to the contrary, there is a danger of significant overregulation with possibly dangerous consequences. These include:

- The potential for adverse side effects. Like medicines, some international initiatives, whilst beneficial by themselves, may be harmful if combined with others. Given the sheer volume of them it is virtually impossible to predict how, and if, they will work together.
- By seeking to manage one risk we may be increasing our exposure to others. For example higher capital requirements may discourage market

entrants or enforce mergers. This, in turn, may reduce competition and simply leave the market to a small number of larger players. As a result we create a “too big to fail” risk and the potential of higher costs to the consumer because they have less choice.

- The increasing lack of international unity in approach may encourage some firms to relocate outside the EU to jurisdictions perceived as applying the new rules more slowly or less rigorously.
- The sheer volume of the changes that need to be considered will divert resources from regulators and compliance divisions within firms from their core tasks.
- The decision by the European Commission to implement a number of measures in the form of regulation (which therefore apply automatically and unmodified), rather than via a directive with national discretions, means there is no opportunity for countries to modify them to their own needs.
- There is a fear that greater control will be exercised by the new European Supervisory Authorities who will attempt a homogeneous solution to a heterogeneous situation. Harmonisation is a valid goal but trying to impose identical requirements in jurisdictions with very different finance sectors could result in the same types of issues as are now faced in respect of the Euro.
- The risk of a politicisation of the agenda. The crisis had many causal factors. Some were regulatory failings, some industry, some governmental. If vital regulatory reforms are hijacked to achieve short term political goals then those reforms are doomed. The over focus on bonuses is one manifestation of this: the changes to the EU compensation schemes are another with the loss of moral hazard previously enshrined in them. The need for regulators to be accountable but independent is a fundamental international standard for a reason; it cannot be allowed to be threatened.
- All this is being done not after the crisis but whilst the crisis continues. In

some areas it is akin to putting smoke detectors in a building which is still ablaze.

- Finally, it is being rushed. There seems to be few people who are asking “are we building an effective supervisory structure for the future or simply a regulatory Maginot Line?”

A further challenge exists in the desire by some to find scapegoats for the current problems. It is easy to deflect criticism on your own actions by throwing stones at others. We are already beginning to see this with attacks from some quarters on “offshore centres”. This term, never adequately defined yet still used as a kind of stigma, is now being abused by some as if such places are the root cause of the problems. Gibraltar is not offshore; by any definition it is an onshore European financial centre. We are subject to the same EU obligations in respect of financial service regulation as London, Paris, Madrid and Rome. In many areas, such as the regulation of those providing fiduciary services, we go further than any of those centres.

These are challenges we accept and will overcome. Reviews by the IMF and others have demonstrated this.

I have split my review of the year and the objectives for the year ahead into a number of sections. These are:

- The work of the Supervisory Divisions in 2010/11;
- Changes to our internal operations;
- Other areas including enforcement, international engagement and our work with the industry;
- Our work following the appointment of an Authorised Administrator of the “Gibland” companies;
- Objectives for the year ahead.

This year, more than ever, I must pay tribute to the staff of the Commission. Their professionalism, commitment and willingness to develop not only themselves but the organisation as a whole is a credit to them and a vindication of the approach we have taken over the years to build a solid team.

We will continue in the same way going forward. Where we get it wrong we will learn, we will work with the industry, we will

be robust but responsive in our regulatory style and, above all else, we will continue to do all we can to protect the public from financial loss and enhance Gibraltar's reputation as a quality finance centre.

On a final note, 2011 represents our twentieth year in operation; I have had the privilege of leading the organisation for eight of those, either as Commissioner or as CEO. During the last four I have had the honour of having Brian Hilton as my Chairman. Brian retires in September of this year. Not only I but my team appreciated his judgement, calmness, experience, solidity and forthrightness. We will miss his wise counsel.

Supervisory Divisional Work

The Commission has five Supervisory Divisions. These are Auditor Supervision, Banking and Investment Services, Fiduciary Services, Funds and Pensions and Insurance.

Auditor Supervision is a new Division created as a result of the Commission being given the role of Competent Authority under the Financial Services (Auditors) Act 2009. The Funds and Pensions Division was also created in 2010 as a division in its own right, having previously been part of Banking and Investment Services.

Auditor Supervision

Much of the work this year has been focused on a review of auditors engaged in the preparation of Solicitor's Accounts Rules (SAR) returns. This review is now virtually completed and feedback has been provided to the firms concerned and also to the Chief Justice to whom the returns are made.

In respect of the more general Quality Assurance Programme required under the Act, the Commission had been awaiting the Chief Minister's approval for the secondment of individuals from the ICAEW to support us in the short term. This is in order to meet our obligation to ensure that statutory auditors and audit firms are subject to a system of quality assurance controls. This secondment is to allow effective knowledge transfer to the Commission team responsible for this area.

This approval has now been granted and the

Commission will shortly commence its Quality Assurance Programme.

The Division has continued to work closely with the Gibraltar Society of Accountants (GSA) and has consulted them on developing policies and processes. The Division also formed an Advisory Panel made up from representatives from the full range of auditors in Gibraltar and has conducted a number of panel meetings. The purpose of the Advisory Panel has been clearly defined to participants in its terms of reference. The Panel will continue to meet at least on a quarterly basis and will consider the following:

- Discuss how to develop and enhance the supervision of the Auditing profession in Gibraltar.
- Promote best practice, ethics and standards in auditing in Gibraltar.
- Provide a forum for discussion of legislative or international standards developments which may affect Statutory Auditors or Audit Firms.
- Encourage and facilitate a forum for discussion of any matters that may affect a Statutory Auditor or Audit firm's ability to comply with legislation or international standards.
- Maintain and develop a productive relationship between the FSC as the regulator for the profession and the Audit industry in Gibraltar.

Under Part VIII Section 33 (6) of the Act the FSC is required to produce a publication stating annual work programmes and activity reports. This is included in this Annual Report.

Banking and Investment Services (BIS)

BIS is responsible for regulating banks, e-money firms, investment firms as well as payment service providers and bureaux de change. The Division is currently responsible for supervising approximately 58 entities which are subject to risk assessments.

In recent months there has been renewed interest in the investment sector and the Division has experienced an increase in new applications in this area. The team also continues to develop its regulatory processes in relation to the newer areas of supervision such as payment services.

The team has also been focusing on the application of the 2nd E-Money Directive which is intended to simplify the requirements that apply to e-money firms as well as the last tranche of requirements emanating from Basel II.

The team has reviewed 29 ICAAPs (Internal Capital Adequacy Assessment Process) since April 2010.

An analysis has also been made of the changes to Basel II which was due to be implemented in October 2010. The Commission has updated its guidance notes in accordance with the Directive amendment and has submitted these to Government for approval. Changes to the returns have also been effected. The amending legislation has now been published and the FSC has issued a newsletter advising the industry of the main amendments and the impact of these.

The FSC has been liaising with Government on the changes and feedback was provided prior to publication of the amended regulations.

Over the next financial period, the team will be concentrating on developments regarding Basel III and the further changes to the Capital Requirements Directive that this will represent. The team will also be gearing up for the implementation of MiFID II which is expected to be published as a Directive later this year.

Fiduciary Services

The Division is responsible for the supervision of approximately 71 groups all of which are subject to risk assessments.

Despite the resource constraints on the Division because of the work being done to assist the Authorised Administrator of the Gibraltair Group (details of which are given later in this report) the Division exceeded its risk assessment business plan for 2010 – 2011, including conducting 19 risk assessment visits on fiduciary firms.

The Division has also held numerous subsequent meetings with licensees that have undergone a risk assessment or a focused visit in order to ensure that progress has been achieved against the mitigation

required in relation to areas/issues highlighted as part of the process.

In addition to the work carried out on risk assessment visits, the Division has recruited three regulatory officers in order to allow it to also focus more resources on the risk assessments and the scrutiny of returns submitted by licensees, particularly audited financial statements and the Statement of Compliance. Significant emphasis has been placed on ensuring licensees are meeting their solvency requirements, the monitoring of actual performance and comparisons with previous years in order to both identify any breaches and also any trends in the industry.

The team has also been heavily involved in corresponding with firms in order to address identified breaches or potential breaches of financial services legislation. The compliance with client money rules has formed part of our main focus in this area.

Funds and Pensions

The creation of this new division demonstrates the Commission's commitment to this developing sector as it now has a team focusing on these activities, with the intention of having increasing specialisation and technical knowledge in this area.

During the year, The Funds and Pensions Division was responsible for supervising approximately 17 entities which are subject to risk assessments and a further 9 firms which were subject to joint Risk Assessments with BIS. The Division also has responsibility for Experienced Investor Funds (EIFs).

The Division devotes a large portion of its time to EIFs. There is a regular stream of interest and technical enquiries which the Division deals. The Division also processes the fund notifications and works with advisors and directors of funds to ensure that the Funds documentation follows best practice and for example explains the investment and the associated risks. The Division also regulates fund administrators, depositaries and EIF directors, which are instrumental in ensuring that the funds industry grows.

The Division has also been devoting considerable effort the implementation of the UCITS IV Directive, ensuring that we have

the regulatory processes in place. The Division is following the developments in relation to the Alternative Investment Fund Managers Directive and expects that it will be one of our main themes of work during 2011/2012.

Insurance

Insurance remains one of Gibraltar's financial sector success stories. We currently have 63 licensed insurance companies writing gross premiums of almost £2bn. During the year the insurance team worked on applications for three new general insurers and three new insurance intermediaries. The team also commenced 26 risk assessments of which 20 were completed by the end of March 2011.

By far the biggest challenge facing us is Solvency II. We are not alone in this; every EU insurance regulator faces a similar challenge, as does the industry itself.

To provide an idea of the task faced by the Insurance Division, we have a team of 9 dealing with 63 insurers, 29 insurance intermediaries and 7 Insurance Managers as well as Solvency II. In comparison, the Central Bank of Ireland will, by the end of 2011 have 113 staff dedicated to insurance supervision (up from 42 at the end of 2009), including 8 qualified and 7 trainee actuaries. Whilst the Irish insurance industry is significantly larger (as at the end of 2009 they had 188 licensed insurers), issues such as Solvency II are identical. They have a dedicated prudential policy team to lead on the implementation work of Solvency II. The Insurance Division has to fit this work in around its ongoing supervisory responsibilities.

The Gibraltar insurance industry has devoted considerable time and resource preparing for the implementation of the new Solvency II regime on 1 January 2013. In the autumn of 2010 all of Gibraltar's open market insurers and the majority of its captive insurers, in total 94% of all firms, submitted QIS5 solvency calculations to the FSC. In January 2011 the FSC submitted its Country report to EIOPA, details of which may be found in the Solvency II section of the FSC website.

The FSC is in regular dialogue with all Gibraltar insurers, or their insurance managers, regarding their preparations to meet the Solvency II Directive requirement, meeting each firm at least once every six

months. It has also provided presentations to update the industry on developments and will do so regularly until the implementation of the new regime. In early 2011 the FSC opened the Pre-Application stage of its Gibraltar Internal Model Application Process. A number of Gibraltar insurers have indicated their intention to submit internal model applications and have been accepted into the pre-application process.

In preparing ourselves to regulate under the new Solvency II regime members of the FSC's Insurance Division have been participating in a number of training seminars organised by the European Insurance and Occupational Pensions Authority (EIOPA).

The Commission has continued to strengthen the insurance supervisory team. During the period under review the FSC recruited its first actuary and has also recruited two new staff with legal qualifications.

Internal Operations

Staffing

The FSC has seen the total number of employees rise to 43 employees in 2011 from 37 in 2010. This increase has been essential to continue to provide effective supervision of the increasing size, variety and complexity of the finance sector, as well as the increased remit of the Commission itself and the exponential growth of EU led legislation and regulatory obligations referred to elsewhere in this report.

Despite this increase we remain a comparatively small regulator. For example Jersey FSC had an average number of 114 staff employed during 2010 and Guernsey FSC 100. As mentioned previously the Central Bank of Ireland anticipates by the end of 2011 have 111 staff engaged in insurance supervision alone.

Commission staffing will increase again during 2011/12 to ensure the Commission is able to continue to meet its statutory duties.

The new staff members are:

- Michael Adamberry (Fiduciary Services)
- Yusuf Botawala (Banking & Investment Services)
- Lizanne Noguera (Banking & Investment Services)

- Richard Wood (Insurance Services)
- Belen Valarino (Fiduciary Services)
- Michelle Garcia (Insurance Services)
- Darren Viñales (Insurance Services)

The remaining Commission employees who had been seconded to the Authorised Administrator of Gibraltar Secretarial Services Limited and Cabor Trustees Limited returned to the FSC on a full time basis in November 2010.

As part of the FSC's commitment to working with the finance sector and developing its own skills and understanding, the FSC offered the opportunity for professionals from within the local industry to join the FSC on an inwards secondment for a period of six months. The initial placement will be in the Insurance Division at Regulatory Officer level. This opportunity will allow secondees to gain valuable insight into the workings of the FSC and impart their industry knowledge to the Division. Two individuals will therefore be joining the FSC later this year. Outwards secondments are envisaged both to the industry in Gibraltar and elsewhere as the FSC have become a proactive member of the Commonwealth Secretariat secondment programme.

As the FSC has grown there have been a number of changes to our internal structure during 2011. In May 2010 The Chief Executive Officer ("CEO") temporarily took over responsibilities as Head of Division for Fiduciary (the Commission are currently recruiting for this position). He also assumed temporary overall responsibility for Enforcement and for Auditor Supervision.

During the course of the year the Commission restructured itself internally. This resulted in the creation of a new position of Deputy Chief Executive Officer ("DCEO") to assist the CEO in the performance of his duties and responsibilities. This role is being undertaken by the Chief Operations Officer, David Parody whose previous role has now been abolished. The DCEO supports the CEO in his day-to-day role and provide advice on a number of operational and strategic issues. He is the second pair that makes up the "four eyes" of the organisation.

Whilst still retaining ultimate responsibility for many of the roles David undertook as

COO, the DCEO, rather than the CEO, is now the direct reporting line for a number of areas such as IT. In this way, IT became integrated into the Operations Division, while still continuing to operate as a separate division. The DCEO also became responsible for the Auditor Supervision Role pending the appointment of a person to undertake this role on a permanent basis.

Because of this change in structure resulting in additional responsibilities for the DCEO and the increase in the number of employees, the Commission also created an Internal Operations Manager function in April 2011 which is held by Hannah Strain.

Primarily, the Internal Operations Manager has the responsibility for the management of the HR functions within the FSC. The establishment of a more permanent HR Manager function was one of the outstanding recommendations from the Pratt Report. The Internal Operations Manager function includes assisting Heads of Division in the appraisal and training evaluations of their staff, as well as the setting of personal objectives in-line with the FSC Strategic and Operational Goals. The management of premises, Health & Safety and the efficient running of the FSC reception area also form part of this manager's responsibilities.

The Commission remains concerned to ensure our staff are fully trained in relevant areas and is committed to the development of its people. This is particularly important in small jurisdictions such as Gibraltar where the availability of staff which are already skilled and experienced in the wide ranging areas the Commission is tasked to supervise is limited. All regulators experience similar problems and the Commission's response to this has been seen by many outside the jurisdiction as a model answer. Inward and outward secondments will further enhance this.

FSC employees also remain dedicated to continuous professional development (the vast majority in their own time) which is evidenced by a further increase in the qualifications of our staff over the past year.

Qualifications of the Commission's 33 front line regulatory staff:

2nd Degree	5
Professional Qualification (e.g. Accountant/Lawyer/Actuary)	13
1st Degree (e.g. BA, BSc)	29
Industry Qualification (e.g. STEP, ICSA, CII)	10

During 2011 members of staff have been studying for a number of qualifications including: Compliance Diplomas and Advanced Certificates with the International Compliance Association ("ICA"), CISI accreditation, Advanced Diploma of the CII and ACCA qualifications.

Members of the Commission's Executive team undertook a specific Management Development Programme with Durham Business School in 2010. This resulted in their gaining a Level 5 Certificate in Management and Leadership. In addition, six of these individuals elected to undertake further work in their own time in order to receive a Level 5 Diploma in Management and Leadership.

Office Move

Over the last financial year the FSC also relocated its premises to Atlantic Suites. The FSC's old offices in Europort had served us well but with an increase in number of staff in recent times the split office space was not providing the productivity and efficiency gains that comes with a combined, open plan office that we have now.

The Atlantic Suites premises offer the FSC a very modern, bright, open and pleasant floor area which will permit the FSC to take on more staff in the future should our responsibilities grow as well as larger and much improved public meeting rooms.

The move was achieved to schedule and for a minimal budget under the direction of David Parody, the FSC's Chief Operations Officer, who was responsible for the design, planning and execution. In the end the switch-over occurred overnight with no interruption in service to our licensees or the public.

IT

In addition to its usual activities, IT organised the move of all the computer hardware, equipment and related services such as our Internet connection and the wired and wireless networks.

IT also successfully planned and co-ordinated the Gibland move into the Commission offices. This included the setting up of a separate network within our infrastructure. It also involved installing Gibland's telephone line telephone system, workstations and network printers within the FSC. Additionally, the two Gibland servers were consolidated and all the files, e-mail and applications were backed up.

The Auditors Register went live on the Internet in October 2010. This Register is a list of the auditor firms and statutory auditors that are currently registered with us that is available to the general public. Users can search the register for a name or part of a name to determine whether a firm or an individual is registered.

IT also further developed Origami, the Commission's bespoke document management system designed to move the organisation closer to being "paperless", improving efficiency and functionality.

Enforcement, international engagement and work with the industry

Enforcement

During the past year the FSC's Enforcement team has had a significant work load in respect of a variety of cases. These included:

- 2010 Ongoing work in relation to the Gibland group.
- December 2010: Lawyers acting for the Financial Services Commission obtained a winding-up order in the Supreme Court against 2i Limited, which had been operating a website as 'Reincarnation Bank' through which it sought to attract deposits from the public, whilst not being authorised to conduct business as a credit institution.
- January 2011: The Securities and Exchange Commission of the United States publicly thanked the Gibraltar Financial Services Commission for the assistance we provided in helping it bring charges against a number of persons allegedly involved in "a massive life settlement bonding fraud". According to the SEC, the fraud involved an offshore company

located in Costa Rica that provide financial guarantee bonds on life settlements and claims to protect investors' interests in life insurance policies by promising to pay the death benefit if the insured lives beyond his or her estimated life expectancy.

- Also in January, the FSC obtained a £6.3M judgement against former directors of Rock Financial Services Limited. In a first of its kind judgement, the Supreme Court of Gibraltar heard an application by the FSC for the assessment of damages against Michael Whitting, Anthony Whitting and Stephen Putnam, who were formally directors of Rock Financial Services Limited (RFSL). RFSL had been wound up by the Supreme Court on the application of the FSC in 2003.
- March 2011: The Supreme Court granted an injunction in favour of the Financial Services Commission against Mr Jens Erik Sorensen, Sorek Services Limited and a number of other related parties following the FSC's cancellation of the licences held by the Sorek Group.

As part of its mission to protect the public from suffering financial loss, the Commission issued 7 public warnings during the period covered by this report. The subject of these warnings included unlicensed entities holding themselves out as carrying on investment business, payment services activities, offering motor insurance and banking. Other warnings concerned advance fee fraud and bogus bank letters.

Enforcement is also responsible for handling requests from and to other regulators. This Commission received 25 requests for assistance during 2010. Only one of these has not been resolved at the time of writing. The Commission itself made 9 requests.

Inevitably this work has resulted in increased costs, particularly in respect of legal advice and representation as well as other assistance from other professional service firms. Such costs are unlikely to change materially in 2011/12.

International engagement

As a small international finance centre it is vital that we do our utmost to ensure our

voice is heard. The Commission therefore continues to play an active role internationally. We are members of the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Group of International Finance Centre Supervisors (GIFCS) and the Offshore Group of Insurance Supervisors (OGIS). We were therefore delighted when Michael Oliver, our Head of Insurance, was elected the Offshore Region representative on the Executive Committee of IAIS, where he focuses on matters relating to standard implementation such as education, supervisory cooperation and standards observance.

The Commission is currently working to become a signatory of the IAIS Multilateral Memorandum of Understanding (MMOU) and to move from a "B" to an "A" signatory of the IOSCO MMOU. MMOU's have become a core element of international cooperation between regulators and are vital to a jurisdiction's reputation. Where changes to legislation are needed to meet the requirements of the MMOUs we will request Government to introduce these.

Additionally IOSCO has revised its Principles for Securities Regulation and the Commission will therefore need to ensure that it remains compliant with these. At this stage we do not believe that this will result in significant changes to our regulatory regime.

David Parody also worked with IAIS in an evaluation of Belgium's application to join the IAIS MOU.

In addition to the above we have worked with the Commonwealth Secretariat in developing an outreach project to assist regulators in other jurisdictions. This included our Chief Operating Officer providing a training course on corporate governance for East African Central Banks in Kampala.

We also participate in three of the new supervisory colleges created in the wake of the financial crisis.

During the year ahead we will also be seeking membership of the International Forum of Independent Audit Regulators.

Gibland Group

Given the forthcoming criminal proceedings it is not possible to go into details regarding the build up to the intervention in February 2010 nor subsequent investigative and enforcement actions taken by the Commission. Nevertheless it is important to set out the work done during the period of the Authorised Administration. Some of this has been covered in previous correspondence with the industry but I felt it would be useful to provide a comprehensive overview.

The Authorised Administrator was appointed on 8th February 2010 pursuant to the Financial Services (Temporary Administration of Companies) Act 2010. (Originally the appointment was by regulation).

The appointment covered the following companies:

- Gibland Secretarial Services Limited;
- Gibland Nominees Limited;
- Equity Nominees Limited;
- Equitar Management Limited;
- Gibter Management Limited;
- Meridian Trustees Limited;
- Cabor Trustees Limited.

These are referred to subsequently as "Gibland".

Section 6 of the Act set out the duties of the Administrator. These are to:

- "(a) to enquire into and safeguard the Relevant Affairs of the Company and of its Clients;
- (b) to obtain custody of and safeguard the records and assets of the Company and of its Clients;
- (c) to communicate with Clients of the Company for the purposes of—
- (i) informing them of the circumstances and facts affecting the Company, its Clients, that Client and Client Services;
 - (ii) obtaining and receiving instructions from Clients relating to their affairs;
- (d) to assist the Commission, any law enforcement authority or any other person exercising statutory authority in the execution of their duties and functions, including any enquiry or investigation."

As can be seen the role was very different from that of the Administrator in an insolvency whose focus is on creditors rather than clients.

With effect from the commencement of the Administration, the Administrator's Team made every effort possible to contact clients of Gibland in the hope of obtaining their instructions for the transfer of their companies to alternative service providers. Immediately upon his appointment, he placed the appropriate notice on the website of Gibland and indeed on the FSC website, and the telephones were manned informing clients of what had transpired. They were referred to the list of Licensed Service Providers from the FSC website. From that time forward, a series of circulars were sent out to clients of Gibland requesting their instructions.

Furthermore, towards the end of the process, members of the Gibland staff telephoned clients on a continual basis advising them of the situation and requesting their instructions. All of these different methods assisted in part in obtaining instructions from former clients to transfer their companies and trusts out. The level of response fell significantly after the first six months to a negligible level.

The transfer process worked in the following manner; on receipt of client instructions, the team verified the client and instructions against the company file. The transfer pack was then prepared and was then subject to a first review by a member of the legal team. It was subsequently subject to a second review by a member of the Administrators team. In non problematical cases the file was then presented to the Authorised Administrator for sign off and transfer out. The process was subsequently amended on non problematical transfers by the removal of the first legal review, as the Administration team by this time were familiar with the requirements of the Administrator and able to carry out the first review themselves, with consequent cost saving.

To reduce costs work was moved from the offices of Cabor to that of Gibland and, in November the Administrator's team moved out of the Gibland premises and transferred

the final matters to be administered to the Commission offices.

During the course of the Administration, former members of staff of Gibland were voluntarily seconded to the Administrator's team on a monthly basis and continued to assist the Administrator and his team in what can best be described as difficult circumstances for these staff members. However, to their immense credit and testimony to their professionalism, they integrated well with the Administrator's team and I am pleased to confirm that each of these former Gibland members of staff, either secured alternative employment or have pursued other paths (such as completing a masters degree).

Assistance was also provided by Commission staff, who were instrumental in co-ordinating, managing and to a great extent operating the work carried out during the Administration. Indeed, in the final phase, the Administrator's Team has consisted primarily of Commission staff and in particular under the control of Hannah Strain who has since been promoted to Manager Internal Operations at the Commission.

The use of Commission staff placed a significant strain upon the Commission (at its peak nine members of staff were engaged on this work). However it resulted in a significant cost saving and because of the professionalism of the Commission team as a whole, disruption was kept to a minimum.

In total approximately 1560 companies and 112 trusts needed to be dealt with.

I am pleased to report that the Authorised Administration of all Gibland group companies has come to an end and they have been wound up by the courts at the Commission's request. The liquidators are now working to ascertain what monies the Commission may be able to recoup as the principal creditor.

The cost of this operation was significant. Provision had been made in Section 11 of the Act for the costs to be recovered. This was as follows:

"(1) All the fees and costs of the Authorised Administrator in the carrying out of his

powers and functions under this Act shall be defrayed out of the monies and assets of the Company.

- (2) If the Company shall not have sufficient monies for the purposes described at sub-section (1) above, the said fees and costs shall be borne by the Authority.
- (3) The Authority may, with the consent of the Minister, levy a special fee upon all the holders of licences under the Principal Act, on such terms as to Financial Services (Temporary Administration of Companies) division between them as it shall consider equitable, to recover any costs incurred by it under this Act."

Whilst the Commission initially sought to absorb the costs itself, it became clear that a special levy was required. The Commission therefore sought consent from the Minister for such a levy and, in November, consent to the fee and the division was received.

Given the timings and the fact that the fee was to be recovered in four tranches each three months apart, the Commission wrote to the affected firms. Quite reasonably, the firms directly and via their associations expressed a concern at the proposed level (£800,000) and the lack of prior notification/explanation. Regrettably the need to obtain two tranches prior to the Commission's financial year end meant that the first tranche had to be required at the beginning of December. Nevertheless I fully accept that a better explanation could and should have been given as to the background for the levy.

As a result of representations received and with the support of Government, the Commission entered into a dialogue with the industry. As a result an alternative levy structure was agreed which had the backing of Finance Centre Council and broad support from the industry.

This involved the creation of a Contingency Fund not only to cover the Gibland costs but to provide funding for any other extraordinary cases going forward. This fund will come from a levy of all licensees rather than simply those licensed under the Principal Act (the Financial Services (Fiduciary and Investment Business) Act 1989). The rationale for this is that the Fund would be

available to meet the costs of extraordinary regulatory action in any part of the finance sector.

This will shortly be enshrined in legislation in order to provide the mechanism for the administration and accountability of the Fund's operations. This will also provide for ministerial control on amounts that can be raised by the Commission in the future to fund these eventualities as well as when these amounts can be used. It is also proposed that the Finance Centre Council would also be pre-notified of any request to trigger the use of the fund.

As an interim measure it was agreed to increase the fees payable in 2011/2012 by 10%. Since April 2011, £149,855 has been billed and recovered from licensees as part of their annual fees.

It was also agreed that the costs to the industry of the Authorised Administration will be spread over three years with Government providing a loan to the Commission to cover any cash flow shortfall due to this extended payment period.

A revised Special Levy has also been introduced but is restricted to those licensees to whom companies and trusts had been transferred to from the Gibraltair Group.

As of June 2011 the total costs of the Authorised Administration were £1,129,292 with the amount recovered under Section 11 (1) to date being £142,835. This leaves net costs to date of £986,457. Of this amount £186,457 has been borne by the FSC with £800,000 to be recovered from licensees via the Contingency Fund and revised Special Levy. The Commission will continue to work to recover its costs through the liquidator.

Key themes for 2011/12

Introduction

Clearly our work on existing and forthcoming EU directives will involve a considerable amount of Commission time. Similarly as part of developing our business plan for 2011/12 the Commission identified a number of risk areas on which we will focus.

Each year the Commission goes through a formal process of identifying the risks to which it is exposed and proposed mitigation. Prepared initially by the Executive, it is then presented to the Board for consideration. Following Board endorsement the individuals then build the mitigation into their draft Divisional business plans. These too are then submitted to the Board who make such changes as they consider appropriate. The Divisions then incorporate those changes before a finalised plan is submitted for final Board approval. Once this has been done the Divisions prepare their programme for the following business year.

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

As part of these numerous risk mitigation activities there are a number of themes which I would like to highlight as areas that we consider would be of material benefit, not only to the effectiveness of regulatory supervision but also to consumers, the industry and the growth of the finance sector of Gibraltar as a whole.

These are:

- Extending the Commission's enforcement and regulatory cooperation powers
- Updating of regulations
- Working for adequate representation in the new European Supervisory Authorities
- Extending "Passporting" opportunities into the UK
- The creation of a formal independent process for reviewing Commission decisions

Implementation of the revised risk assessment programme

During 2010/2011 we revisited the way in which we assessed the risks to which our licensed entities were exposed. The review also considered the experience of the Commission with the previous Risk Assessment processes it had operated over the last few years. Failure to understand adequately the business and risks faced/posed by individual firms, and failure to identify areas properly of issue/concern, can lead to inadequate use of finite resources and a higher risk of the Commission not identifying potential failures in licensees.

The review process was led by the Heads of Division and Managers and also included input from the regulatory divisions. The revised methodology has been endorsed by all senior management within the Commission and by its Board.

The methodology introduces a new approach of classifying firms into 3 types. We will be determining the risk assessment approach for a firm under either: 'prudential', 'conduct of business' or 'combined'. This will be determined according to the main type of activity a firm conducts in order to arrive at the weighting of each Risk Group. For example, the risk assessment for a bank taking only deposits would be considered 'prudential', whilst for a fiduciary firm this would be considered 'conduct of business'. In certain circumstances, a firm may be conducting multiple activities, and as such, will be considered a 'combined' type.

A 'prudential' risk assessment will focus on the financial standing of the firm, and whether its business is conducted in a sound and prudent manner by fit and proper

persons. The actual on-site will focus on a firm's corporate governance and, for example, how the board and senior management run the business, how decisions are arrived at and considered, how these are documented (by way of board minutes, management meeting minutes etc), and whether management information systems and controls are in place and how these function in practice. It will also focus on the firm's enterprise risk management approach.

A 'conduct of business' assessment will focus on a firm's interaction with its customers, including how it meets its KYC obligations, the advice it provides, and how it handles client monies and assets. The actual on-site will focus on the client take-on process, how advice is provided to customers and whether appropriate disclosures are made, and how this is documented within client files and records of correspondence/meetings with the client. In addition, the handling of client monies and assets will receive special attention with the focus on whether a firm is in compliance with the relevant requirements.

A 'combined' assessment will cover areas in relation to both Prudential and Conduct of Business matters, as referred to above. A 'combined' on-site will include elements covering corporate governance issues, financial requirements and client interfacing issues, as described above.

The Commission has also put together staff guidance for each of the risk elements and the underlying constituents in order to improve the risk profiling of firms and arrive at appropriate risk scores.

This approach will help identify and focus on the major risk areas of any particular firm thus resulting in a more enhanced and accurate risk profile of a firm. This will assist regulatory divisions in better determining the focus of on-sites, the make-up of onsite teams and overall in more effective and efficient use of resources.

During the year ahead the Commission will roll out the revised methodology following the delivery of training to all regulatory staff as well as an industry outreach programme.

Improved Corporate Governance and Enterprise Risk Management in the industry

Whilst significant emphasis has been placed on issues of capital and solvency these are insufficiently effective without a business having an effective corporate governance regime and, in particular, the board having full and up to date understanding of the risks involved in the firm's activities.

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

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

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

In the case of non executives they need to make sufficient time available to discharge their responsibilities effectively.

Enhancing professionalism in the industry

The issue of the adequacy of advice and information provided to clients when they

invest in or purchase financial products has again come to the fore. This international issue cannot be ignored in Gibraltar. Whether it is the concern expressed by the Central Bank of Ireland about some Contract for Differences (CFD) providers “failing to fully inform and provide adequate risk warnings to consumers about the risks that CFD and financial spread betting carries before they begin trading” or the recent UK FSA review of wealth managers which found that 14 out of 16 firms assessed were judged to pose a high or medium-high risk of detriment to their customers, based on the number of client files which had a high risk of unsuitability or where the suitability could not be determined.

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

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

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

In addition to the Skills Council consideration should be given in financial terms between those firms that invest in such training and those that do not. Firms, who do invest, present fewer risks of regulatory breaches,

have fewer complaints and are less resource intensive for the Commission. Why should such firms effectively subsidise those who fail to make such an investment? Therefore during the next 18 months the Commission will investigate whether it is possible to provide a real benefit for such firms in terms of their regulatory fees. Such an approach is wholly consistent with the concept “the polluter pays”.

In the end however, the best way appropriate qualifications become standard will not because we make them mandatory but because the professionals in the sector see the benefits for themselves and their firms. The Associations have done much to develop this belief and an effective Skills Council will take this still further.

A formal mechanism for dealing with consumer complaints

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

Such a facility is important in a mature finance centre. It can either be outside the regulator (such as the Financial Ombudsman Service in the UK) or within it (such as the Consumer Complaints Unit in the Maltese Financial Services Authority). It would need statutory powers to enforce its judgements up to a specified level as well as to conduct enquiries. It is also possible that, as in Malta, it will have a role in consumer education. Either approach will provide a benefit to consumers (the UK FOS dealt with 206,121 cases in the year to April 2011).

During the year ahead we will therefore make recommendations to Government on this issue for its consideration.

Approved Persons Regime

We will continue to seek Government approval for our proposals to introduce an Approved Persons Regime. Government consulted on this concept some years ago

and feedback was provided to Government. We consider that the ability to approve persons for defined functions within the regulated sector is an important tool towards protecting the customer, increasing the technical competence of practitioners, facilitating good corporate governance and would also provide redress to those individuals directly affected by the Commission's decisions (for example in respect of our conclusion on their fitness and propriety) which is currently not provided for in the legislation.

Improving the Commission's service standards

We are acutely aware of the role we play in the competitiveness of Gibraltar in attracting new business. Therefore, despite the other work loads we have sought to maintain our service standards (our adherence to which is published on our website quarterly). These service standards include dealing with applications. During the year ahead we will revisit these to ensure that they remain fit for purpose and whether, without any loss of rigour we can improve them.

Extending the Commission's enforcement and regulatory cooperation powers

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

The FSC's time and resources tend to be dedicated to firms who, through their risk

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

In respect of regulatory cooperation, the importance of this can be seen from the fact that it was one of the G20 five main principles to guide reforms as part of their "Declaration of the Summit on Financial Markets and the World Economy" released after their Washington meeting in November 2008.

The Commission has an excellent international record in this regard. However expectations and obligations concerning regulatory cooperation continue to increase (eg the IOSCO MMOU referred to earlier). We will therefore build on a review of our powers conducted in 2006 and make representations to Government concerning any regulatory changes which may be necessary.

Working for adequate representation in the new European Supervisory Authorities

Earlier in the report I referred to the need for the Commission to continue to seek actively appropriate representation within the new European Supervisory Authorities. This is important not only in ensuring our voice is heard but also that we are able to influence the agenda on areas that affect us.

Updating of regulations

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

Similarly some transpositions of Directives need amendment and we will continue to highlight these to Government as and when we identify these.

In doing so we will seek to fully engage our licensees and their representative associations to ensure such changes are “fit for purpose”.

“Passporting” into the UK

Whilst Gibraltar freely passports financial services into the rest of the EU via various directives, passporting into the UK is governed by the Gibraltar Order, a Statutory instrument under the UK Financial Services and Markets Act. Currently this does not cover UCITS and Part VII transfers of insurance undertakings. We have pushed strongly for a change in this anomaly and are hopeful that our efforts will finally be rewarded in the period ahead.

The creation of a formal process for reviewing Commission decisions

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

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

This process could be combined with one covering complaints against the Commission itself. For example in the UK Rules made under the Financial Services & Markets Act 2000 require the creation of a Complaints Commissioner who is independent of the FSA and able to conduct impartial investigations. In the year to 31 March 2011, the Complaints Commissioner received 152 allegations and complaints).

Therefore during the course of the year ahead we consider requesting the Government to introduce legislation to create a review body whose remit will include all licensing and disciplinary decisions.

Marcus Killick
Chief Executive Officer

Corporate Governance Report for the year ended 31 March 2011

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 UK Corporate Governance Code ("Code") issued by the United Kingdom's Financial Reporting Council as a suitable model of best practice that it should follow.

Whilst the 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. 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 financial services businesses in another jurisdiction.

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

Commission members are appointed for three years and upon such terms as may be specified in the instrument appointing them.

This is renewable. However, with the exception of the Chief Executive, Members may not be reappointed if they have served a term of nine years or more. When there is a vacancy to be filled the Commission must, within four weeks of the creation of the vacancy, nominate no fewer than three persons to the Minister. Should the Minister decline to 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.

All newly appointed members to the Commission must undertake a formal and tailored induction carried out by the Chief Executive, Secretary to the Board and Heads of each Division at the FSC. To maintain the skills and knowledge of Members the Board are presented with a quarterly update which acts as a resource to develop their understanding of current and emerging topics.

The Commission currently has eight members. The Chairman is Brian Hilton (Appointment Term: 1 October 2002 – 30 September 2011) and the Senior Independent Member is Alan Whiting (Appointment Term: 26 January 2008 – 26 January 2011).

The other Commission Members are:

- Marcus Killick (Chief Executive)
- Franco Cassar (Appointment Term: 1 October 2003 – 30 September 2012)
- Joseph Caruana (Appointment Term: 30 July 2003 – 29 July 2012)
- Nigel Feetham (Appointment Term: 28 May 2007 – 27 May 2013)

- John Tattersall (Appointment Term: 1 October 2009 – 30 November 2012)
- Joseph E (Melo) Triay (Appointment Term: 4 March 2011 – 3 March 2014)
- Robert Vasquez (Appointment Term: 1 August 2006 – (Resigned) 18 January 2011)

The Commission has met 4 times in the last year. The Board is provided with the agenda and supporting documents in advance of the scheduled meeting by the Secretary to the Board.

Functions of the Commission

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

- to supervise Authorised persons in accordance with this Act and the Supervisory Acts;
- to consider and determine applications for authorisations, licences, recognitions and registrations made under the Supervisory Acts;
- to monitor compliance by Authorised persons with such legislation, rules, codes and guidance made under this Act or any Supervisory Acts;
- to monitor compliance by Authorised persons with legislation, rules, codes and guidance relating to the prevention of financial crime;
- to monitor financial services business carried on in or from Gibraltar and to take such appropriate action as it is empowered to do against persons carrying on such business without the necessary authorisation, licence or registration;
- to carry out the duties and discharge the functions imposed on, or given to, it under this or any other Act;
- to determine subject to the approval of the Minister the terms of service of the Chief Executive;
- to determine the number and skill mix of employees required by the Commission to carry out its functions and to determine their terms and conditions of employment;
- to monitor and oversee the performance by the Chief Executive of all functions delegated to him by the Commission;
- to approve the annual estimates of income and expenditure to be furnished to the Minister; and
- in respect of those areas of financial

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

The Commission has established committees to assist it in its role. Details of each member'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.

Annually the Board undertakes a formal and rigorous evaluation of its own performance and that of its committees. These are discussed with the Board. This was last conducted at the December 2010 meeting. 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 seeking to fulfil its statutory duties. From this it is able to develop its business plan for the following year and budget accordingly.

In addition to the above the Board also reviews, on a quarterly basis, any additions to the Commission Risk and Threat Assessment Register.

At the September Commission meeting the Executive presents its draft business plan for the forthcoming financial year. Based upon the Commission's risk assessment the business plan looks to how the Commission

will handle the risks its has identified.

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

The Board also utilises time around the Commission Meeting to meet with Industry participants thus enabling a dialogue with our external stakeholders.

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 and the Chief Minister 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 (Alan Whiting), the Chief Executive (Marcus Killick) and two other members of the Commission (Nigel Feetham and Franco Cassar). Another Commission member would replace the Chief Executive when that appointment is being considered.

The Committee met twice during the year.

Remuneration Committee

Two Commission members together with the Chairman act as the Remuneration Committee. One of these Members is the Senior Independent Member (Alan Whiting), 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 Committee comprises Joseph Caruana, as Chairman, the Senior Independent Member (Alan Whiting) and John Tattersall.

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.

At the most recent Audit Committee meeting the internal audit function was discussed and established at the FSC. The internal audit function 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. The Audit Committee will be responsible for reviewing the effectiveness of this function.

To safeguard the independence of this Committee there is no executive involvement except where requested.

The Committee met three times during the year.

On 7 March 2011, PricewaterhouseCoopers Limited were appointed as auditors of the Financial Services Commission by the Members of the Commission.

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 Franco Cassar, Joseph Caruana, Alan Whiting and Melo Triay. The Chief Executive and the Deputy Chief Executive also form part of the Committee.

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. This is completed annually.

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.



Independent Auditors' Report to The Financial Services Commission

Report on the financial statements

We have audited the accompanying financial statements of the Financial Services Commission for the year ended 31 March 2011 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' 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 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 2011 and its loss for the year then ended.

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Directors: Edgar C Lavarello Colin Vaughan Barry Pillans Kristian C Menez
Registered in Gibraltar: Number 94799



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.

The maintenance and integrity of the Financial Services Commission website 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.

Colin Vaughan
Statutory Auditor
For and on behalf of
PricewaterhouseCoopers Limited
1st August 2011

Income and Expenditure Account For the year ended 31 March 2011

	Notes	2011 £	2010 £
INCOME			
Fees receivable	3	2,606,511	2,228,453
Interest receivable		2,465	10,995
TOTAL INCOME		<u>2,608,976</u>	<u>2,239,448</u>
EXPENDITURE			
Staff expenses	4	1,911,496	1,700,968
Establishment costs		240,059	160,235
Other operating expenses		105,483	98,506
Commission members' fees	5	117,000	119,600
Legal and professional fees		328,790	315,814
Auditors remuneration		8,000	6,000
Depreciation	6	44,903	39,413
Other professional charges		17,416	21,752
Authorised Administrator	7	178,963	-
Loss on Disposal of Fixed Assets		1,488	-
TOTAL EXPENDITURE		<u>2,953,598</u>	<u>2,462,288</u>
OPERATING LOSS		<u>£ (344,622)</u>	<u>£ (222,840)</u>

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 30 to 35 form part of these financial statements.

Balance Sheet

As at 31 March 2011

	Notes	2011 £	2010 £
FIXED ASSETS			
Tangible assets	6	98,492	57,789
CURRENT ASSETS			
Debtors and prepayments	8	910,771	420,005
Fixed term deposits		-	422,130
Cash at bank and in hand		206,078	225,312
		1,116,849	1,067,447
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	9	792,842	358,115
NET CURRENT ASSETS			
		324,007	709,332
NET ASSETS			
	£	422,499	£ 767,121
FINANCED BY:			
GENERAL FUND	10 £	422,499	£ 767,121

The financial statements on pages 28 to 35 were approved by the Commission on 25 July 2011 and signed on its behalf by:

Marcus Killick
Chief Executive Officer

Brian Hilton
Chairman

The notes on pages 30 to 35 form part of these financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash Flow Statement

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

Income

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

Interest receivable is accounted for on an accruals basis.

Depreciation

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

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

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

	2011 £	2010 £
Financial Services Acts	1,210,972	1,070,183
Banking Act	267,500	190,000
Insurance Companies Act	958,250	834,000
Others	169,789	134,270
	£ 2,606,511	£ 2,228,453

4. STAFF EXPENSES

	£	£
Salaries	1,582,823	1,401,887
Social security costs	64,345	50,504
Pension costs	151,476	140,648
Other staff costs	112,852	107,929
	£ 1,911,496	£ 1,700,968

The Chief Executive Officer received total remuneration, including pension contribution, of £250,000 (2010: £250,000).

The average number of employees for the year was 40 (2010: 35).

Regulatory	33	28
Administration	7	7
Total staff employed	40	35

Notes to the Financial Statements

5. COMMISSION MEMBERS' FEES

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

		2011	2010
		£	£
Brian Hilton		26,000	26,000
Joseph Caruana		15,600	15,600
Franco Cassar		15,600	15,600
Alan Whiting		15,600	15,600
Robert Vasquez	Resigned 18 January 2011	11,700	15,600
Nigel Feetham		15,600	15,600
John Tattersall	Appointed 1 October 2009	15,600	7,800
Mark Boleat	Retired 30 September 2009	-	7,800
Joseph Triay	Appointed 4 March 2011	1,300	-
		£ 117,000	£ 119,600

The Chairman and Commission Members' fees 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 2010	84,141	163,659	921	248,721
Additions	35,656	51,438	-	87,094
Disposals	(25,942)	(27,680)	-	(53,622)
As at 31 March 2011	93,855	187,417	921	282,193
Depreciation				
As at 1 April 2010	69,572	120,440	920	190,932
Charge for the year	13,965	30,938	-	44,903
Disposals	(24,463)	(27,671)	-	(52,134)
As at 31 March 2011	59,074	123,707	920	183,701
Net book value				
As at 31 March 2011	£ 34,781	£ 63,710	£ 1	£ 98,492
As at 31 March 2010	£ 14,569	£ 43,219	£ 1	£ 57,789

Notes to the Financial Statements

7. AUTHORISED ADMINISTRATOR

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

Expenditure

Authorised Administrator - Cabor		76,795
Authorised Administrator – Gibland		295,391
Legal Expenses – Cabor		347,235
Legal Expenses – Gibland		189,738
Legal Expenses – Meridian		8,626
Specialist Counsel		15,738
Staffing Costs		156,947
Disbursements – Gibland		4,284
Premises Costs		2,208
Storage and Removal		4,825
Stationery and Office Supplies		6,592
Cleaning		3,616
Telephone		5,127
Electricity		8,378
Bank Charges		583
		£ 1,126,083

Amounts recovered

Gibland	124,764	
Cabor	22,356	
		147,120
		978,963
Amounts to be recovered from licensees		800,000
		£ 178,963

As well as what is stated in the Chief Executive's Report, under section 11 of the Financial Services (Temporary Administration of Companies) Act 2010, all the fees and costs of the Authorised Administrator in the carrying out of his powers and functions under this Act shall be defrayed out of the monies and assets of the Company.

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

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

Notes to the Financial Statements

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

8. DEBTORS

	2011 £	2010 £
Authorised Administrator fees and costs to be recovered	800,000	307,875
Trade debtors	4,200	11,825
Other debtors and prepayments	106,571	100,305
	£ <u>910,771</u>	£ <u>420,005</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£	£
Payments in Advance	237,742	-
Trade creditors	15,085	66,435
Other creditors, including taxation and social security	40,055	34,051
Accruals and deferred income	499,960	257,629
	£ <u>792,842</u>	£ <u>358,115</u>

10. GENERAL FUND

	Other Retained Earnings	Special Reserve	Total
As at 1 April 2010	424,048	343,073	767,121
Result for the year	(344,622)	-	(344,622)
Transfer from Special Reserve	343,073	(343,073)	-
As at 31 March 2011	£ <u>422,499</u>	-	£ <u>422,499</u>

Notes to the Financial Statements

11. LEASE COMMITMENTS

	2011	2010
	£	£
The Commission leases a property for its own occupation. Annual rentals payable under this lease are as follows:		
Operating leases which expire:		
Less than one year	-	26,445
After five years	185,022	135,713
	<u>185,022</u>	<u>135,713</u>

12. RELATED PARTY TRANSACTIONS

During the year ended 31 March 2011, Deloitte Limited, of which Joseph Caruana is a director, provided certain services totalling £37,020 (2010: £35,000) to the Commission. At 31 March 2011, £2,700 (2010: £35,000) was owed by the Commission to Deloitte Limited.

During the year ended 31 March 2011, Triay and Triay, of which Robert Vasquez and Joseph Triay are partners, provided certain legal services totalling £6,598 (2010: £10,250) to the Commission. No amounts were outstanding at 31 March 2011.

During the year ended 31 March 2011, Hassans, of which Nigel Feetham is a partner, provided certain legal services totalling £Nil (2010: £500) to the Commission. No amounts were outstanding at 31 March 2011.

During the year ended 31 March 2011, Grant Thornton (Gibraltar) Limited provided certain non-audit services totalling £Nil (2010: £25,138) to the Commission. In addition as Authorised Administrators they provided services totalling £372,186 (2010 : £92,266). At 31 March 2011, £174,923 (2010: £34,400) was owed to Grant Thornton (Gibraltar) Limited.

During the year ended 31 March 2011, PricewaterhouseCoopers Limited provided certain non-audit services totalling £26,992 (2010: £15,000) to the Commission. At 31 March 2011, £26,660 (2010: £15,000) was owed by the Commission to PricewaterhouseCoopers Limited.

13. POST BALANCE SHEET EVENT

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

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