Guernsey Financial Services Commission

Annual Report & Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

Appendices


Guernsey Financial
Services Commission

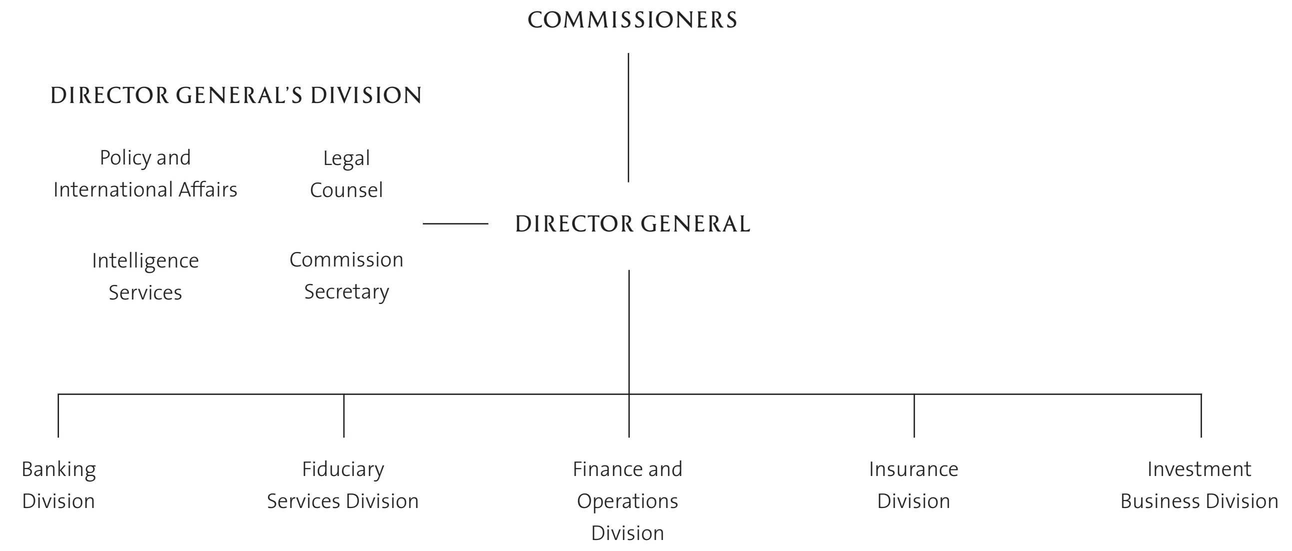
GUERNSEY FINANCIAL SERVICES COMMISSION

REPORT

This report, including the financial statements as required by section 18 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended (the Commission Law), is made in pursuance of section 6 of the Commission Law to the States Policy Council and submitted by the Chief Minister for consideration by the States of Guernsey.

Note: Throughout this report the Guernsey Financial Services Commission is referred to as "the Commission". The Chairman and other members are referred to collectively as "the Commissioners".

STRUCTURE OF THE COMMISSION



COMMISSIONERS

1. Peter Harwood LL.B, Chairman of the Commission

Peter Harwood was appointed a Commissioner in 2004 and Chairman in January 2006. He was admitted as a solicitor of the Supreme Court of England and Wales in 1972 and worked with Coward Chance and Hill Samuel Bank in London, before returning to Guernsey in 1981. He was admitted as an advocate of the Royal Court of Guernsey in 1982 and was a partner of Ozannes Advocates from 1983 until retirement at the end of 2009. He remains a Consultant with Mourant Ozannes in Guernsey. He has served as Chairman of the Guernsey Bar Council. He served as Chairman and non-executive director of TSB Bank Channel Islands Limited and as a non-executive director of TSB Group plc. He serves as a director of a number of captive insurance companies and collective investment fund companies.

2. David Mallett BA, FCA, Vice-Chairman of the Commission

David Mallett was appointed as a Commissioner in 2003. He has over 30 years' experience in banking and banking supervision. He joined the Bank of England's Banking Supervision Division in 1975 and was closely involved in the rescue and orderly rundown of a number of failed banks, the development of regulatory practice and a number of national and international accounting and auditing standards. From 1988 to 2000 he was successively Group Head of Audit and Group Head of Finance at Standard Chartered Bank. He has been a member of the Council of the Institute of Chartered Accountants in England and Wales and is co-author of Banking: A Regulatory Accounting and Auditing Guide. In 2006 he completed 15 years as a member of the Financial Reporting Review Panel.

3. Susie Farnon FCA, Commissioner

Susie Farnon was appointed as a Commissioner in February 2006. She was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the Guernsey Audit Commission and the Guernsey Public Accounts Committee. She is also director of a number of private and listed companies.

4. The Lord Flight MA (Cantab), MBA, FRSA, Commissioner

Howard Flight was appointed as a Commissioner in 2005. He was the Conservative Member of Parliament for Arundel and South Downs from 1997 to 2005, during which time he was Shadow Economic Secretary, Paymaster General and Chief Secretary to the Treasury. From 1999 to 2004 he had Shadow Treasury responsibilities for the Finance Acts, the financial services industry, financial regulations and pensions. He has worked for over 40 years in the financial services industry, starting his career at Rothschilds. In the second half of the 1970s he worked for HSBC's merchant bank in Hong Kong and India. In 1979 he joined Guinness Mahon and established what became Guinness Flight Global Asset Management, of which he was joint Managing Director until it was acquired by Investec in 1998. He formed, and is Chairman of, Flight & Partners, which is the manager of the Flight & Partners Recovery Fund, and is currently a director of Investec Asset Management Limited, Metrobank plc, Arden Partners, Investec Asset Management Limited and a number of other companies and investment funds.

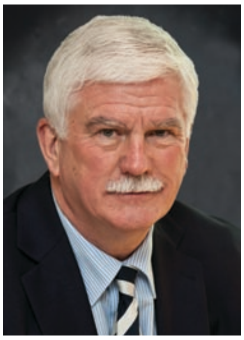
5. Alex Rodger MCIBS, Commissioner

Alex Rodger was appointed as a Commissioner in February 2008. He spent over 40 years with the Royal Bank of Scotland ("RBS") Group. Prior to moving to Guernsey in 1989 as Island Director, he occupied senior posts in relationship management and credit control in London and New York. He was executive director of RBS International from its formation in 1996 and was appointed Managing Director of RBS International Securities Services Group in April 2002. Later that year his responsibilities were increased to that of Managing Director of RBS International Corporate Banking Division with responsibility for corporate banking operations in each of Jersey, Guernsey, the Isle of Man and Gibraltar. He led the sale of RBS International's Securities Services business to BNP Paribas in June 2007. He was also Chairman of RBS International Employees Pension Trust. He is the non-executive Chairman of advocates Collas Day.

6. Dr Cees Schrauwers, Commissioner

Cees Schrauwers was appointed as a Commissioner in July 2008. He is a Dutch citizen and has spent most of his career in London with Commercial Union ("CU"). Mergers with General Accident and Norwich Union resulted in the creation of Aviva plc. Cees has occupied a number of positions in the insurance industry, including Managing Director of CU UK and Managing Director of CGU Insurance. Following the mergers he was appointed Managing Director of Aviva International, gaining valuable experience in dealing with regulators across the globe, including North America. Cees is currently Chairman of DriveAssist Holdings Ltd, a claims management company, Senior Independent Director of Brit Insurance Holdings plc and Senior Independent Director of Record plc, one of the world's largest currency managers.

DIRECTORS



Nik van Leuven QC, Director General

Nik van Leuven's professional career has extended for nearly 40 years, both in private practice and public service. An English barrister, he was admitted as an advocate of Guernsey's Royal Court in July 1971, and in October 2002 took up appointment as Her Majesty's Procureur – that is, Guernsey's Attorney-General – having been senior partner of Ozannes, one of the Channel Islands' principal law firms. In private practice he was primarily engaged in commercial, corporate and trust law, and appeared in a number of high profile Royal Court cases, both civil and criminal. He served as a non-executive director on a number of regulated institutions, including banks and insurers. As Procureur, he was, *inter alia*, the States of Guernsey's principal legal adviser and responsible for the preparation of legislation. He was appointed as a Queens Counsel in October 2002.

Neville Roberts FCA, Director of Finance and Operations

Neville Roberts is a Fellow of the Institute of Chartered Accountants. He served articles with Thomson McLintock (now part of KPMG) in London where, following qualification, he worked in the field of receivership. In 1976 he moved to Ford Motor Co. before transferring to Schroder Life and Unit Trusts as Group Financial Accountant. He came to Guernsey as Director of Finance and Operations for the Schroder international group of companies. For 12 years prior to joining the Commission, he was Head of Finance and Operations for NRG Distribution, a global logistics subsidiary of Ricoh, where he gained valuable experience in information technology, business excellence and strategic planning. He was instrumental in obtaining ISO 9000 accreditation and the Investors in People standard. In August 2003 he was appointed as the Commission's first Head of Finance and Operations and in February 2007 became Director of Finance and Operations.

Richard Walker BA, Director of Policy and International Affairs

After a period in stockbroking, Richard Walker joined the Commission's Investment Business Division in 1990. In 1997 he was appointed as Assistant to the Director General. The Policy and International Affairs Division evolved from this work and he was appointed Director in March 2006. His role has included involvement in committees on regulation, anti-money laundering and combating the financing of terrorism ("AML/CFT"), and company and trust law. He has undertaken work on behalf of the International Monetary Fund and the Financial Stability Institute on AML/CFT and countering fraud. He is a member of several subcommittees/working groups of the International Association of Insurance Supervisors.

Philip Marr MSc (Econ), CFE, Director of Banking

After a postgraduate degree in Economics, Philip Marr joined the Bank of England in 1968. He was Economic Adviser to the government of Bermuda from 1974 to 1977 and entered Banking Supervision on his return to the Bank. He was appointed Adviser to the Bahrain Monetary Agency from 1982 to 1984. He was Manager of several groups of banks in Banking Supervision at the Bank of England. After a secondment to Hambros Bank in 1988–1989 he was appointed Manager, On-Site Review Teams. He was appointed Senior Manager, Enforcement in 1995 and joined the Commission in June 1997. He has been a member of the Offshore Group of Banking Supervisors ("OGBS") since 1997 and was a member of the Joint OGBS/Basel Committee Working Group on Cross Border Banking from 2001 to 2007.

Carl Rosumek ACA MCSI, Director of Investment Business

Carl is a Chartered Accountant who trained and worked with the predecessor firms of KPMG in Guernsey and New Zealand. In Guernsey he specialised in audits within the financial services sector, including banks, collective investment schemes and their associated management companies and captive insurance companies. Carl joined the Guernsey Financial Services Commission in 1995. He was appointed Deputy Director of Investment Business in 1998 and promoted to Director of Investment Business in February 2011.

Dr Jeremy Quick MA DPhil FIOR, Director of Insurance

Jeremy Quick started his career at the Bank of England in 1986 where he worked on developing world economics and banking supervision. In 1995 he was seconded to Washington DC as Personal Secretary to the Managing Director of the IMF. Returning to the UK in 1998 he joined the FSA at its inception and represented the FSA on several international committees. In 2002 he joined the Lloyds TSB group where he worked in group risk, interfacing with the businesses including general and life insurance. In 2007 he joined the Commission as Deputy Director of Banking where he led the preparation for the 2010 IMF visit. Jeremy is a Fellow of the Institute of Operational Risk, has published several articles on risk and holds a doctorate from Oxford University.

Philip Nicol-Gent, Director of Fiduciary Services, with effect June 2011

Philip has a law degree and was called to the English Bar in 1991 by the Inner Temple and practised as a Barrister on the South Eastern Circuit until he moved to Guernsey in 2000. He has spent the last 11 years working for the Law Officers of the Crown, most recently as the Director of the civil litigation team. Called to the Guernsey Bar in 2003 and appointed a Crown Advocate in 2004 he has, during his time with the Law Officers, regularly appeared on behalf of the States and has acted for and advised the Commission in a number of cases. He has also been closely involved in key strategic projects, including the purchase of Aurigny, civil aviation matters and in developing the Bailiwick's emergency strategy.

CHAIRMAN'S STATEMENT

The Director General in his report describes 2010 as the Commission in transition – a view that I fully endorse. The year saw the culmination of a period of significant activity in preparation for the International Monetary Fund ("IMF") assessments. Both were concluded and in January 2011 the IMF's final reports were delivered. The outcome of those reviews bore testament to the considerable time, energy and efforts expended in the preparation. On behalf of the Commissioners I wish to express our gratitude to the executive of the Commission, and in particular to Richard Walker, for achieving a very satisfactory outcome. As I stated previously, we are also grateful for the support of industry and the States of Guernsey, besides those others involved, in particular the Law Officers, in ensuring that we had in place the necessary legislative framework to ensure compliance with those international standards by which the Commission, and the financial community in general, is assessed.

The Financial Statements included within this report also demonstrate that the Commission achieved a transition from a period when it was incurring an operating deficit to operating surplus. That financial outcome is a reflection in part of the comprehensive fees reviews undertaken at the end of 2009 but is also due in no small degree to the active steps taken within the Commission to contain the costs of its operations. In that regard I am grateful to the Director General and to the Director of Finance and Operations, Neville Roberts, for their efforts in cost containment.

In September the Commission achieved a further milestone in completing the physical move from La Plaiderie Chambers to the ground floor at Glategny Court. We were able to achieve that move both on schedule and within budget. I am very grateful to all those who were involved in making that move possible, in particular those members of the staff of the Commission who bore the brunt of the efforts, but also our external suppliers and service providers, without whose cooperation the move could not have been completed. The ability for the first time to have the staff of all the divisions of the Commission working on one floor in an open-plan environment has already, I believe, improved communication throughout the Commission and will, I am confident, deliver greater efficiencies in the operations of the Commission.

With the IMF assessments behind us, the Commission has been able to embark upon a period of more constructive dialogue with its stakeholders, in particular with the States of Guernsey and the various organisations representing the financial services sector in Guernsey. In October the Commission hosted an industry seminar spread over two days to which we were pleased to invite Lord Hunt of the Wirral, whose team have recently completed two sector-specific reviews for the Department of Commerce and Employment. The theme of the seminar reflected the importance the Commission attaches to its mission to inform and engage with industry at Commission level and also within the individual regulatory Divisions. The seminar attracted considerable interest and support from all sectors of the financial services community. The Commission will host a second seminar in October 2011.

The Commission is however anxious to ensure that the initiative is continued and each regulatory Division is now charged to report regularly to the Commissioners on its interface with industry.

In my statement which accompanied 2009's Annual Report, I intimated that the Commission was engaging with external consultants to undertake an extensive review of the operation of the Commission in a strategic context. We have now completed the tender process for that review. The terms of reference were drawn up in consultation with the Fiscal and Economic Policy Group of the States and representatives of industry. The Chief Minister, together with representatives of the Sark Chief Pleas, the States of Alderney and a representative of the Guernsey International Business Association, were invited to join the panel to review the tenders and to participate in the selection of the successful applicant. I am pleased to report that Ernst & Young has been contracted to proceed with that review and to produce its report before the end of November 2011. The terms of reference will encourage the review to focus not only on the current structure and processes of the Commission, but also, and perhaps more importantly, to assess the nature of regulation that will be required of the Commission over the next five-10 years and the resources necessary to support such regulation. The Commissioners are very conscious of the need to ensure that costs associated with the future levels of regulation do not exceed levels of regulatory fees that the financial services industry can reasonably be expected to bear.

The Commission continues to work closely with our regulatory colleagues in other jurisdictions, in particular with the other Crown Dependencies. In October the Commissioners had the benefit of meeting their fellow Commissioners from the Isle of Man and Jersey and were able to identify a number of areas where the three Commissions might usefully achieve greater cooperation for mutual benefit.

The Commission has also continued to engage actively with those relevant international regulatory bodies that set the international standards against which the Commission is assessed by the IMF. The level of involvement with those international bodies is however constantly reassessed in view of the considerable costs, both of resources and time involved. The Commission continues to consult with the various industry sectors to determine how its resources can be most effectively applied.

Further evidence of transition during 2010 was the introduction of significant changes in the international regulatory landscape. The development of new regulatory bodies within Europe might perhaps be viewed as a preface to a more pan-European approach to regulation. In the United Kingdom the Coalition government has set in process a complete restructuring of financial services regulation with the effective abolition of the Financial Services Authority and the establishment of two new regulatory bodies in its place, the Prudential Regulation Authority and the Financial Conduct Authority under the Financial Policy Committee of the Bank of England. The Commission needs constantly to monitor and assess the implications of these regulatory changes insofar as they may have impact upon the functions of the Commission or the activities of those that it regulates. The Commission is also sensitive to the manner in which international standards may be influenced by the evolution of such new regulatory structures.

The Commission maintains a constructive dialogue with departments of the States of Guernsey, in particular the Policy Council and the Department of Commerce and Employment. Regular meetings are held with both departments, particularly through the Fiscal and Economic Policy Group at Commissioner and executive levels. For some time the Commission has been anxious to obtain a clearer statement from government of the regulatory objectives that are expected of the Commission. These objectives have never been clearly stated in legislation. The Commission felt that it was appropriate to invite the States of Guernsey through its Policy Council to assist in defining those regulatory objectives. Those objectives as agreed during 2010 are set out in the Director General's Report.

I am grateful to those who have assisted during this transitional period, in particular my fellow Commissioners, who have never shirked the extensive calls made upon their time, and the Director General and his entire executive team for their patience and expertise in the discharge of their duties, often in an environment that appears hostile to regulation. I would also like to express the appreciation of the Commissioners to each of Peter Moffatt, Diane Colton and Stephen Trevor, for their considerable service to the Commission and to wish Peter Moffatt a happy retirement and Diane Colton and Stephen Trevor great success in their future careers.

Peter Harwood, Chairman

DIRECTOR GENERAL'S STATEMENT

In retrospect 2010 will be characterised as the Commission in transition. Some causes and consequences of aspects of that transition were raised in the Statements contained in the 2009 Annual Report and need no repetition here. Suffice by way of recollection to say that the intense review and revision of financial services regulation being undertaken almost everywhere are increasingly coming to affect Guernsey, and external experiences and expectations are reshaping the Commission in its regulation and supervision of the Bailiwick's financial services sector. Furthermore, the Commission is undergoing a number of practical and operational developments, to fit it better for the discharge of its functions, besides initiating the review which I mention below.

In 2010 the Commission, together with others of Guernsey's authorities including (in particular) its law enforcement agencies, were subjected to International Monetary Fund ("IMF") assessments from which Guernsey emerged creditably. It is right that I should congratulate the Commission's staff – besides all those others concerned – who contributed to this successful outcome.

Despite the jurisdictions of the Crown Dependencies being in energetic business competition, each having markedly different financial services components and regulatory regimes, it is a fact that all three stand or fall together: praise of one reflects well on all, and criticism of one disparages all. So it is pleasing to mention that the current round of the IMF's assessments of the Crown Dependencies placed all three jurisdictions at the forefront of global standards and practices, and particularly highly amongst the smaller financial centres. We will continue to work closely with our counterparts in Jersey and the Isle of Man to monitor and implement emerging international standards, recognising that, united in a common approach to financial services regulation, we are better placed to withstand the threats and assaults of larger jurisdictions or regional groupings. Of course, the IMF assessment process has not concluded, and the Commission will be addressing those recommendations identifying perceived areas for improvement, not only in Guernsey's application of international regulatory standards but also in addressing anti-money laundering and combating the financing of terrorism ("AML/CFT") regulation according to Financial Action Task Force's recommendations.

It is important that it is clearly understood that, for so long as Guernsey is subject to external assessments – and presently, those of the IMF are the most prominent and influential – and for so long as the implementation and maintenance of international standards is enjoined by Guernsey's body politic, Guernsey's regulatory regime is necessarily dynamic, and any amendments will almost invariably require legislative, i.e. governmental, intervention, and as part of the process, industry consultation. Thus the IMF assessment lately concluded had previously involved a considerable amount of legislative and regulatory work, and given the need to join – in some cases to jump – the legislative queue, the irritations of those concerned in the States and industry was wholly understandable. In order to avoid, so far as is practicable, similar pressures arising in future, the Commission is even now commencing upon its programme of rectification, and besides is actively monitoring and participating in revisions to international standards.

The theme of transition is also reflected in the inevitable engagement of the Commission with financial services regulators and policy makers elsewhere, but particularly in the EU. A standing panel has been established in Guernsey following a conference in October 2010 involving representatives of the Policy Council, the Commission's executive, and industry, to monitor EU policy and regulatory developments in order that Guernsey should be better informed and advised than before, particularly in our contributing to the formulation and implementation of regulatory proposals. This finds particular colour in the successful outcome to the progress of the Alternative Investment Fund Managers Directive, which has much engaged the Commission. Likewise Solvency II, where the States and the Commission have issued a joint statement indicating that there is no present intention to seek Solvency II equivalence, and which will only be sought if of benefit to Guernsey's insurance industry as a whole. However, Solvency II is very much work in progress, and the Commission will continue to monitor developments and explore alternatives and possibilities, such as benefiting from the transitional provisions which are currently being confected.

The Commission's approach to emerging international regulatory and supervisory measures and practices, repeatedly endorsed by the States, is that, where Guernsey is assessed against them, there can be no alternative but to seek to achieve high standards. Increasingly as small and independent financial centres come under international scrutiny, leverage will be applied to ensure the implementation of measures which may not be so obviously connected to the predicate issue, and so the drive to regulatory and supervisory equivalence, by one means or another, will eventually become normal. What seems clear is that the major economies are determined, so far as is practicable, to bear down on regulatory arbitrage, though every supposed 'level playing field' has its bit of rough. The management of the process of regulatory and supervisory development in and by Guernsey needs to be sensibly undertaken, and above all needs to recognise that some amendment that might have little impact in a major economy could have significant consequence here. The Commission has every confidence that Guernsey's political apparatus is sufficiently astute to be able to identify not only threats but also opportunities arising externally, and to take appropriate and proportionate steps to confront the challenges. In this respect, the satisfactory establishment of the Channel Islands Brussels Office is welcomed.

It is trite but true that regulation, of itself, does not ensure compliance, which can only be assured by a combination of respect and competence, underpinned by enforcement. International standards and assessments enjoin or encourage enforcement to ensure compliance, and regulatory performance is invariably coupled with compliance issues. The Commission is undertaking a comprehensive review of enforcement policies and procedures, to ensure clarity and consistency of approach across all regulatory divisions, and this as much to ensure that the Commission's methodology and delivery remain effective, proportionate and dissuasive, but above all fair, at least to encourage the requisite culture of compliance that the Commission must ensure if Guernsey is to maintain its reputation.

The most frequent measure adopted by the Commission was the use of licence conditions, imposed in 2010 in the majority of cases by agreement with the licensee. However, in twenty cases conditions were imposed; and also eight conditions were removed. Furthermore two prohibitions were made by the Commission, and the Commission's powers of fining and issuing public statements were used on one occasion. The Commission's Enforcement Policy is reproduced below.

Another area which is continuing to receive the Commission's attention is that of retail customer business. Regulators in all advanced economies are to be at least encouraged to address protection of the retail customer. Whilst the Commission has hitherto addressed customer protection and treatment as part of its prudential regulation, this is going to require greater focus. The issue of intermediaries and advisers who deal with the public, particularly on commission where the risks of misconduct e.g. inappropriate or mis-selling, are obvious, needs more focused attention. Allied to all this is the issue of the role of the internet by which the marketing of products and services is facilitated, and often to customers from distant jurisdictions. Furthermore, as part of this work the issue of informing and educating Guernsey's retail customers about financial business will be given prominence. The Commission will be working closely with the Commerce and Employment Department which has governmental and legislative responsibility for these issues.

I am delighted to report that, at the Guernsey Commission's instigation, a joint Crown Dependencies Commissioners' meeting has been reinstated to our annual calendars, and the first, held in October 2010, proved very productive.

A particular feature of 2010 has been the greater involvement of the Commissioners and the Commission's executives with the body politic, in the persons of (particularly) members of the Fiscal and Economic Policy Group of the Policy Council and the Commerce and Employment Department. Whilst the Commission in its operational functions must be resolutely independent of Guernsey's government, it is necessary for both to engage in constructive dialogue with a view to enabling each to understand the policies, circumstances and aspirations of the other, and to assist in achieving those outcomes expedient to maintain Guernsey at the forefront of international business.

During 2010, the Commission resolved to engage external consultants to conduct an independent evaluation review during 2011. The Commission has been operative as Guernsey's unitary financial services regulator since 1 February 1988, and as such it was amongst the first of the smaller financial centres. Some twenty two years later, when the nature and extent of Guernsey's financial services sector have changed, and concomitantly its regulation, it was felt timely to obtain an independent evaluation of the Commission – to include not only whether its structure and organisation are appropriate to discharge its functions, but whether those functions need amendment or development, and whether the Commission's practice of regulation and supervision could be bettered. This is a substantial piece of work, and great interest was expressed in undertaking it. It is due to be concluded by November 2011. The Commission would expect Guernsey's States and financial services sector to contribute substantially to the review, and also the governments and businesses of Alderney and Sark. Manifestly the experiences of Jersey and the Isle of Man could particularly inform the review, and its conclusions will be of great interest not only there but even more widely. The Commission looks forward to working with Ernst & Young on this important project.

In preparation for the review, the Commission invited the Policy Council to restate the regulatory objectives expected by Guernsey's government of the Commission in the discharge of its functions, which are as follows:

- Maintaining financial stability in the regulated finance sector.
- Managing risk to the financial system and maintaining market confidence.
- Ensuring fair, efficient and transparent markets.
- Protecting financial services' customers.
- Countering financial crime and the financing of terrorism.

These have not been set out as such specifically in legislation, or indeed been collected in any one convenient place, but have been inferable from a number of governmental documents and statements since the constitution of the Commission. I and my colleagues welcome this restatement of our regulatory objectives, which will inform and assist the review about to be undertaken.

During 2011 the Commission lost three Directors. Peter Moffatt, after a long career on the mainland both with the Bank of England and in the private sector, and locally the Commission as Director of Investment Business, took well-deserved retirement. He has presided over the regulation and supervision of the funds sector in its dramatic growth, which comprises the largest – by reference to Commission revenues – of our regulated sectors. We also lost Diane Colton, Director of Insurance Business, and Stephen Trevor, Director of Fiduciary and Intelligence Services. All three have been efficient and effective executives of the Commission, and we wish them well wherever their careers may take them. No organisation, either in the public or private sector, can be immune from the vagaries and uncertainties of career changes, and these departures have provided the Commission with opportunities. I should like to congratulate Carl Rosumek on being promoted from Deputy Director of Investment Business to head that Division, and Jeremy Quick to his appointment as Director of Insurance Business from Deputy Director of Banking and Philip Nicol-Gent has been appointed as Director of Fiduciary Services with effect from mid June.

During the year a structural reorganisation of the Commission occurred. I created a Director General's Division into which all those of the Commission's functions and services which are 'cross-divisional' would be located. Accordingly, Richard Walker and his team from Policy and International Affairs, Kevin Bown and his team, responsible for Intelligence Services, together with our newly appointed Commission Secretary, Fionnuala Carvill, and Legal Counsel, Sam Sheen, now comprise this new Division, which is not responsible for any direct regulatory activity. The regulation of prescribed businesses and non-regulated financial services businesses for AML/CFT purposes, currently handled by Policy and International Affairs, will become the responsibility of the Fiduciary Services Division, with the exception of a small cohort of money services businesses which will be regulated for such purposes by the Banking Division.

Since the incorporation of the Guernsey Training Agency (formerly Finance Training Agency) in 1996, its work has featured with increasing prominence in the Annual Report of the Commission. As was reported in the 2009 Annual Report, the Commission is withdrawing from funding the GTA at the end of 2012. Meanwhile, and for so long as the Commission continues to fund the GTA, it will be represented on its Board, and for so long as may be appropriate continue to be a trustee of the charitable trust which owns the GTA.

The range of qualifications and courses facilitated by the GTA has increased dramatically and beneficially since the Commission's first tentative steps towards establishing a facility to provide local education and training in and for the finance sector. However, the future governance, organisation and operation of the GTA are presently under extensive review, particularly in the context of the emerging States Skills Strategy, in which the GTA should play a prominent part. The GTA is now a substantial organisation in its own right, and the Commissioners no longer feel it appropriate for the achievements of the GTA to be included as a separate report within the Annual Report and Financial Statements of the Commission, and so this will be the last occasion on which that will feature herein.

I welcome this opportunity to thank all the Commissioners for their help, support and advice, and all the staff of the Commission who have born transition with resolute good humour.

Nik van Leuven, Director General

Enforcement policy

The Commission's use of its enforcement powers is an important component in the delivery of its regulatory objectives of:

- Maintaining financial stability in the regulated finance sector.
- Managing risk to the financial system and maintaining market confidence.
- Ensuring fair, efficient and transparent markets.
- Protecting financial services' customers.
- Countering financial crime and the financing of terrorism.

In delivering these regulatory objectives, the Commission takes it as a matter of course that Guernsey's reputation as a financial services centre will be maintained and enhanced.

Enforcement in this context includes all the means available to the Commission to achieve compliance with the regulatory regimes for which it is responsible. Furthermore, by publication of enforcement outcomes the Commission can effectively raise awareness of regulatory standards, and demonstrate its commitment to regulatory supervision.

The Commission is committed to a fair, proportionate, consistent and responsive use of its enforcement powers, to achieve effective outcomes. Where appropriate, the Commission will address contraventions or misconduct by agreement with the person concerned through ordinary supervisory processes, and try to agree the implementation of a remedial action plan to restore that person to compliance as soon as possible. This may involve agreement to changes in corporate governance, management and internal controls, or agreement to discontinue some or all of the person's operations or areas of activity, or agreement to amended or additional licence conditions framed to encourage or ensure compliance.

There will be a need for more assertive enforcement action by the Commission, involving the use of its statutory powers, where action by agreement is not considered to be sufficient or appropriate, or where co-operation is lacking, or where the contravention or misconduct is of sufficient seriousness.

The Commission will work cooperatively with the financial services sector, which recognises that enforcement of the regulatory and supervisory regimes for which the Commission is responsible is expected by the international community.

REGULATORY DIVISIONS' STATEMENTS

BANKING DIVISION

Consolidation after the banking crisis

After the gradual recovery from the banking crisis in 2009 the year 2010 saw a further period of rehabilitation of the banking sector worldwide and in Guernsey. Further signposts in the form of capital and liquidity goals were established by the global standard setter, the Basel Committee on Banking Supervision. Economic recovery remained weak in Europe and North America and there were further injections of liquid funds. However there was stronger growth in the emerging Asian economies. Some sovereign bond markets were fragile, particularly for the debt of those Eurozone countries with weaker budget fundamentals. Generally interest rates remained low throughout the period, thereby presenting another challenging year for private bankers. Many banks which recapitalised during the crisis continued to restructure their operations, disposing of peripheral activities in order to concentrate on their core banking operations.

The Basel Committee's considered response to the crisis and to making the banking system more resilient became clearer during 2010 as it put some flesh or "calibration" on to the bones of its December 2009 proposed framework. The revised Basel II capital framework and the new global standards for addressing capital, leverage and liquidity requirements became commonly referred to as Basel III. Details emerged of a more rigorous definition of capital – able to absorb losses in times of stress – and of capital buffers and leverage constraints together with liquidity standards able to withstand a 30-day stressed funding scenario. Timelines for their adoption were also announced. Work continues on a suitable approach for dealing with systemically important financial institutions.

Separately the newly elected UK government established in June, the Independent Commission on Banking under the chairmanship of Sir John Vickers. The Commission has called for evidence, received submissions and held hearings with a wide range of UK financial institutions, the Bank of England, the Financial Services Authority ("FSA") and the competition authorities. Its recommendations will address three broad aims: to reduce the probability and impact of systemic financial crises in the future; to maintain the efficient flow of credit to the real economy and the ability of households and businesses to manage their risks and financial needs over time and to preserve the functioning of the payments system and guaranteed capital certainty and liquidity for ordinary savers. Clearly it is set to wrestle with distinguishing the benefits and risks of universal banks in comparison with the benefits and risks associated with separated retail and investment banks. It is due to make its final recommendations to the UK government in September 2011 and will consider whether the break-up of large banks would be beneficial to the UK economy.

The Banking Division continued to assimilate the impact of the FSA's restrictive new liquidity regime on UK-owned subsidiary banks in Guernsey. Indeed the regime will affect UK-owned banks throughout the Crown Dependencies as well as some foreign-owned subsidiaries with operations in London. The issue is the extent of upstreaming from the Guernsey bank to the UK parent and to what extent that upstreaming is on call or at short maturities. The FSA liquidity regime is designed to make the liquidity of UK banks robust enough to survive a three-month stressed period. Hence upstreamed funds received from an overseas subsidiary are penalised if they are not at maturities greater than three months. Call and short maturity funding can only be used to finance the holding of gilts or high-quality near-cash assets and is not considered appropriate to fund the bank's commercial loan book. Hence under the UK regime accessing a liquidity pool in the Crown Dependencies is not seen as good liquidity in itself: it has to be stable funding at three months' maturity or more. The benefits of this approach to the future stability of the UK banking system are clear but it may mean that the traditional upstreaming model favoured by Crown Dependency subsidiaries of UK banks will have to be reconsidered and the mix of banking assets employed will have to be changed in order to provide a viable economic model going forward. UK bank subsidiaries in the Crown Dependencies will continue to address this challenge through 2011. We continue to monitor developments on this issue.

Table 1. **Licences and deposits at the year end**

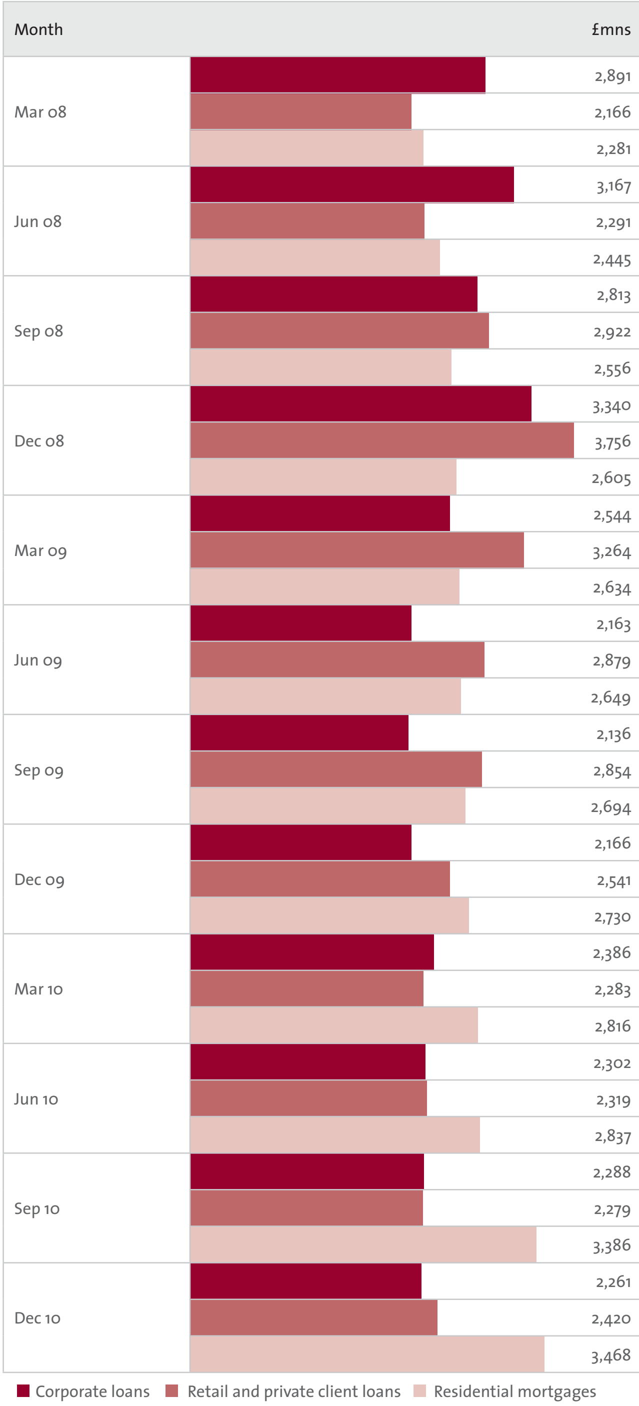
End	Banks licensed	Deposits £mns	Annual % change in deposits
1990	72	15,476	19.1
1991	72	16,250	5.0
1992	76	27,442	68.9
1993	75	37,482	36.6
1994	73	42,191	12.6
1995	73	46,855	11.1
1996	72	43,324	-7.5
1997	78	49,357	13.9
1998	78	52,922	7.2
1999	79	57,059	7.8
2000	77	68,474	20.0
2001	72	77,211	12.8
2002	67	71,943	-6.8
2003	61	69,703	-3.1
2004	54	70,426	1.0
2005	50	80,728	14.6
2006	50	92,349	14.4
2007	47	119,170	29.0
2008	48	157,009	31.8
2009	44	117,415	-25.2
2010	38	111,030	-5.4

IMF

In March the Guernsey Banking Sector was assessed by the International Monetary Fund ("IMF") against the Basel Core Principles ("BCP") – the international standard on banking regulation – as part of the Financial Sector Assessment Program. The IMF Mission Team's Detailed Assessment of Observance against those Core Principles was presented in October 2010 and was published on 14 January 2011. The BCP Assessment confirms the high standard of prudential regulation and supervision achieved and described in the previous assessment in 2003. In what was a much more difficult economic environment the 2010 Assessment was a significant achievement; Guernsey was assessed as "compliant" with 23 Core Principles and "largely compliant" with eight Core Principles, with no core principles rated non-compliant. The timing of the Mission Team's visit meant that Guernsey was subjected to a rigorous assessment of the impact of the 2008 financial crisis. The assessors had the benefit of two years of assimilation of the lessons to be learned from the crisis and their assessment was able to take full account of Guernsey's reaction and response to the crisis. The stress testing performed by the IMF Mission Team was therefore not an academic exercise but an evaluation of our actual experience and actions taken in response to crisis events.

The Guernsey authorities have already addressed seven out of the eight Recommended Action Plan suggestions to improve compliance with the BCP following changes made to the Banking Supervision (Bailiwick of Guernsey) Regulations 2010, which came into operation on 30 April 2010. That swift action was made possible by the speedy responses of members of the Association of Guernsey Banks in response to a short consultation process on the proposed amendments to the Regulations. The legislative changes were enabled by the contributions of the Law Officers' Chambers and the legislative bodies in Guernsey, Alderney and Sark.

Figure 1. **Selected loans and advances since 2008**



Sector developments

There was a 5.4% decline in deposits from £117.4 billion at the end of 2009 to £111 billion at the end of 2010, a much more modest contraction than the 25.2% in 2009, following as it did the flight to quality the previous year (Table 1). Swiss fiduciary deposits continued to trend downwards as underlying customers were prepared to take more risk and switch funding to holding securities rather than bank deposits. At the end of 2010 Swiss fiduciary deposits had fallen 10% to £37.4 billion. Total assets and liabilities declined only 1.2% in 2010 to £134.1 billion, as issuance of non-deposit paper partly offset the decline in deposits.

For a second year the profitability picture was mixed, with a continuation of compressed interest margins putting pressure on net interest income revenue streams. But more banks reported an increase in profits than last year and several banks showed significant increases. With interest rates still historically low the income streams from employment of the subsidiary banks' capital base remain depressed.

More positively, Tier 1 capital in Guernsey at the end of 2010 was up 9.3% to £2,288 million despite the loss of some capital to the Bailiwick from banks surrendering their licences and repatriating capital to their parent companies. That growth was largely as a result of banks retaining earnings and the effect of the migration to Guernsey of a company which previously operated as a branch. Loans to companies and persons showed some solid recovery, up 8.4% over the year.

During 2010 there was only a small (1%) decline in total liabilities and assets of Guernsey banks. However there were some material changes in the sources of total liabilities. Switzerland remained the largest single source of liabilities but declined from 39% to 32%, reflecting the contraction in Swiss fiduciary deposits. Guernsey-sourced liabilities remained steady at 28% and there were small increases in the USA and other EU sources. The main counterbalancing increase came in the "other" principal sources category, with liabilities from the Middle East accounting for the increase. By contrast there was hardly any change in the disposition of assets during 2010 with assets placed in the UK edging up to 40%. Detailed analysis can be seen in Figures 2 & 4.

Further information on the composition of the Guernsey banks' aggregated balance sheets as at end December 2010 is given in Figure 3, which analyses deposits by currency, and Figure 8, which analyses assets by broad asset type. Figure 1 analyses selected loans and advances – corporate, retail and private client loans and residential mortgages – on a quarterly basis over the last two years. A historic perspective of the composition of Guernsey banks' assets and liabilities over the last eight years is given in Table 2. The geographic analysis of the country of origin of Guernsey-licensed banks at end 2010 is given in Figures 6 and 7.

Six banks surrendered their licences during 2010: Ansbacher (CI) Limited – Guernsey branch surrendered its licence following the decision of its Qatar-based parent bank to exit from private banking under the Ansbacher brand. The Guernsey branch of the

Table 2. **Assets and liabilities of licensed banks at the year end**

	2003 Total £mns	2004 Total £mns	2005 Total £mns	2006 Total £mns	2007 Total £mns	2008 Total £mns	2009 Total £mns	2010 Total £mns
Liabilities								
Tier 1 capital*	1,585	1,479	1,385	1,491	1,570	1,981	2,093	2,288
Tier 2 capital**	21	29	27	52	49	166	180	52
Deposits by:								
British Isles banks and financial corporations	9,652	10,888	11,845	16,681	20,306	20,866	23,130	25,087
Other banks	28,240	28,219	35,265	42,757	59,582	87,490	53,827	44,966
British Isles public sector	44	34	36	48	43	49	39	30
Companies, persons, other	30,700	30,165	32,191	31,977	38,138	45,898	37,706	38,250
Other liabilities	2,607	4,134	6,733	7,579	12,212	22,667	18,837	23,455
Total liabilities	**72,850**	**74,948**	**87,482**	**100,585**	**131,900**	**179,117**	**135,812**	**134,128**
Assets								
Loans, advances and market loans with:								
Banks and financial institutions	37,654	40,077	59,731	71,177	86,738	111,222	78,925	79,424
British Isles public sector	5	5	10	10	10	13	28	25
Companies, persons, other	6,189	5,752	6,067	5,931	17,647	27,111	23,673	25,656
Government securities	13,129	12,733	6,965	5,127	3,694	3,179	2,092	2,964
Company shares/securities	7,062	8,212	10,337	7,085	9,894	8,580	8,913	10,709
CDs*** and all other assets	8,811	8,169	4,372	11,254	13,917	29,012	22,181	15,350
Total assets	**72,850**	**74,948**	**87,482**	**100,584**	**131,900**	**179,117**	**135,812**	**134,128**

* Paid-up share capital and disclosed reserves
** Undisclosed reserves, revaluation reserves, general provisions, debt/equity instruments and subordinated debts
*** CDs plus Floating Rate Notes and commercial paper.

Sector developments (continued)

Swiss private bank EFG S.A. surrendered its licence after much of its economic rationale evaporated with the decline in attractiveness of Swiss fiduciary deposits in the low interest rate environment. C&G Channel Islands Limited surrendered its licence after its parent bank Lloyds Banking Group Limited was required to divest itself of the Cheltenham and Gloucester business lines as part of the EU conditions for the Group receiving governmental rescue aid during the 2008 banking crisis. Northern Rock (Guernsey) Limited found its upstreaming model no longer viable as a means of funding its parent's restructured mortgage business after its parent became subject to the new UK liquidity regime. The Guernsey bank organised an orderly wind-down of the bank with expedited repayment of depositors such that the vast majority of depositors had been repaid by the beginning of September 2010. The bank surrendered its licence later that month. Bank of Scotland plc completed the technical process of surrender in January 2010.

Landsbanki Guernsey Limited (in administration) remained licensed until December. In that month the joint administrators applied to the Royal Court on 3 December for Landsbanki Guernsey Limited to be placed into compulsory liquidation. The application was accepted by the Court on the grounds that the administration had run its course and it was then evident that Landsbanki Guernsey Limited had negative net assets and was insolvent. It was further accepted that there would be lower costs in liquidation and that process would maximise the recovery of assets available for distribution to depositors. The joint liquidators notified depositors on 15 December that they expected to recover assets to allow payments to depositors of up to 91p in the pound. Landsbanki Guernsey Limited surrendered its banking licence on 8 December. In the new year, on 9 January 2011, the joint liquidators advised depositors that, following the sale of the Heritable bank debt, they expected to make a further distribution of 17.5p in the pound as soon as possible after 7 February 2011: that would make a cumulative interim distribution to ordinary creditors of 85p in the pound.

In July the company Kleinwort Benson (Channel Islands) Limited ("KBCI") migrated from Jersey to Guernsey. Although already licensed in Guernsey as a branch, the Commission had to approve a change of controller from its former owner Commerzbank A.G to the Belgium-listed private equity group, RHJ International S.A., which has ambitions to expand its investments in the financial services sector. The acquisition of KBCI and Kleinwort Benson Private Bank Limited, the London-based bank, was a major first step towards that goal. With the migration the bank moved its capital base to the Bailiwick. However, regulatory conditions had to be agreed for the new Guernsey bank at the outset and on an ongoing basis before the licence was granted. An appropriate board of directors was established at the new Guernsey company. The bank successfully achieved its immediate goals following the sale by Commerzbank A.G. and is active in private banking, trust and funds administration.

We are on notice of further selective surrenders of licences in 2011 as a result of consolidation of operations and decisions by parent banks to concentrate on their core activities.

Figure 2. **Disposition of bank assets at December 2010**

Country	%
United Kingdom	40.4%
United States	16.3%
Other European Union	14.7%
Switzerland	9.9%
Guernsey	7.2%
Caribbean	5.2%
Jersey	4.7%
Ireland	0.2%
Other	1.4%

Figure 3. **Analysis of deposits with Guernsey banks by currency at end December 2010**

Currency	%
United States dollar	47.3%
United Kingdom sterling	25.4%
Euro	19.7%
Swiss franc	4.1%
Australian dollar	1.1%
Canadian dollar	0.7%
Japanese yen	0.3%
Hong Kong dollar	0.1%
Other	1.2%

Figure 4. **Source of bank deposits at December 2010**

Country	%
Switzerland	32.4%
Guernsey	27.7%
United States	12.9%
United Kingdom	6.3%
Jersey	6.4%
Caribbean	2.6%
Other European Union	2.4%
Ireland	1.5%
Other	7.7%

Local policy initiatives

The Commission took steps in early 2010 to put in place a revised liquidity regime in tune with the post-crisis world and consistent with proposals from the global standard setter, the Basel Committee on Banking Supervision. As a precursor to our proposals we commissioned a Quantitative Impact Study on 29 March for response by end April. This set out to determine how the available stock of liquid assets in Guernsey banks compared with the stock of Basel-approved liquid assets and how the local banks assessed the "stickiness" of their deposit base compared with the Basel-recommended behavioural parameters. Clearly this was seeking to identify particular behavioural characteristics in the Guernsey banking sector compared with the Basel global model. On 2 July we issued our approach to liquidity risk management for subsidiary banks. This set out proposed across-the-board behavioural adjustments and asset "haircuts" which are relevant to the business of banks in Guernsey and to Guernsey as a host jurisdiction. Generally the Commission said it intended to apply the 0%/-5% mismatch targets at the eight-day and one-month time bands as firm limits.

In April the Division consulted with industry about the introduction of a policy guidance paper on outsourcing following the identification of a policy gap in respect to outsourcing under Core Principle 15 which addresses operational risk. The draft paper issued was modelled on the Committee of European Banking Supervisors 2006 paper and was non-contentious. A formal paper, entitled "Outsourcing Risk Guidance: note for banks" was issued on 27 April and is now on the Commission's new website.

A questionnaire was issued to industry at the beginning of December 2010 in order, inter alia, to tabulate the extent of outsourcing across the sector and how much of that was of an intragroup nature. A thematic on-site programme of a sample of banks using information derived from the questionnaire is planned in the first half of 2011.

Figure 5. **Total Tier 1 capital at the year end**

Year	£mns
1999	1,357
2000	1,715
2001	1,841
2002	1,686
2003	1,585
2004	1,479
2005	1,385
2006	1,491
2007	1,570
2008	1,981
2009	2,093
2010	2,288

Figure 6. **Country of origin of Guernsey-licensed banks – subsidiaries at end 2010**

Country	Number of banks
United Kingdom	6
Switzerland	3
Cyprus	2
United States	2
France	2
Belgium	1
Bermuda	1
Canada	1
Hong Kong	1
Netherlands	1
South Africa	1

Figure 7. **Country of origin of Guernsey-licensed banks – branches at end 2010**

Country	%
United Kingdom	8
Switzerland	3
France	3
Germany	1
Bahrain	1
Australia	1

Other workstreams

The Division participated in the Commission's finance sector presentation held at St James in October. The Division gave its overview of recent developments in banking regulation and the regulatory landscape going forward, in particular, reflecting the recent announcements around Basel III and the efforts that had been made to comply with BCP as a result of the IMF assessment in March. The Commission's wider industry initiative taken together with the practical lessons learned and the refinements in methodology which evolved during the second Supervisory Review and Evaluation Process ("SREP") cycle convinced the Division that there was a need for a technical briefing session with industry participants around the Internal Capital Adequacy Assessment Process ("ICAAP"). Accordingly the Division set in train arrangements to have an ICAAP and SREP workshop in February 2011. The Banking Division continued its programme of on-site reviews to address compliance with the implementation of the Handbook for Countering Financial Crime and Terrorist Financing. The Division's feedback from those visits is mostly bilateral to the banks visited but general thematic comments contribute to any instructions issued by the Commission.

We continued to maintain our bilateral contacts with regulatory agencies but we also extended our reach by participating in more colleges of supervisors. During 2010 the Division attended colleges and meetings hosted by the Bermuda Monetary Authority, the Office of the Superintendent of Financial Institutions (Canada), the Federal Reserve Bank of Chicago (USA), the Central Bank of Cyprus and De Nederlandsche Bank. Participating in those colleges and meetings is beneficial, firstly in establishing lines of communication with the home supervisor, but also in facilitating a better understanding of the parent banking group. One overseas banking supervisor visited Guernsey in 2010 for the purpose of making an on-site review of local banking entities, of which they were the consolidated supervisor.

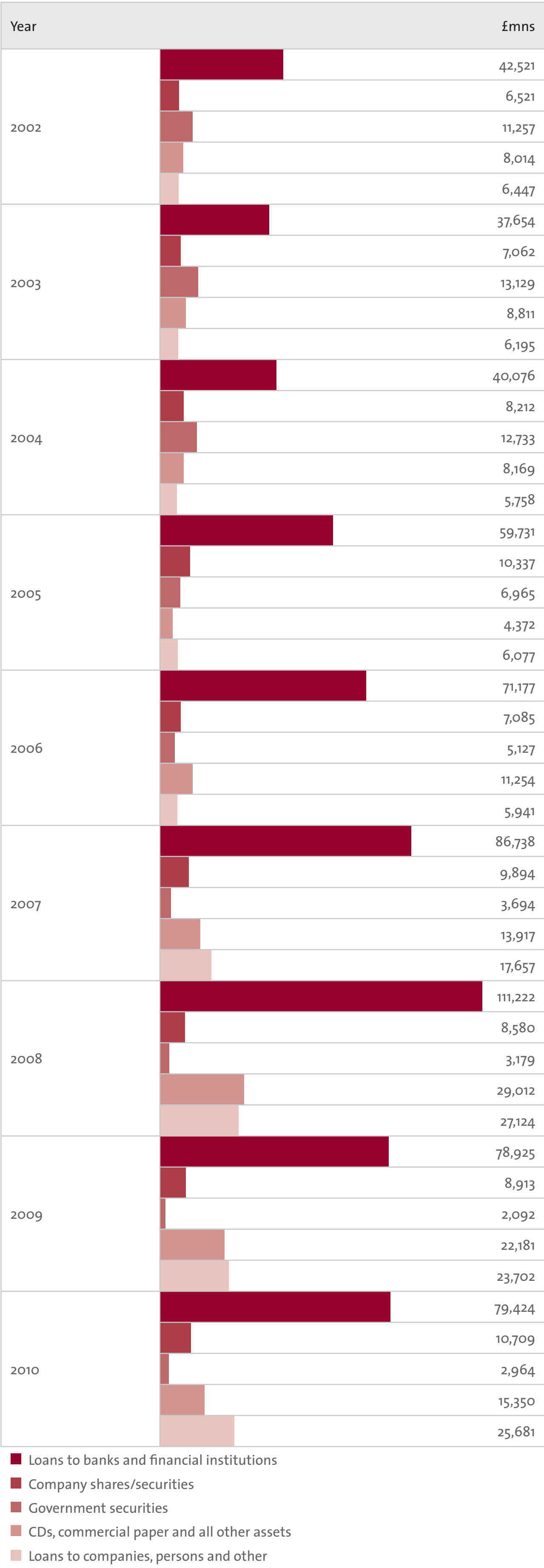
The Division took part in the development of a draft corporate governance code to cover all licensees and has already taken steps to improve further the quality of corporate governance for banks in Guernsey. This will be a continuing theme in 2011.

The Division continued to fulfil its role as part of the international regulatory community. It wrote to the Basel Committee on the latter's liquidity proposals and, alongside Jersey, represented the Offshore Group of Banking Supervisors ("OGBS") on the Basel Cross-Border Bank Resolution Group. It also attended the two meetings of the OGBS in 2010 and the biennial International Conference of Banking Supervisors in September, hosted by the Monetary Authority of Singapore and addressed by Nout Wellink, Chairman of the Basel Committee of Banking Supervisors.

Key objectives for 2011

- Ongoing banking supervision of licencees, including:
  - Refinement of the ICAAP/SREP programme.
  - Reinstatement of branch prudential visits.
  - Delivery of anti-money laundering and combating the financing of terrorism programme, continuing the three-year cycle.
- Continue bilateral meetings with principal home supervisors:
  - FSA, Swiss Financial Market Supervisory Authority; engage with others through OGBS.
- Participate in colleges of supervisors.
- Undertake thematic reviews on data security and outsourcing.
- Revision of Code of Conduct on Advertising.
- Assume responsibility for oversight of certain non-financial services businesses: bureaux de change, money transmission agents and money brokers.
- Continue engagement with industry with focus on ICAAP workshop and feedback; and regular briefing meetings with the Association of Guernsey Banks.

Figure 8. **Assets at the year end**



FIDUCIARY AND INTELLIGENCE SERVICES DIVISION

Sector developments

At the year end there were 146 full and 41 personal fiduciary licensees (2009: 145 and 52 respectively). Eight full and 10 personal licences were surrendered during the year. Most full fiduciary licences were surrendered as a result of restructuring or decisions to cease fiduciary business, although one licensee surrendered its licence as a result of enforcement action (see below) because the directors felt unable to make the necessary changes to the business to address issues identified during the Commission's on-site inspection in November 2008. Personal licences were surrendered where the individual's activities no longer required licensing.

A number of licensees changed ownership during the course of the year. In April State Street Corporation acquired Mourant International Finance Administration, which included the fiduciary operations of the Mourant Group in Guernsey. In August around 40 members of the Bachmann Group of companies' senior management team became shareholders in the various Bachmann companies, including Bachmann Trust Company Limited, following a management buyout, with the company simultaneously being rebranded as Ardel Trust Company (Guernsey) Limited.

During the year, new full fiduciary licensees included Appleby Trust (Guernsey) Limited, Dexion Capital (Guernsey) Limited, JTC (Guernsey) Limited, Parish Group Limited, Price Bailey Fiduciary Limited and Sovereign Trust (Channel Islands) Limited. Once again, there were a number of staff redundancies in Guernsey, the most significant being Investec Trust (Guernsey) Limited, whose decision to close its office in Guernsey resulted in approximately 60 jobs being lost. Despite this, the sector remains healthy and many of the affected individuals were quickly reabsorbed into it. In addition, there continued to be growth in the areas of pension schemes, including Qualifying Recognised Overseas Pension Schemes ("QROPS") and in the emerging niche market of the family office.

Supervision and policy

The focus in 2010 has been to continue with the on-site inspection programme for both full and personal fiduciary licensees. All on-site inspections look closely at licensees' compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) requirements as well as at their discharge of fiduciary responsibilities and the Division followed up on any issues arising from such inspections.

In 2010 the Division introduced a revised approach to undertaking on-site inspections of full fiduciary licensees which focus on certain areas according to the Division's assessment of the AML/CFT risks within each licensee. Inspections are now split into management visits and operational visits. The former focus on the corporate governance and internal controls of a licensee and include a review of a licensee's board meeting minutes. The latter comprise an in-depth review of a licensee's operations, are conducted over two to three days and include a review of client files. The Division visited 29 full licensees during the year. In addition, the Division also continues to visit personal fiduciary licensees and four such visits were carried out in 2010. In total 33 visits were conducted in 2010, being 10 more than in 2009.

The increase in the number of enforcement actions arising from the Division's monitoring of licensees has been one of the factors that has impacted on the number of on-site inspection visits that the Division has been able to resource in 2008, 2009 and for some parts of 2010. A third Assistant Director was recruited in June 2010 to enable the Division to increase the number of inspection visits in future years, as well as to contribute to the management of day-to-day licensing issues. The Division also recruited a full-time analyst to fill an existing vacancy and is currently recruiting to fill a forthcoming vacancy.

As referred to earlier, enforcement cases took up significant amounts of the Division's resources. In May 2010, the Commission issued a public statement and imposed financial penalties totalling £35,000 in respect of one such case. This is the first occasion on which financial penalties have been imposed by the Commission under powers introduced in 2008. In August a finding of unfitness and a five year prohibition order was made against an individual.

During the year conditions were imposed on the licences of seven fiduciaries with the agreement of the relevant licensees. In the majority of cases this was as a direct result of significant issues being identified during on-site inspection visits. However, the Division also dealt with issues arising from events notified to it by licensed fiduciaries. Once again, the licensees concerned worked constructively with the Commission to address the Commission's concerns. During this period conditions on four fiduciaries were lifted following completion of the remediation work.

Legislative developments

The Financial Services Commission (Administrative Financial Penalties) Regulations 2010 came into force on 1 September, and during the second half of 2010, three fiduciaries were fined for the late submission of financial statements and one fiduciary was fined for the late submission of an annual return.

The Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) (Amendment) Law, 2010 came into force this year. The Commission may now make rules (as it already does in other regulated areas) in relation to the carrying on of regulated activities by licensed fiduciaries and generally as to the manner in which licensed fiduciaries conduct their business.

In particular, this timely amendment to the Fiduciaries Law enabled the Retirement Annuity Trust Schemes Rules, 2010, which were the subject of a presentation by the Commission to the finance sector on 20 October 2010 and which came into force on 1 January 2011, to be applied to licensed fiduciaries.

The Rules originated in a consultation exercise concluding in late 2009 on regulatory requirements applicable to insurance intermediaries, investment businesses and fiduciaries who provide services in relation to retirement annuity trust schemes. The new requirements, and the rules containing those, were finalised in 2010 after further work by a cross-sectoral group, including Commission and finance sector representatives. These rules can be found on our website.

On the related subject of QROPS, the Division submitted comments to the Guernsey Association of Pensions Providers ("GAPP") in advance of GAPP's publication of a Code of Practice exposure draft in January 2011.

International

The Deputy Director and an Assistant Director met with their counterparts at the Jersey Financial Services Commission ("JFSC") in August to discuss both organisations' approach to on-site visit inspections. Meetings with the JFSC and our counterparts from Gibraltar and the Isle of Man will continue.

Industry Liaison

Fiduciary Division staff spoke at a number of events during 2010, including Commission-wide presentations to industry on 20 October. Whilst the theme of those presentations was "to inform and engage", the Division has regularly spoken on current licensing issues and its work. This included a presentation to licensed fiduciaries by the Director in June on not for profit making organisations and in July to Bailiwick members of the Institute of Chartered Secretaries and Administrators on regulatory changes following the International Monetary Fund visit. The Director also participated in a Collas Day seminar on the obligations of directors of trust companies and risks of litigation.

During the year the Division's management team met twice with the executive committee of the Guernsey Association of Trustees ("GAT") to brief them on current regulatory issues, including the revisions made to on-site inspection visits and the IMF assessment.

Intelligence

The intelligence team continued to provide support to the other regulatory divisions within the Commission throughout 2010 as well as providing external assistance to a range of local and international agencies in the fields of regulation and law enforcement.

Notices were served under regulatory laws in order to gather information following requests for assistance from the US Securities and Exchange Commission, the Australian Securities and Investments Commission, the UK Financial Services Authority and the Netherlands Authority for the Financial Markets, amongst others. The nature of the underlying investigations included suspected insider dealing, unauthorised investment business and unfit persons operating in the finance sector. Notices were also served for the Commission's own investigations into suspected unlicensed fiduciary business and market manipulation.

As well as assisting with investigations into matters that have already taken place, the team has had some success in disrupting suspected unlawful activity at an early stage before it could cause any harm. This has been achieved through cooperation with licensees and has included warning them about certain clients or potential clients who had been seeking services for their suspicious or unusual plans. These preventive measures are often undertaken after close liaison with the Financial Intelligence Service and the Police. Cases in 2010 have included the overtures to setting up a suspected fraudulent investment scheme and attempting to raise money to invest in a fraudulent instrument. The former case also benefited from significant input by the JFSC.

Increased publicity and general warnings seem to have led to members of the public getting wiser to the threat of "boiler room" investment frauds but there was still a need to provide guidance to some who had been approached or caught out by such schemes during the year. The team's various dealings with the public have also helped to prevent a local resident being caught up in a bogus gold investment scheme.

The intelligence team continues to keep abreast of developing threats and specific cases through meetings with the Financial Crime Information Network and liaison with its broad range of members. This in turn gives indirect benefit to Commission colleagues, licensees and members of the public.

With effect from 1 January 2011, the intelligence team transferred from the Fiduciary Division to the Director General's Division to reflect better the over-arching nature of the functions of the intelligence team.

Key objectives for 2011

During the course of 2011 the Fiduciary Services Division will assume responsibility for the AML/CFT supervision of accountants, lawyers and estate agents (referred to as "prescribed businesses") and non-regulated financial services businesses. A senior analyst and an Assistant Director will join the existing team and will work almost exclusively in this area, reporting to the Director.

The programme of on-site inspections will continue; the plan to conduct 40 visits during 2011 being on target at the time of writing.

The Division will work closely with Commission colleagues to consider the recommendations made by the IMF in relation to the fiduciary sector and to implement those recommendations as appropriate.

The Division will also take steps to implement the administration of the proposed new Code on Corporate Governance in accordance with the statement made to industry.

INSURANCE DIVISION

Market performance

International insurance market

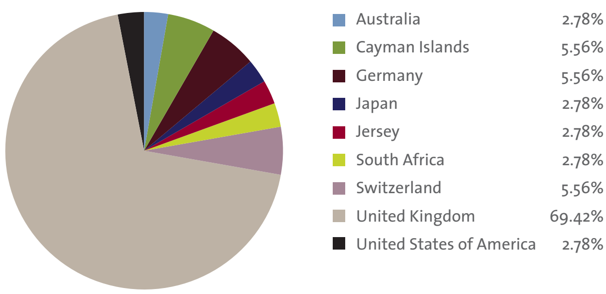
At the end of 2010, the international insurance market in Guernsey consisted of 675 licensed or approved insurance entities, including 264 international insurers, 63 protected cell companies ("PCCs") with a total of 334 cells, five incorporated cell companies ("ICCs") and six incorporated cells. The overall size of the market has very slightly reduced during 2010, primarily due to a reduction in the number of international insurers which had reached the end of their commercial lives. It was anticipated that a hardening insurance market would occur in 2010 but this did not materialise. However, despite this, the number of new licences issued during 2010 was marginally higher than in 2009 at 47 (2009:46) and the level of applications continues to increase in early 2011.

At the end of 2010, there were 20 licensed insurance managers, with one having surrendered its licence due to merger or acquisition.

The UK continues to produce over half of the companies choosing Guernsey as a domicile for their insurance entity and into 2011 the UK is still generating substantial enquiries. However, the geographical appeal of Guernsey as a captive domicile continues to widen, with new licensees issued in 2010 having parents in diverse locations such as Australia, Japan, Germany and South Africa. Figure 9 shows the shareholder locations for new licensees during 2010. Interest continues to be shown in the reinsurance sector.

The global financial crisis continued to have its impact and a number of Guernsey insurers' parent companies were affected. The Insurance Division continues to work closely with insurance managers to monitor potential issues arising from the crisis and to resolve issues when they occur. The Guernsey international insurers have not been significantly directly impacted by the financial crisis as the majority of their assets are invested in cash or fixed-interest deposits.

Figure 9. **New licences/consents in 2010 by location**



Domestic market

The domestic market provides insurance services to the local community and consists of insurance intermediaries and domestic insurers.

At the end of 2010, there were 13 licensed domestic insurers, a decrease of eight since the end of 2009, reflecting a continuing trend for insurance products to be sold through insurance intermediaries by recognised insurers.

There were 38 licensed insurance intermediaries at the end of 2010, a net decrease of two on 2009. There were two new intermediary licences issued during 2010, offset by the surrender of four licences.

A full list of currently licensed insurance entities can be found on the Commission's website at www.gfsc.gg.

During 2010 the Insurance Division took regulatory action against a number of insurance intermediaries. The Commission is committed to ensuring that regulated entities comply with their obligations arising under applicable regulations.

Education

The Insurance Division continues to support initiatives to improve standards within the sector. The Insurance Education Forum, which was set up by the Commission in conjunction with the GTA University Centre, and whose members are a cross section of industry, met regularly during the course of the year. The purpose of the Forum is to facilitate and exchange views on the education and training needs of the insurance sector within the Bailiwick of Guernsey.

Throughout the year there has been extensive cooperation between the Insurance Division and the representative bodies of the captive managers and intermediaries as well as actuaries, accountants and chartered secretaries. The Division continues a drive to improve compliance standards by holding regular seminars and meetings with insurance intermediaries and the insurance sector as a whole.

Several presentations were made during 2010 to the intermediary and domestic insurance sectors on subjects such as anti-money laundering ("AML"), corporate governance and internal controls.

In 2006, for intermediaries, the Commission introduced mandatory minimum qualifications for authorised insurance representatives providing advice on long-term insurance products. The minimum qualifications include the requirement to hold the Guernsey Insurance Certificate, which has been achieved by over 150 authorised insurance representatives since introduction. The Insurance Division continues to provide active support to the GTA University Centre by providing trainers and examiners in respect of this qualification although from the end of 2011 will cease underwriting the GTA for the cost of the course.

The Division also actively encourages insurance managers and those people working in the captive sector to complete the Certificate in Captive Management. This qualification was launched in Guernsey in 2002 and more than 70 candidates, from various jurisdictions but mainly Guernsey, have been awarded the certificate.

The Certificate in Captive Management and the Guernsey Insurance Certificate have been granted accreditation by the Chartered Insurance Institute.

Supervision and policy

In conjuction with the move to new premises, the division was restructured into an on-site inspection team and a licensing and monitoring team. This was in order to ensure greater concentration of knowledge, effort and efficiency in undertaking on-site inspections whilst having a dedicated team to deal with applications and ongoing monitoring.

The Division continues to perform on-site inspection visits in accordance with a continuous three-year rolling programme. These inspection visits assist in improving the Insurance Division's understanding of licensees' business and their systems of risk management and internal controls. In addition to a regular programme of meetings with licensees the Division undertook on-site inspections at 11 insurance intermediaries, six insurance managers (including a large number of captives, PCCs and ICCs managed by those managers), one international life company, three non-life companies and one domestic insurer.

2010 saw the conclusion of the anti-money laundering ("AML") on-site visits following the introduction of the new Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing in 2007. The Division continued to carry out focused on-site inspections, concentrating on areas identified by AML and combating the financing of terrorism ("CFT") and corporate governance requirements as well as specific areas identified through off-site monitoring of licensees. In 2011 this programme will continue with a primary focus on solvency and reserving.

The Division holds regular meetings with licensees and insurance managers to discuss new applications, changes in business plans and other issues such as capital requirements or parental loans. These meetings continue to be invaluable in helping to assess the impact of the global financial crisis on the Guernsey insurance sector.

The Insurance Division adopts a risk-based approach to monitoring insurance licensees with a risk rating assigned to each company based on a set of standard criteria. This approach allows the Insurance Division to focus resources on those areas of greatest risk and to identify where regulatory action may be required. Each company's risk rating is reassessed upon receipt of its annual return or sooner if a material change to the company's business plan occurs.

In line with developing international standards the Insurance Division has developed a risk-based approach to assessing the solvency of insurers. Whilst the Minimum Solvency Capital Requirement ("MSCR") set out in the insurance law still applies, each company is now required to undertake an Own Risk and Solvency Assessment ("ORSA") in order to determine its Own Solvency Capital Assessment ("OSCA"). Licensees are required to submit an OSCA each year with their annual return and also upon any material change to the business plan of the company. The Insurance Division does not prescribe any specific format for the OSCA, although general guidance on the risks that should be considered is published on our website.

Throughout 2010 the Insurance Division continued to monitor parental loans made by licensees by setting expiry dates for all such loans and by monitoring the financial position of the insurer as well as its parent and the market conditions of the industry in which the parent operates.

International developments

The International Association of Insurance Supervisors ("IAIS") is the international insurance standard-setting body. As an active member of the IAIS, the Commission has the opportunity to influence the development of international standards of insurance supervision and in particular to ensure that the specific requirements of the captive and international life insurance sectors are not overlooked. The international standards developed by the IAIS are used by the International Monetary Fund ("IMF") and other international bodies when undertaking an assessment of the quality and operation of the regulatory and supervisory regime of a jurisdiction.

The international standards currently take the form of 28 Insurance Core Principles ("ICPs") together with a number of associated essential and advanced criteria. The IAIS is proposing to update and replace the current ICPs. During 2009 and 2010, the committees and subcommittees of the IAIS have prepared a revised set of 24 ICPs, each with a set of specific standards and guidance. These will replace the previous essential and advanced criteria and will also replace a number of standards and guidance papers that had been developed over the last several years. The new ICPs, standards and guidance will come into effect in October 2011 and will form a single consistent set of international regulatory and supervisory standards for insurance companies.

During 2010, the Director General represented the IAIS Offshore Region on the IAIS Executive Committee. Members of the Insurance Division also played a significant part in the development of the new ICP structure through their membership of a number of IAIS subcommittees, including the Corporate Governance, Insurance Groups, Market Conduct Solvency and Reinsurance Subcommittees. The Director of Insurance continued to chair the Market Conduct Subcommittee. The Director General, together with Insurance Division staff, attended the Executive and Technical Committee meetings held during the IAIS triannual meetings as well as the annual general meeting held in October.

A major focus of the IAIS during 2010 was the start of on-going work to develop a Common Assessment Framework for Internationally Active Insurance Groups, known as "ComFrame". The Director of Insurance served as a member of the ComFrame Taskforce, which is responsible for overseeing and coordinating this development.

The IAIS has established a Multilateral Memorandum of Understanding. This is a framework for cooperation and the exchange of information between insurance supervisors and sets minimum standards to which signatories must adhere. It is a key initiative of the IAIS and will enable the supervisory community to improve the effectiveness of cross-border supervision of insurance and reinsurance companies. The Commission became a signatory in November 2010.

The Commission is also a member of the Offshore Group of Insurance Supervisors ("OGIS") and holds a seat on the OGIS Executive Committee. OGIS organises training courses for insurance supervisors in the offshore region of the IAIS and in September held a training session in Jersey which covered supervisory cooperation, risk assessment and on-site visits. The two Assistant Directors of Insurance acted as presenters at the training session.

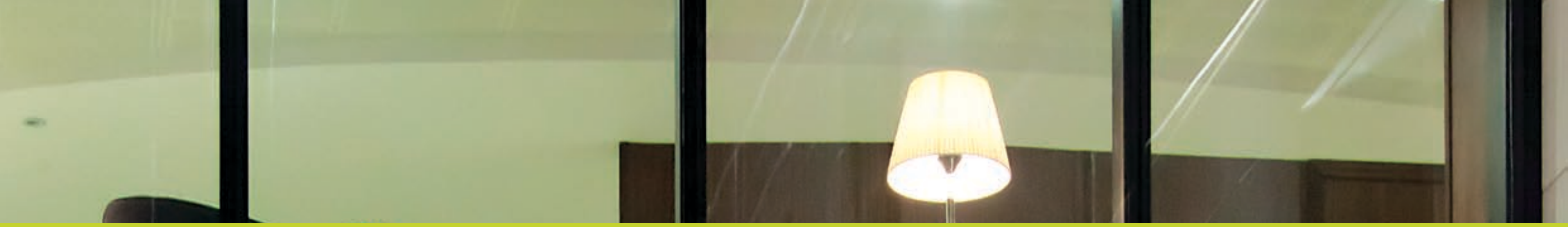
The Division continued to monitor the development of international solvency standards during 2010 and in particular the standards that will be incorporated in the new IAIS ICPs. In order to continue to comply with these standards it will be necessary to enhance further the existing risk-based Guernsey solvency requirements. To take this forward, the Division established a Solvency Working Party with members from the Division and from the local insurance industry; the working party has met four times since it was set up in October 2009.

The development of the EU Solvency II regime continued to be monitored closely; in particular the implications of "equivalence" status under the Directive for third countries. Meetings were held with the Guernsey International Insurance Association, the Commerce and Employment Department, the European Commission and AIRMIC, the UK Association of Insurance and Risk Managers which represents captive owners. The Division is closely monitoring the position of the third countries, particularly Bermuda, that have been selected for inclusion in the "first wave" for equivalence assessment by EIOPA, the new European Insurance and Occupational Pension Authority. The Commission has clarified its position in a statement issued jointly with the States of Guernsey which confirms that the authorities in Guernsey currently have no plans to seek equivalence.

The IMF carried out an assessment of the Guernsey insurance sector under the Financial Sector Assessment Programme during the early part of 2010. The report, which was published in January 2011, concluded that Guernsey was fully observant in respect of 25 of the 28 ICPs, largely observant in one, and partially observant in one whilst one was considered not applicable.

Key objectives for 2011

During the course of 2011 the Insurance Division will continue to support the strengthening of corporate governance standards across the insurance sector. The Division will influence and monitor the evolving international regulatory framework to ensure that the jurisdiction continues to meet international standards. Internally, it will continue to embed its new internal structure which places greater focus on firm visits.



INVESTMENT BUSINESS DIVISION

International developments

Against the continuing background of financial uncertainty and volatility, international organisations and standard setters continued to develop and coordinate their efforts to make the international financial system more resilient. In the investment business context, the International Organisation of Securities Commissions ("IOSCO") aligned itself closely with the G20 in promoting enhanced standards for issuers, including investment vehicles, service providers to investment vehicles, and for market intermediaries and investment advisors. In the review carried out in March and May of 2010, the International Monetary Fund ("IMF") commented very favourably on Guernsey's adherence to the existing 30 Principles of Securities Regulation set out by IOSCO. IOSCO has subsequently reviewed its Principles with the result that there are now 38 Principles to be taken into account. The added Principles include requirements:

- to monitor, mitigate and manage systemic risks;
- to review the perimeter of regulation regularly;
- to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed;
- that auditors should be subject to adequate levels of oversight;
- that auditors should be independent of the issuing entity they audit;
- that credit-rating agencies should be subject to adequate levels of oversight;
- that other entities that offer investors analytical or evaluative services should be subject to oversight;
- that regulation should ensure that hedge funds and/or hedge fund managers and advisors are subject to appropriate oversight.

Some of the existing Principles have been combined or sub-divided and others have been subject to variations of drafting. Much of the drift of these developments is already encompassed in the language of the Protection of Investors ("POI") Law and the Conduct of Business and Capital Adequacy Rules made under it. It may well be, however, that as IOSCO develops its detailed methodology for assessing adherence to the Objectives and Principles of Securities Regulation some further development, both of the POI Law, and rules made under it, will be required.

EU developments were also a particular feature of 2010's work. The draft Alternative Investment Fund Manager Directive was a particular focus of activity since early versions of the draft had presented some challenges for non-EU jurisdictions. The Commission, along with representatives of the Commerce and Employment Department, were involved in wide-ranging discussions with European Commission officials, UK representatives, and the Committee of European Securities Regulators (now the European Securities and Markets Authority). The Directive was adopted in final form in November 2010; it preserves existing arrangements for third-country access to European markets, along with the possibility of a Community-wide "passport" at a later stage. While some reassurance has been gained from this outcome, it is clear that continuing efforts will be required to maintain contact with decision-making bodies in Europe to ensure that the quality and effectiveness of Guernsey's regulatory system are properly understood. Discussions are also under way within the EU on the latest version of the directive on Undertakings for Collective Investment in Transferable Securities ("UCITS"). These represent further attempts to widen the investment portfolios which could be adopted by collective investment funds available to the retail investing public. This again is an area where Commission staff will need to remain engaged, not least because proposals to impose strict liability for loss on custodians of such schemes could have an impact locally. It is also worth noting that the EU has begun further consultation on requirements to introduce wider-ranging investor compensation schemes. That initiative, taken together with the thrust of IOSCO's focuses on systemic risk and the existing Principle relating to failure of market intermediaries, will give particular focus to the Commission's continuing discussions with the investment sector on developing the investor compensation scheme. The fact of those discussions was noted with approval in the IMF Report referred to earlier.

Table 3. **New collective investment fund business at the year end**

	2009	2010
Open-ended funds - authorised/registered	18	27
Open-ended funds - new classes approved	296	131
Closed-ended funds - authorised/registered	49	62

Table 4. **Open-ended funds at the year end**

	2009	2010	% change
Number of funds	276	262	-5.1%
Number of investment pools	1,903	1,722	-9.5%
Value of assets (£bns)	50.73	57.95	+14.2%
Net new investment over year (£mns)	-7,866	5,157	+165.5%
Number of registered holders ('000s)	61.09	60.516	-0.9%
Stock exchange-listed	158	157	-0.6%

Guernsey-authorised or registered open-ended funds are funds in which shares/units are offered for sale throughout their life and which investors are entitled to redeem on demand subject to any applicable notice period.

Domestic

During 2010, as we noted in last year's Annual Report, revised Conduct of Business and Capital Adequacy Rules were introduced. A new working party has been set up to consider the existing Class B and Class Q Open-ended Fund Rules, and to examine what amendments may be required in the light of current experience; those sets of rules have remained largely unchanged since 1990 and 1998 respectively. Following the introduction of Qualifying Investor Funds, and the amendments bringing closed-end funds within the remit of the POI Law, the working party will amongst other things review whether there is any continuing purpose in the Class Q regime.

Discussions continued in 2010 with the Financial Services Authority ("FSA") and HM Treasury in order to confirm that the Authorised Collective Investment Schemes (Class A) Rules 2008 provide equivalent protections to those accorded by the UK rules.

The Commission was advised, in early 2011, that due to other issues being addressed by the FSA and HM Treasury, particularly but not limited to European issues, that a new statutory instrument would not be made. The FSA could not provide any indication as to when this position might change. The Commission will remain in contact with the FSA over this matter in order to emphasise its importance to the Bailiwick.

Supervision

During the year, a total of 25 inspection visits were conducted, including six undertaken jointly with other Divisions. The 19 inspections conducted solely by the Investment Business Division covered, in addition to the firms directly licensed, 37 administered licensees and 117 funds.

Matters arising from concerns identified during inspection visits may lead to imposition of conditions by the Commission. As we noted in last year's Annual Report, the imposition of those conditions is subject to the normal safeguards provided for in the POI Law, and firms are fully entitled to contest and appeal against any Commission proposal to impose a licence condition. At the beginning of the year, four licensees were subject to licence conditions. None of those conditions were lifted during 2010. In addition, and during the course of 2010, conditions were imposed on a further five licensees. Two of those cases arose from failure to meet the client due diligence requirements of the Commission Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing. One of those firms, and three others, also had conditions imposed as a result of failure to observe the due diligence requirements expected of firms submitting applications for Qualifying Investor Funds or Registered funds – i.e. those applications which the Commission undertakes to handle within a very limited time frame, on the basis that licensees warrant that they have achieved certain minimum standards in conducting their own due diligence. In the case of both anti-money laundering and fast-track deficiencies, conditionality has typically resulted in a prohibition on new business until the firm concerned has demonstrated to the satisfaction of the Commission that it has remedied the deficiency concerned. In the case of one firm, the conditions imposed during the course of 2010 were lifted on 31 December. All of the other conditions remain in place. In no case was the Commission's imposition of licence conditions challenged or appealed by the firm concerned.

Following the resignation of both designated manager and designated trustee of an open-ended fund, a freeze was imposed on the fund's launching any further cells or taking subscriptions into any cells already authorised but not yet launched. One individual was subject to a prohibition order under the terms of the POI Law; that prohibition order also extended to activities under each of the other regulatory laws.

Table 5. **Closed-ended funds at year end**

	2009	2010	% change
Number of funds	608	599	-1.4%
Value of assets (£bns)	85.35	109.50	+28.3%
Number of registered holders ('000s)	73.41	70.35	-4.2%
Stock exchange-listed	247	229	-7.3%

Guernsey-authorised or registered closed-ended funds normally have a fixed capital issued once and for all and investors have no absolute entitlement to redeem their shares/units.

Table 6. **Non-Guernsey schemes at year end**

	2009	2010	% change
Number of funds	324	332	+2.4%
Value of assets (£mns)	48.15	90.00	+86.9%
Stock exchange-listed	53	41	-22.6%

These open-ended schemes incorporated/established in other jurisdictions are not Guernsey-authorised or registered. However, Guernsey institutions licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 provide management/administration or custody services to such schemes with specific approval from the Commission.

Industry liaison

In addition to the working parties noted above, staff of the Investment Business Division have continued to be active in providing training and guidance for the investment business sector. These included public feedback sessions on the application of the new Conduct of Business Rules, and dedicated training sessions provided by senior members of the Division to groups of administrators and separately to lawyers in Guernsey on the fund application process. A number of general briefing sessions were also held under the auspices of the Guernsey Investment Funds Association and the Chartered Institute of Securities and Investment.

Senior members of the Division maintained close liaison with the Association of Private Client Investment Managers and Stockbrokers, the Association of Investment Companies, the Investment Management Association, and the Alternative Investment Management Association. Liaison meetings were also held with other regulatory bodies, including the Financial Services Authority ("FSA") and the Jersey Financial Services Commission. Members of the Division attended regulatory seminars and briefing sessions held by the FSA and by the Securities and Exchange Commission in Washington. Apart from its active work in connection with the Alternative Investment Fund Manager Directive, the Division staff were also involved in the work of the European Regional Committee and the President's Committee of IOSCO, and in the annual meeting of the Enlarged Contact Group of Collective Investment Schemes Supervisors.

Figure 10. **Open-ended schemes: geographic breakdown of investments**

Country	%
Guernsey	22%
United Kingdom	20%
Cayman Islands	13%
USA	11%
Other	9%
Ireland	3%
Luxembourg	3%
France	2%
Canada	2%
Bermuda	2%
Australia	1%
Bahamas	1%
British Virgin Islands	1%
China	1%
Denmark	1%
Germany	1%
Hong Kong	1%
Jersey	1%
Japan	1%
Netherlands	1%
Russia	1%
Switzerland	1%
Turkey	1%

Figure 11. **Open-ended schemes - analysis by investment style**

Investment style	
Equity/Securities	105
Fund of Hedge Fund	67
Other	34
Debt	34
Real Property	30
Hedge Fund	27
Derivatives	25
Money Market/Cash	23
Emerging Markets	15
Balanced	10
Managed Currency	9
Private Equity	4
Venture Capital	1
Infrastructure	0

Figure 12. **Nationality of sponsors/joint sponsors of Guernsey open-ended schemes at year end 2010**

Country	
United Kingdom	92
Guernsey	81
Switzerland	41
South Africa	9
United States	7
France	6
British Virgin Islands	6
New Zealand	4
Luxembourg	4
Canada	4
Australia	4
Bahamas	3
Kuwait	2
Greece	2
Cayman Islands	2
Austria	1
Belgium	1
Hong Kong	1
Japan	1
Jersey	1
The State of Abu Dhabi	1
Turkey	1

Note: Some schemes may have more than one sponsor

Market conditions

Financial instability continued to be experienced during 2010 and this continued to have an impact on the flow of investment fund business in the Island. There were, however, periods of greater optimism than seen in 2009. 48 new licences were granted (2009: 39) and in addition, 27 open-ended funds were authorised or registered (2009: 18). It should be noted, however, that whereas 296 new cells of existing open-ended funds were authorised in 2009, that number decreased to 131 in 2010. In the closed-end sector 62 new funds were authorised or registered (2009:49), while the trend first seen in 2009 when a very substantial number of schemes domiciled in other jurisdictions had their administration transferred to the Bailiwick continued in 2010; 106 consents for the provision of services to non-Guernsey schemes were granted in 2010 (2009:100).

Those renewed bouts of optimism were also shown in the value of funds under management. The end-2009 totals generally showed declines compared with earlier highpoints. All sectors showed significant increases in 2010 with closed-ended funds and non-Guernsey schemes comfortably exceeding the previous highest values recorded in 2008. Guernsey-domiciled open-ended funds increased £7.2 billion over the year to finish 2010 with a total net asset value of £57.9 billion, an increase of 14.2%. Closed-ended funds reached a total net asset value of £109.5 billion as at 31 December 2010, having increased £24.1 billion (28.3%) since 31 December 2009, whilst non-Guernsey schemes increased over the year by 86.9%, or £41.9 billion, to a record £90 billion. Guernsey fund administration and custody businesses are not only attracting new business but also are responsible for the administration and custody of existing business which continue to grow in value.

This is the first year for which we are able to comment on indicators for the non-fund asset managers sector and the stockbroking sector; it is worth noting that gross assets under management in the non-fund sector rose from £47.1 billion in December 2009 to £75.5 billion by December 2010.

Figure 13. **Closed-ended schemes - analysis by investment**

Investment	
Private Equity	272
Real Property	133
Equity/Securities	73
Other	47
Debt	43
Venture Capital	37
Fund of Hedge Fund	23
Infrastructure	19
Derivatives	18
Emerging Markets	12
Hedge Fund	9
Money Market/Cash	4
Balanced	1
Managed Currency	0

Figure 14. **Nationality of sponsors/joint sponsors of Guernsey closed-ended schemes at year end 2010**

Country	
United Kingdom	303
Guernsey	81
Switzerland	58
United States	45
Germany	13
Netherlands	13
British Virgin Islands	12
Cayman Islands	11
France	10
Finland	9
Norway	9
South Africa	7
Sweden	4
China	4
Italy	4
Spain	3
Greece	3
Japan	3
Singapore	3
Estonia	2
Turkey	2
Republic of Ireland	2
Portugal	2
Luxembourg	2
Israel	2
Hungary	2
Czech Republic	2
Australia	1
Isle of Man	1
Russia	1
United Arab Emirates	1
Lebanon	1
Kuwait	1
Jersey	1
Iceland	1
Hong Kong	1
Dubai	1
Denmark	1
Cyprus	1
Curaçao	1
Canada	1
Belgium	1
Bahamas	1

Note: Some schemes may have more than one sponsor

Key objectives for 2011

Engage with the European Securities and Markets Authority, as well as HM Treasury and the FSA, on Alternative Investment Managers Directive and access of Guernsey funds to EU markets.

Continue to communicate with the FSA in respect of designation of Class A schemes for marketing in the UK.

Prioritise on-site inspection visits undertaken by the Investment Business Division using a risk-based approach.

Review and consider the existing Class B and Class Q open-ended fund rules with a view to updating and amending them to reflect current experience whilst also considering the future of the Class Q Rules.

Figure 15. **Closed ended schemes: geographic breakdown of investments**

Country	%
United Kingdom	21
USA	13
Guernsey	8
Cayman Islands	8
Other	7
Luxembourg	6
Germany	5
China	2
France	2
Norway	2
Russia	2
Sweden	2
Switzerland	2
Netherlands	2
Australia	1
Brazil	1
British Virgin Islands	1
Canada	1
Cyprus	1
Denmark	1
Egypt	1
Estonia	1
Finland	1
Ireland	1
Italy	1
Japan	1
Jersey	1
Malta	1
Mauritius	1
Poland	1
Romania	1
Spain	1

Figure 16. **Total funds authorised and registered at the year end**

Year	Number of funds
2003	488
2004	516
2005	584
2006	724
2007	851
2008	919
2009	884
2010	861

Figure 17. **Total Guernsey funds under management at the year end**

Year	Net asset value of funds £mns
2003	41,754
2004	56,567
2005	79,334
2006	105,139
2007	145,616
2008	155,046
2009	136,079
2010	167,453

Figure 18. **Number of institutions licensed under the Protection of Investors Law at the year end**

Year	Number of institutions
2003	428
2004	446
2005	486
2006	554
2007	636
2008	680
2009	661
2010	652

POLICY AND INTERNATIONAL AFFAIRS DIVISION

General

The Policy and International Affairs team has responsibility for coordinating many of the local and international policy issues facing the Commission, including changes to legislation. The team also has responsibility for the Commission's policies on the anti-money laundering and combating the financing of terrorism ("AML/CFT") framework, including the *Handbooks for Financial Services Businesses and Prescribed Businesses on Countering Financial Crime and Terrorist Financing* (the *Handbooks*).

Together with the Director General, it is the Commission's main link with the Policy Council and the Attorney General's office on policy matters. It is also the main link with certain international bodies, including the International Monetary Fund ("IMF"). In addition, the team coordinates a number of cross-divisional matters such as legislation.

Cooperation, coordination and feedback

The AML/CFT Advisory Committee met four times in 2010. The committee is a forum for closer coordination at a strategic level between the Attorney General's office, the Commission (including the Director of Policy and International Affairs), the Guernsey Border Agency including the Financial Intelligence Service, Police, Income Tax, the Guernsey Company Registry and the Alderney Gambling Control Commission in the prevention, detection, investigation and prosecution of money laundering and terrorist financing.

The Financial Crime Group (which includes the Commission's Deputy Director of Intelligence Services) reports to the Advisory Committee. Its objectives are primarily to discuss the implications for policy and practice of particular cases of interest and to provide practical assistance to interested parties. The group met four times in 2010. The Terrorist Finance Team, which was established by the group to coordinate action and responsibilities relating to terrorism matters, met four times in 2010.

In 2010 a new Sanctions Committee was established. This committee reports to the External Relations Group of the Policy Council and the AML/CFT Advisory Committee. It comprises representatives of the Policy Council, the Law Officers' Chambers, the Alderney Gambling Control Commission, the Guernsey Border Agency and the Commission, and replaces the informal network of these organisations which had previously liaised on sanctions matters. The committee, chaired by the Director of Policy and International Affairs, and on which the Deputy Director of Intelligence Services sits as a member, met twice in 2010. The committee's objectives are:

- to coordinate compliance with the UN sanctions and other relevant sanctions issued by supranational or international bodies; and
- to ensure effective compliance with UN and other relevant sanctions.

A new anti-bribery and corruption committee was also formed towards the end of the year. This committee reports to the AML/CFT Advisory Committee and its objectives are:

- to oversee and coordinate compliance with relevant anti-bribery and corruption standards or recommendations issued or recommended by supranational or international bodies or, where appropriate, by governments or committees in the British Isles; and
- to ensure effective compliance with relevant anti-bribery and corruption standards and measures.

The Director of Policy and International Affairs represents the Commission on the committee, which met once in 2010.

These new committees respond to the increasing global focus on sanctions, bribery and corruption.

AML/CFT developments and initiatives

In 2010 the Commission undertook 139 on-site inspections of institutions' AML/CFT frameworks. Sanctions were also issued by the Commission in respect of AML/CFT failings of some licensees.

The Commission maintained its programme of enhancements to the AML/CFT framework to seek to ensure the Bailiwick continues to meet the Financial Action Task Force ("FATF") Recommendations and Special Recommendations. In 2010, the Commission issued three further instructions in respect of business from sensitive sources. These instructions required financial services businesses and prescribed businesses in Guernsey to undertake enhanced customer due diligence measures and to pay special attention to business or transactions from countries or territories specified in the instructions.

Some modifications were made to the AML/CFT regulations and the Handbooks. In February the Criminal Justice (Proceeds of Crime) (Financial Services Businesses) (Bailiwick of Guernsey) (Amendment) (No. 2) Regulations, 2010 and the Criminal Justice (Proceeds of Crime) (Legal Professionals, Accountants and Estate Agents) (Bailiwick of Guernsey) (Amendment) (No. 2) Regulations, 2010 came into force. The principal amendments were the explicit designation of the Commission as the supervisory authority with responsibility for monitoring and enforcing compliance by financial services businesses and prescribed businesses with regulations and other measures made or issued under the Criminal Justice (Proceeds of Crime) Law, 1999 and the designation of the Commission as the competent authority to register certain financial services businesses and prescribed businesses (PBs) (firms of lawyers, accountants and estate agents).

AML/CFT developments and initiatives (continued)

During 2010 the Policy and International Affairs Division continued to administer the AML/CFT frameworks for non-regulated financial services businesses ("NRFSBs"), such as non-bank lenders and non bank bureaux de change, and PBs who are required to register with the Commission for the supervision of their compliance with the AML/CFT framework. As at the end of December, 49 firms were registered with the Commission to carry out non-regulated financial services business and 95 to carry out prescribed business. The Division undertakes on-site inspections of these businesses and during 2010 carried out 12 inspections of NRFSBs and eight of PBs.

International work

As indicated throughout this report, the Commission devotes significant resources to engaging with the international community.

The Policy and International Affairs Division monitors developments by the FATF, by attending the three plenaries held each year. During the year the FATF continued a review of its Recommendations and Special Recommendations. The Director sits on the two main working groups taking forward this work. The Assistant Director sits on the Europe/Eurasia Regional Group, a working group set up by the FATF to review jurisdictions which the FATF considers have strategic AML/CFT deficiencies. The Assistant Director attended four meetings of the group in 2010, three of which were in the margins of the FATF plenaries.

The Director is Chair of the International Association of Insurance Supervisors ("IAIS") Multilateral Memorandum of Understanding ("MMoU") Signatories Working Group. This group meets by teleconference and in the margins of the IAIS triannual meetings. In addition, the Director is Chair of the IAIS Working Group on the Self Assessment and Peer Review of Cooperation and Information Exchange.

The Director also sits on the Financial Stability Board Standing Committee on Standards Implementation – Experts Group on cooperation and information exchange. This group meets by teleconference. During the year, the Director participated in an evaluation of compliance by a jurisdiction with the international standards on cooperation and information exchange.

IMF surveys

The Commission provides statistics from Guernsey financial institutions to the IMF for its Coordinated Portfolio Investment Survey on an annual basis. Each year, institutions are asked to provide cross-border statistics in respect of Guernsey banks, open and closed-end collective investment funds, insurers, insurance intermediaries/brokers and special-purpose vehicles. The statistics for 2009 were obtained in respect of 114 institutions, representing 1,165 entities. Table 7 provides a summary of the results for 2009.

The total value of assets reported for Guernsey financial institutions as at 31 December 2009 was US$193.5 billion, an increase of US$23.2 billion over the assets reported in the 2008 survey. Figure 19 shows the results from Guernsey institutions over the last eight years. There has been a significant increase in the total value of assets held over this period, reflecting global economic conditions. During 2010 the Commission participated for the sixth time in the IMF's information dissemination and monitoring framework initiative. The information provided helps to improve transparency in the activities of finance centres around the world and aids the IMF and policymakers in the major countries in formulating a view as to the size, type and global impact of individual finance centres. Participating jurisdictions provide the IMF with statistics relating to banks, insurers, collective investment funds and company and trust service providers, together with high-level data for the finance sector and the jurisdiction as a whole.

Table 7. **IMF Coordinated Portfolio Investment Survey 2009**

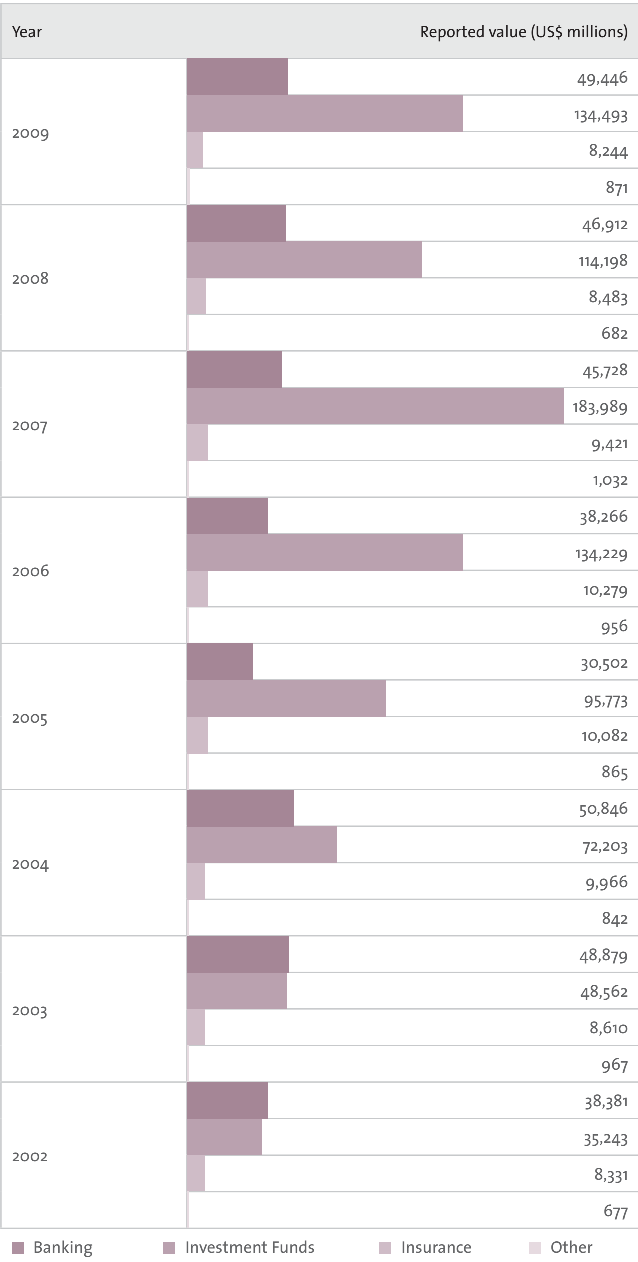
Cross-border securities* owned by institutions in the Bailiwick of Guernsey at end 2009 (US$ millions)

Sector	Equities	Short-term debt	Long-term debt	Total
Banks	576	24,241	24,629	49,446
Domestic insurers	–	0	36	36
Life insurers	2,748	13	1,584	4,344
Insurance managers and captives	196	2,201	1,467	3,864
Insurance intermediaries	–	–	–	–
Open and closed-ended collective investment funds	93,189	7,215	34,088	134,493
Special-purpose vehicles	–	–	–	–
States of Guernsey	191	382	298	871
Total	96,900	34,052	62,102	193,054

* The IMF Coordinated Portfolio Investment Survey includes information on cross-border holdings of equities, short-term debt and long-term debt. It does not include other assets, such as cash, derivatives, Islamic investments or property.

Figure 19. **IMF Coordinated Portfolio Investment Survey**

Cross-border securities reported by business sector at the year end



Other developments

In 2010 the Policy and International Affairs Division issued a draft finance sector code on corporate governance for consultation. There was significant feedback from the sector and in October 2010 a revised code was issued to the industry-specific associations for discussion. The code was issued for consultation again to the whole finance sector in April 2011, with the aim of issuing the final version as early as possible in 2011. Licensees will have a transitional period of six months until the code comes into effect in the autumn.

The Division is responsible for coordinating the signing of cooperation and information exchange agreements, such as Memoranda of Understanding ("MoU") between the Commission and overseas supervisory bodies. In October 2010, the Commission was accepted as a signatory to the IAIS MMoU. This was an important milestone as the Commission is now a signatory to both of the existing global MMoUs (i.e. those of the International Organisation of Securities Commissions and the IAIS). In addition, the Commission agreed to the extension of one existing MoU and signed one new MoU. Effective cooperation and information exchange are attracting increasing global focus so will be important to continue to ensure that the Commission pays close attention to this area of activity.

The Division is also the main link between the Commission and the IMF. In March, the IMF carried out the first part of its Finance Sector Assessment Program evaluation of the Bailiwick, which covered financial stability, and banking, insurance and investment supervision. This was followed in May by the IMF's evaluation of the Bailiwick's criminal justice and supervisory AML/CFT frameworks. The six reports resulting from the IMF's evaluations are available on the Commission's website.

Guernsey, like Jersey and the Isle of Man, has emerged well from the IMF's evaluations of our financial supervision and criminal justice frameworks. The quality of the standards which apply to supervised firms in Guernsey, the effectiveness of our supervision and the reality of what firms do in practice reflect the importance and commitment the Bailiwick attaches to effective supervision, and deterring economic criminals, money launderers and terrorist financiers. None of the IMF's recommendations are substantial and the large majority are technical. Some technical legal amendments have already been made, particularly in relation to banking supervision. Work began in 2010 on addressing the remaining recommendations; these will be addressed as soon as possible.

With effect from 1 January 2011, the policy and international affairs team transferred to the Director General's Division to reflect better the over-arching nature of the functions of the policy and international affairs team.

Key objectives for 2011

- Finalise the proposed finance sector code of corporate governance.
- Take forward a consistent and enhanced legal framework for the issue of sanctions by the Commission.
- Progress consolidation of the main supervisory legislation.
- Progress the Commission's responses to the IMF's recommendations in its evaluation reports on Guernsey.
- Plan, coordinate and oversee the Commission's relationships with international authorities and bodies.

FINANCE AND OPERATIONS' STATEMENTS

FINANCE AND OPERATIONS DIVISION

General

The Division is responsible for key support services to the Commission, including financial and management information, communication and information systems, human resources, facilities management and general administration.

Financial information

The financial statements are shown on pages 50 to 61.

The overall surplus for the year is £916,224 compared to the deficit in 2009 of £326,283. The improved result combines an increase in fee revenue, a reduction in interest received, following the continued low deposit interest rates throughout 2010, and a slight increase in expenses. Revenue and costs by sector are set out in Table 8.

Table 8. **Income and expenses by sector**

	Banking		Fiduciary		Insurance		Investment business		Non regulated financial services businesses and prescribed businesses		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Number of regulated & registered entities	38	44	187	197	746	760	1,845	1,869	144	97	2,960	2,967
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fee income	1,533	1,163	1,976	1,696	2,483	2,307	5,271	4,616	99	73	11,362	9,855
Direct costs	(1,159)	(1,304)	(995)	(987)	(1,446)	(1,827)	(2,017)	(1,944)	(40)	(40)	(5,657)	(6,102)
Interest income	13	30	17	39	24	56	53	122	0	0	107	247
Common costs	(813)	(712)	(841)	(738)	(1,198)	(1,072)	(1,978)	(1,754)	(66)	(50)	(4,896)	(4,321)
Surplus/(deficit)	(426)	(823)	157	10	(137)	(536)	1,329	1,040	(7)	(17)	916	(326)

Salary and related costs for the year were £7,671,235 compared to £7,269,471 in 2009. An analysis of this figure is provided in Table 9, and an analysis of the number of staff in each salary band is shown in Table 10.

Table 9. **Salaries and related costs**

	2010	2009
	£'000	£'000
Salaries and consultants' costs	6,004	5,783
Pension costs	875	794
Social insurance, permanent health and medical insurance	548	523
Recruitment and training	244	169
Total	7,671	7,269

Table 10. **Number of staff by salary band (includes part time staff)**

Annual salary	2010	2009
£0 – £39,999 p.a.	36	40
£40,000 – £79,999 p.a.	52	42
£80,000 – £119,999 p.a.	10	8
£120,000 p.a. and above	7	7
	105	97

The number of full-time equivalent employees at 31 December 2010, including vacancies, was 100 (2009: 95).

The Commission has been successful in reducing its legal and professional costs in respect of investigative and enforcement activity in 2010, partly as a result of appointing an in-house Commission Counsel. This cost reduction, combined with robust cost control elsewhere, resulted in expenses for the year ended 31 December 2010 being £10,552,553, an increase of 1.2% over 2009 and compared to an annual rate of inflation of 2.3%.

The deficit in the pension scheme at December 2010 reported under Financial Reporting Standard 17 ("FRS 17") is £4,544,263, a slight increase of £51,019 compared to 2009, reflecting a narrowing of the discount rate used to present-value the future liabilities of the scheme, partially offset as a result of the actual investment return for the year being higher than expected. As this valuation is a point-in-time calculation, it can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits. The scheme's actuary carried out a

Financial information (continued)

full actuarial valuation of the scheme as at 31 December 2007, for funding calculation purposes, which showed a funding shortfall of £225,000. We have also requested the actuary to prepare an estimated funding valuation as at 31 December 2010 which shows an increased shortfall of £2,579,000, a figure considerably lower than that disclosed by the FRS 17 valuation of £4,544,263.

This defined benefit pension scheme is part of the States of Guernsey Superannuation Fund (the "Fund"). The States have made changes to the Fund rules which, in their view, should, over time, help to reduce the deficit that the Commission is currently carrying on its balance sheet. However, the decision was made in 2007 that we could no longer accept the ongoing uncertainties associated with all defined benefit schemes which arise from the increasing levels of life expectancy and the varying investment performance of the funds. The Commission therefore adopted a new defined contribution scheme for staff generally joining from 1 January 2008 onwards. Those staff who were already members of the defined benefit scheme at that date continue to be eligible for membership of that scheme, although the terms of the scheme are currently under review, but under the present arrangements the need remains for proper resourcing. The States of Guernsey has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the Fund would then be met by the States of Guernsey from general revenue.

In 2008 the Commission's policy on reserves was amended to increase the target for retained reserves from a sum equivalent to a minimum of six months' expenditure to one of 12 months' expenditure. This change was made in light of the Commission's aim to be able to absorb unexpected or exceptional costs without putting its solvency at risk. The results for 2010, mean that the Commission now has now increased its reserves to £2,442,899 equivalent to 2.8 months' worth of annual expenditure.

When setting fees for 2011, we had to take account of the reserves position, whilst still bearing in mind the challenging environment in which regulated firms operate. We took note of the responses received from industry during the fee consultation period and this has led the Commission to revise its long-term objective for reserves from 12 to six months' worth of expenditure. However, it was necessary to increase banking, fiduciary services and insurance sector fees substantially in order to cover the higher level of costs experienced in regulating these sectors. The increases have also been necessary to rebalance the fees between sectors, to fund the increasing amount of more intensive and complex regulation that is now required, and to allow the Commission to rebuild its reserves over time.

The Commission has committed to undertake a review of its operations, embracing not only quantitative value issues but also strategic issues to ensure that the Commission is operating in the most efficient manner to meet those objectives. It has appointed Ernst & Young to conduct this review, which is expected to be completed by the end of 2011.

The Commission has continued its relationship with the GTA University Centre ("GTA"). It contributed £440,000 in 2010 and has committed to provide funding at the same level in 2011 on condition that its finances so permit.

However, the Commission believes that the provision of funding for an external training institution is no longer a core function of a financial services regulator, particularly as its funding of the GTA cannot be isolated for finance sector training. The Commission will therefore cease to fund the GTA by the beginning of 2013.

Fee legislation

The fees regulations for the banking, fiduciary, insurance, investment and the non-regulated financial services business sectors were revised with effect from 1 January 2010. At the same time annual fees were introduced into the prescribed business regulations.

A list of the current regulations prescribing fees payable to the Commission is included below:

- The Financial Services Commission (Fees) Regulations, 2010
- The Protected Cell Companies and Incorporated Cell Companies (Fees for Insurers) Regulations, 2010
- The Criminal Justice (Proceeds of Crime) (Legal Professionals, Accountants and Estate Agents) (Bailiwick of Guernsey) (Amendment) (No.3) Regulations, 2010
- The Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) (Fees) Regulations, 2010
- The Amalgamation and Migration of Companies (Fees payable to the Guernsey Financial Services Commission) Regulations, 2010

Copies of the fees regulations and a summary of the fees payable are available on the Commission's website at www.gfsc.gg.

Communications and information systems

Information systems remain critical to the Commission's operation and during 2010 further enhancements were made to our central regulatory database, and its integration with other Commission systems continued.

Our new website was released during 2010, making use of up-to-date secure technologies in preparation for a project to implement electronic regulatory reporting by licensees and applicants in future years. We have also implemented a consistent method for recording, tracking and scanning inbound paper-based communications from licensees in preparation for the elimination of paper records.

Further work is scheduled for 2011, including the migration of further Commission data into the central database and the use of enhanced document handling and records management features.

The security and protection of our information remain a key element in the development and enhancement of our systems, and were also significant considerations in our move to new premises in Glategny Court during 2010.

Human resources

The Commission remains aware of industry's concerns about any increase in the Commission's headcount and will only recruit additional staff where it is necessary.

The Director of Investment Business, Peter Moffatt, retired at the end of January 2011 and has been replaced by his former deputy Carl Rosumek.

The Director of Insurance, Diane Colton, and the Director of Fiduciary Services, Stephen Trevor, both resigned their positions in quarter four of 2010. The Commission is pleased to announce the appointment of their replacements, Jeremy Quick and Philip Nicol-Gent.

Commissioners

In February 2010 Peter Harwood was re-elected as Chairman for a further term of one year and Alex Rodger was re-elected as a Commissioner for a further three-year term.

Facilities management

The Commission moved into new premises at Glategny Court in September 2010. The new premises provide larger and better accommodation in a single more efficient site, which is less costly to operate and provides a more modern working environment. The lease on our previous offices at La Plaiderie Chambers has been surrendered with no ongoing liabilities.

The Commission's other offices at Le Marchant House have become its dedicated business recovery facility until the lease expires, and an advanced desktop exercise will be conducted in May 2011.

Key objectives for 2011

- Implement phase one of electronic document submission allowing licensees to submit returns such as annual reports, thus providing benefits to both regulated entities and the Commission as the project is developed.
- Introduce a telephone recording system for the better efficiency and effectiveness of the Commission.
- Work with the States Public Sector Remuneration Committee on the review of the States Public Servants Pension Scheme, with a view to reducing the risks associated with all defined benefit schemes.
- Implement a human resources strategy to encourage staff development and to encourage movement between Divisions, reducing turnover and strengthening succession planning.
- Conduct a non-regulatory risk management audit and establish a risk identification and monitoring register.
- Conduct an advanced business continuity desktop exercise from the new premises at Glategny Court.

INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

We have audited the financial statements of the Guernsey Financial Services Commission (the "Commission") for the year ended 31 December 2010 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Commissioners, as a body, in accordance with our Terms of Engagement as detailed in our letter dated 13 November 2009. Our audit work has been undertaken so that we might state to the Commissioners, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

Statement of Commissioners' responsibilities

The Commissioners are required by the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended to prepare financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and UK Accounting Standards. In preparing these financial statements, the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue to operate.

The Commissioners are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission and to enable them to ensure that the financial statements have been prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

Respective responsibilities of Commissioners and auditor

As explained more fully above, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2010 and of its surplus for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended.

KPMG Channel Islands Limited
Chartered Accountants
Guernsey
5 May 2011

It is and shall remain the responsibility of the Commission to ensure that any electronic publication or distribution of the financial statements properly presents the financial information and our report. The Commission shall ensure that financial information on the Commission's website distinguishes clearly between financial information that we have audited and other information and avoids any inappropriate association. The Commission shall retain responsibility for the controls over and the security of the Commission's website and our work shall not extend to any consideration or examination of such matters, which shall be beyond the scope of our audit of the financial statements.

FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2010

	Note	2010	2009
		£	£
Income	2		
Fees receivable	1(b)	11,362,101	9,854,609
Interest on deposits with States Treasury and banks	1(c)	106,676	246,503
		11,468,777	10,101,112
Expenses			
Salaries, pension costs, staff recruitment and training		7,671,235	7,269,471
Commissioners' fees		118,000	117,762
Legal and professional fees		310,143	841,813
Premises and equipment, including depreciation	1(e), 1(f), 4, 10	1,058,709	851,647
Other operating expenses		737,928	757,474
Other finance costs	1(g), 7(b)	205,818	143,228
Auditor's remuneration		10,720	11,000
		10,112,553	9,992,395
Commission's contribution to expenses of GTA University Centre	9	440,000	435,000
		10,552,553	10,427,395
Surplus / (deficit) for the year		£916,224	£(326,283)

There is no difference between the surplus for the financial year as stated above and its historical cost equivalent.

The notes on pages 54 to 61 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2010

	Note	2010	2009
		£	£
Surplus / (deficit) for the year		916,224	(326,283)
Actuarial gain / (loss)	7(e), (k)	228,181	(1,852,814)
Total recognised gains / (loss) for the year		£1,144,405	£(2,179,097)

The notes on pages 54 to 61 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2010

	Note	2010 £	2009 £
Fixed assets			
Tangible assets	4	2,631,530	1,360,447
Current assets			
Debtors	5	410,473	394,284
Deposits with States Treasury	14	20,565	20,416
Cash at bank and in hand	14	5,190,073	4,863,737
		5,621,111	5,278,437
Creditors – amounts falling due within 1 year	6	(1,265,479)	(847,146)
Net current assets		4,355,632	4,431,291
Net assets before post-retirement liability		6,987,162	5,791,738
Post-retirement liability	7(a), (k)	(4,544,263)	(4,493,244)
Net assets		£2,442,899	£1,298,494
Reserves	8	£2,442,899	£1,298,494

The financial statements on pages 50 to 61 were approved by the Commissioners and signed on their behalf on [ ] 2011 by:

P A Harwood
Chairman

D J Mallett
Vice-Chairman

JN van Leuven
Director General

The notes on pages 54 to 61 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2010

	Note	2010 £	2009 £
Reconciliation of surplus / (deficit) for the year to net cash inflow / (outflow) from operating activities			
Surplus / (deficit) for the year		916,224	(326,283)
Other finance costs	7(b)	205,818	143,228
Current pension service cost	7(c)	832,738	568,560
Past pension service cost	7(c)		128,886
Contributions made to pension schemes	7(d)	(759,356)	(1,762,694)
Depreciation on tangible fixed assets	4	341,345	302,846
Interest receivable		(106,676)	(246,503)
Increase in debtors		(16,189)	(4,115)
Increase / (decrease) in creditors		418,333	(294,533)
Net cash inflow / (outflow) from operating activities		£1,832,237	£(1,490,608)
Return on investments and capital expenditure			
Returns on investments and servicing of finance – interest		106,676	246,503
Capital expenditure	4	(1,612,428)	(827,922)
Increase / (decrease) in cash in the year		£326,485	£(2,072,027)
Reconciliation of net cash flow to movements in net cash			
Increase / (decrease) in cash in the year	14	326,485	(2,072,027)
Net cash at 1 January	14	4,884,153	6,956,180
Net cash at 31 December	14	£5,210,638	£4,884,153

The notes on pages 54 to 61 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Accounting policies

(a) Convention

These financial statements have been prepared in accordance with the historical cost convention and under applicable accounting standards in the United Kingdom. The principal accounting policies which the Commissioners have adopted within that convention are set out below. They have been applied consistently in dealing with items which are considered material to the financial statements of the Commission.

(b) Fees receivable

Fees receivable are accounted for on an accruals basis.

(c) Interest

Bank and States Treasury deposit interest is accounted for on an accruals basis.

(d) Investigation and litigation

Costs arising from investigation and litigation are accounted for as expenditure is incurred, whether or not it had been billed at the balance sheet date. Such costs recovered from third parties are accounted for in the year in which they are received. No provision is made for expenditure or recoveries which may arise in future years.

(e) Tangible fixed assets and depreciation

Depreciation on tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives at the following annual rates:

Leasehold improvements	over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment and fittings	25% straight-line
Computer equipment:	
Hardware	33⅓% straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(f) Leases

Rental payments made in relation to office accommodation are treated as operating leases and are charged to the income and expenditure account on a straight-line basis over the lease term.

(g) Pensions

Employees of the Commission who generally joined before 1 January 2008 are eligible to be members of the States of Guernsey Superannuation Fund ("the Fund") which is a defined benefit pension scheme funded by contributions from both the member and the employer.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members ("the scheme") was established with effect from 1 January 2004. Regular valuations are prepared by independent professionally qualified actuaries.

In accordance with Financial Reporting Standard 17 - Retirement Benefits ("FRS 17"), the regular service costs of providing retirement benefits to employees during the year, together with any past service costs, are charged to the income and expenditure account in the year.

A debit is included within Other finance costs, representing the interest cost on the scheme's liabilities, less the expected return on the scheme's assets, for the year. A credit is included within Other finance income where the expected return on the scheme's assets exceeds the interest cost.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet.

Differences between the actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year together with differences arising from changes in assumptions and experience gains and losses arising on the scheme liabilities.

Employees of the Commission joining since 1 January 2008 are generally eligible to be members of the Island Trust Pension Plan ("the DC Plan") which is a defined contribution pension scheme funded by contributions from both the member and the employer. Employer contributions are charged to the income and expenditure account in the year in which they become payable to the DC Plan.

2. Income

Income is derived wholly from continuing activities.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Guernsey) Law, 1975 as amended.

4. Tangible assets

	Leasehold improvements	Office equipment and fittings	Computer hardware	Computer software	Total
	£	£	£	£	£
Cost					
At 1 January 2010	429,183	683,316	779,318	1,319,461	3,211,278
Additions	928,666	281,766	60,943	341,053	1,612,428
Disposals	(101,272)	(592,784)	(393,463)	(259,805)	(1,347,324)
At 31 December 2010	1,256,577	372,298	446,798	1,400,709	3,476,382
Depreciation					
At 1 January 2010	98,932	655,571	592,892	503,436	1,850,831
Charge for the year	22,676	26,519	113,135	179,015	341,345
On disposals	(101,272)	(592,784)	(393,463)	(259,805)	(1,347,324)
At 31 December 2010	20,336	89,306	312,564	422,646	844,852
Net book value at 31 December 2009	£330,251	£27,745	£186,426	£816,025	£1,360,447
Net book value at 31 December 2010	£1,236,241	£282,992	£134,234	£978,063	£2,631,530

5. Debtors

	2010	2009
	£	£
Amount due from GTA University Centre	25,006	67,510
Other debtors	53,000	52,688
Prepayments	332,467	274,086
	£410,473	£394,284

6. Creditors – amounts falling due within one year

	2010	2009
	£	£
Expense creditors and accruals	341,779	695,436
Fees received in advance	923,700	151,710
	£1,265,479	£847,146

7. Superannuation

(i) FRS 17 Disclosure for the Guernsey Financial Services Commission Actuarial Account of the States of Guernsey Superannuation Fund

Employee benefit obligations

This is a defined benefit pension scheme funded by contributions from both the member and the employer which provides retirement benefits based on final pensionable salary. The employer contributions are determined on the basis of independent actuarial advice and are calculated to meet the cost of benefit accrual over the next year of pensionable service.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members ("the scheme") was established with effect from 1 January 2004 within the Fund following an instruction from the former States Advisory and Finance Committee. The Actuarial Account is used solely for the purpose of determining the contributions payable to the Fund by the Commission and to avoid the possibility of inappropriate subsidisation of one employer by another.

A full actuarial valuation of the scheme was carried out at 31 December 2007 by the scheme's actuary, which calculated in a funding shortfall of £225,000. The scheme's actuary has also completed valuations annually, as at 31 December, since 2005 for the purposes of FRS 17.

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The net pension liability and other FRS 17 disclosures include amounts relating to employees and former employees of the Commission who are, or were, on permanent secondment to the GTA University Centre.

(a) The amounts recognised in the balance sheet are as follows:

	2010	2009
	£	£
Fair value of Fund assets	14,811,865	12,344,058
Present value of funded obligations	(19,356,128)	(16,837,302)
Net pension liability	£(4,544,263)	£(4,493,244)

The asset and liability values on the FRS 17 basis reflect market conditions at the Commission's year-end date and, as point-in-time calculations, can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits.

The actuarial valuation prepared as at the year-end date disclosed a lower funding shortfall of £2,579,000 (2009: £2,998,000).

7. Superannuation (continued)

(b) The amounts recognised in the income and expenditure account are as follows:

	2010	2009
	£	£
Interest on obligation	955,312	717,137
Expected return on Fund assets	(749,494)	(573,909)
Other finance costs	205,818	143,228
Current service cost	832,738	568,560
Past service cost	–	128,886
Expense recognised in income and expenditure account	£1,038,556	£840,674
Actual return on Fund assets	£1,542,554	£1,514,212

(c) Changes in the present value of the defined benefit obligation are as follows:

	2010	2009
	£	£
Opening defined benefit obligation	(16,837,302)	(11,987,385)
Current service cost	(832,738)	(568,560)
Past service costs	–	(128,886)
Interest on obligation	(955,312)	(717,137)
Contributions by members	(318,054)	(323,563)
Actuarial losses on obligations	(564,879)	(2,793,117)
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	152,157	(318,654)
Closing defined benefit obligation	£(19,356,128)	£(16,837,302)

(d) Changes in the fair value of Fund assets are as follows:

	2010	2009
	£	£
Opening fair value of Fund assets	12,344,058	8,424,935
Expected return on Fund assets	749,494	573,909
Actuarial gains on Fund assets	793,060	940,303
Contributions by employer	759,356	1,762,694
Contributions by members	318,054	323,563
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	(152,157)	318,654
Closing fair value of Fund assets	£14,811,865	£12,344,058

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Superannuation (continued)

(e) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

		2010	2009
		£	£
Opening amount of losses recognised in STRGL		(4,504,347)	(2,651,533)
Actuarial losses on obligations for the year	7(c)	(564,879)	(2,793,117)
Actuarial gains on Fund assets for the year	7(d)	793,060	940,303
Total actuarial gains/(losses) for the year		228,181	(1,852,814)
Cumulative amount of losses recognised in STRGL		£(4,276,166)	£(4,504,347)

(f) The Employer expects to contribute £674,371 to the Fund in the year ended 31 December 2011. Following the actuarial valuation of the Fund as at 31 December 2007, the actuary recommended that the Commission's contribution rate payable to the Fund be increased to 17.8% from 15.5% (the rate recommended by the actuary after the previous actuarial valuation on 31 December 2004). In common with the approach adopted by the States of Guernsey in respect of its own employees, as previously reported, the Commissioners decided not to increase the contribution rate payable to the Fund because the scheme remained under review at that time. The rate therefore remained at 10.4% until the end of 2008. The contribution rate was increased to 17.8% with effect from 1 January 2009. However the current service cost, calculated in accordance with FRS 17 and representing the cost to the Commission of the benefits accrued to active members of the scheme during the financial year ended 31 December 2010, has been reflected in the Commission's income and expenditure account. The employee contribution increased from 6% to 6.5% from 1 January 2008.

(g) The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2010	2009
	%	%
Equities	69	49
Gilts	4	12
Corporate bonds	15	15
Property	4	4
Other assets	8	20

This allocation is at the discretion of the States of Guernsey.

(h) Long-term principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	2010	2009
	%	%
Discount rate as at 31 December	5.4	5.7
Expected return on Fund assets at 31 December	6.6	5.9
Rate of increase in pensionable salaries	5.1	5.1
Rate of increase in deferred pensions	3.8	3.8
Rate of increase in pensions in payment	3.8	3.8

7. Superannuation (continued)

The FRS 17 standard refers to a discount rate determined as the current rate of return on high-quality corporate bonds (normally taken to be rated as AA) of equivalent currency and term to the actuarial account's liabilities.

At 31 December 2007, the AA corporate bond yield curve was relatively flat over all durations. Due to the impact of the "credit crisis" during 2008, the AA corporate bond yield curve as at 31 December 2008 was no longer flat and the spread on yields had significantly widened. In addition, there are very few corporate bonds at the longer durations of suitable quality.

As a result, the discount rate has been determined based on a UK Corporate Hybrid AA swap yield curve at the duration of the Actuarial Account's liabilities as at 31 December 2010.

(i) Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that members aged 60 will live on average until age 85 if they are male and until 88 if female. For members currently aged 45 the assumptions are that if they attain age 60 they will live on average until age 87 if they are male and until 89 if female.

(j) Description of the basis used to determine return on Fund assets

The States of Guernsey adopts a building block approach in determining the expected rate of return on the Fund's assets. The States of Guernsey retains full responsibility for the management of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at disclosure at year end.

(k) Amounts for the current and previous periods are as follows:

	2010	2009	2008	2007	2006
	£	£	£	£	£
Defined benefit obligation	19,356,128	16,837,302	11,987,385	11,267,735	9,743,190
Fair value of Fund assets	14,811,865	12,344,058	8,424,935	9,701,884	8,545,198
Deficit in the scheme	(4,544,263)	(4,493,244)	(3,562,450)	(1,565,851)	(1,197,992)
Experience gains / (losses) on Fund assets	793,060	940,303	(2,660,642)	(113,976)	111,851
Total experience (losses) / gains / on defined benefit obligation	(564,879)	(2,793,117)	1,086,777	45,858	367,143
Actuarial gains /(losses) recognised in STRGL	£228,181	£(1,852,814)	£(1,573,865)	£(68,118)	£478,994

The States of Guernsey has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the Fund would then be met by the States of Guernsey from General Revenue.

(ii) FRS 17 Disclosure for the Island Trust Pension Plan ("the DC Plan")

The net cost of employer contributions to the DC Plan for the year ended 31 December 2010 was £143,370 (2009: £81,074). Contributions of £4,034 were outstanding as at 31 December 2010 (2009: £19,372). No contributions were prepaid as at 31 December 2010 or 2009. Employer contributions are calculated at 12% of pensionable salary and mandatory employee contributions are at a rate of 5% of pensionable salary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Reconciliation of movements in reserves

		2010	2009
		£	£
Reserves brought forward		1,298,494	3,477,591
Surplus / (deficit) of income less expenditure for the year		916,224	(326,283)
Actuarial gain/ (loss) on post-retirement liability	7(e)	228,181	(1,852,814)
Reserves carried forward		£2,442,899	£1,298,494

Reserves are stated after deducting the accumulated pension liability of £4,544,263 (2009: £4,493,244) which equates to the post-retirement liability under FRS 17 (see note 7).

9. GTA University Centre

The GTA University Centre (GTA) arranges training for the finance industry and for other industry sectors. The company's staff, excluding its Chief Executive and staff joining since 2007, are employed by the Commission and permanently seconded to the company. The Commission provided a grant of £440,000 in 2010 (2009: £435,000) to the company in order to meet approximately 50% of its budgeted net operating expenditure, with £445,000 being provided by the States of Guernsey via the Commerce and Employment Department.

10. Lease commitments

The Commission leased office accommodation at Glategny Court, La Plaiderie Chambers and Le Marchant House during the year. The lease for La Plaiderie Chambers was assigned on 30 September 2010. The lease for Glategny Court expires on 16 September 2034 and the underlease for Le Marchant House on 10 December 2011. The rentals payable in 2010 under the terms of the leases amount to £414,218 (2009: £318,810).

Commitments to make payments during the next year in respect of an operating lease are as follows:

Land and buildings

	2010	2009
	£	£
Leases which expire up to 1 year after balance sheet date	£39,310	£13,500
Leases which expire between 1 and 5 years after balance sheet date	–	£50,291
Leases which expire more than 5 years after balance sheet date	£631,078	£266,000

11. Investigation and litigation costs

As a consequence of fulfilling its regulatory responsibilities, from time to time the Commission undertakes investigations and is a party to legal actions, the costs of which may be significant. No provision has been made in the financial statements for any future costs in respect of current investigations or legal actions because the nature, complexity and duration of such actions remain uncertain.

In a few cases, some or all of the Commission's investigation and legal costs may be recoverable, although not necessarily in the same financial year as the expenditure is incurred. In such cases the recovery is recognised when received.

12. Related-party transactions

The States appointed Peter Harwood, who was a partner of Ozannes, now Mourant Ozannes, until 31 December 2009, as a Commissioner in August 2004. During the year the Commission engaged Mourant Ozannes to provide certain legal and professional services. These were contracted on an arm's-length basis and are not considered to be significant in the context of the business of the parties.

13. Controlling party

In the opinion of the Commissioners there is no controlling party of the Commission, as defined by Financial Reporting Standard No. 8 – Related Party Disclosures, as no party has the ability to direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction.

14. Analysis of net cash

	At 1 January 2010	Cash flow	At 31 December 2010
	£	£	£
Deposits with States Treasury	20,416	149	20,565
Cash at bank and in hand	4,863,737	326,336	5,190,073
	£4,884,153	£326,485	£5,210,638

GTA UNIVERSITY CENTRE

General

During 2010 the GTA University Centre ("GTA") has once again proved to be very successful in facilitating high-quality training and development initiatives for the Bailiwick workforce.

An extensive education and training programme took place throughout the year and the GTA's study centres continued to act as focal points for education and training within St Peter Port. Staff at the GTA have worked closely with all the stakeholders in determining training priorities and meeting their requirements.

At the end of 2010 students registered with the GTA had made 7,000 visits to the Centre, 500 training events attracted 6,000 delegates. Additionally 209 examinations took place during which 913 candidates were examined on a range of award-bearing subjects. Statistics for the year are listed in Table 11.

In September 2010 five members of the Board resigned: Martyn Mann, Chris Bound, Dudley Jehan, Keith Dorrien and Dame Mary Perkins. The Board, the Executive and the staff wish to put on record their appreciation of the contribution that all five made to the development of the GTA University Centre. Their unstinting support and endorsement of the work of the GTA helped the institution develop and flourish during their years as Directors.

In December Mr Neville Roberts replaced Mr Nik van Leuven as a Director. Mr van Leuven remains as a Trustee.

Professor Richard Conder informed the Board of his intention to retire at the end of January 2011, and Mrs Fiona Naftel was appointed as his successor.

The GTA continues to be part-funded by the finance sector through the Guernsey Financial Services Commission and the Commerce and Employment Department.

Following the report by Frontier Economics, commissioned by the Commerce and Employment Department, into the review of government investment in upskilling Guernsey's workforce, a skills strategy development group was formed. This group is looking at a skills strategy for the Bailiwick of Guernsey and is likely to produce a draft report in March 2011. The GTA is represented on this group.

During 2010 the Policy Council and the GTA continued to work together effectively, enabling staff from the private and public sectors to share development and ensuring cost savings are achieved.

During 2010 the GTA continued to work with local branches of finance associations and professional institutes, such as the Guernsey International Business Association and Guernsey Financial Services Commission, to maintain the accuracy of the qualifications matrices for each of the four sectors of the finance industry. These matrices are published on the GTA's website and are accessed regularly by a variety of interested parties for reference purposes. In parallel the GTA continues to work with on-island finance institutions and professional bodies utilising advisory and education forums focused upon each sector of the finance industry. These groups are important in providing strategic direction for the development of finance education and training within the Bailiwick.

The strategic relationship between the College of Further Education ("the College") and the GTA continues to be maintained through the Senior Management Forum. The members of the Forum are the Principal and Vice Principal of the College and the Chief Executive and the Deputy Chief Executive of the GTA. Both the College and the GTA strive to ensure that there is no duplication of training in the market place and that the courses offered by each are complementary.

The partnership with Jersey Highlands College continues to operate successfully. This initiative was designed to improve pan-island cooperation and is run by the GTA on a commercial basis. The Southampton Masters degree in Business Administration ("MBA") and the Chartered Institute of Marketing Programmes continue to be delivered successfully by the GTA in Jersey. In February, following a review panel meeting in Guernsey Bournemouth University reaccredited the GTA as a University Centre.

Table 11. **Comparative statistics 2010**

Comparative event / delegate numbers

Key Statistics	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Registered number of students	214	190	99[3]	92[1]	1,012	1,003	951	887	818	715	614	485	415	254
Recorded number of study sessions	6,914	4,507[4]	609[3]	1,719	1,676	2,572	2,731	2,341	1,971	2,731	2,423	3,113	2,875	1,693
Number of training events	502	510	635 (134[2])	440	400	386	321	322	295	254	270	227	253	154
Number of delegates attending	5,935	5,403	7,798 (1,270[2])	6,191	5,968	5,253	4,695	4,463	2,811	2,549	2,221	2,674	1,362	528
Number of examination days	83	85	67	78	71	114	113	92	69	53	50	39	41	26
Number of examinations	209	159	107	124	147	199	236	194	158	140	144	69	*	*
Number of examination candidates	913	806	558	575	636	757	874	793	686	599	602	579	*	*
Total hits on website[5]	118,068	58,791	34,660	36,949	31,136	24,976	*	*	*	*	*	*	*	*

* Not previously recorded
1 Registrations discontinued due to the closure of the Nelson Place Study Centre
2 Public sector delegates
3 Morningside House Study Centre opened 18 September 2008 (was unavailable March-Sept)
4 Data from Study Centre door records
5 Pageviews

Award-bearing programmes

Postgraduate and undergraduate programmes 2010

This year the GTA continued to expand its programme of postgraduate and undergraduate courses in partnership with some of the UK's leading universities.

This included the launch of five new programmes, including, for the first time, a Graduate Diploma in Law and a Foundation Degree in Business and Management run in conjunction with Bournemouth University.

A record number of students also enrolled in the MSc Corporate Governance programme and a second cohort was recruited for the MSc Management with Human Resources, both of which are delivered by Bournemouth University.

Nine students graduated in 2010 with an MBA from the University of Southampton, three of them with distinction and four with merit. In addition, 12 new students successfully completed the first year of their studies of this highly acclaimed, Association of MBAs-accredited programme.

The GTA continued to work closely with the public sector and in conjunction with the Policy Council and Bournemouth University; it designed a Postgraduate Certificate in Professional Studies for graduate trainees within the Civil Service. The year saw the first two students successfully graduate from the programme and four new students complete their first year of study.

All of the GTA's postgraduate programmes are run part-time, over a two-year period and are delivered on island by experts working in their own fields of study. Students then have a further six months to complete a major project of their own choice and the GTA is able to provide mentoring support on island if required. Seventeen MSc Corporate Governance, nine MSc Management with Human Resources and 12 MBA students began this dissertation stage of their studies in 2010.

In 2010 a record numbers of students enrolled in GTA postgraduate and undergraduate programmes growing the total number of people engaged in on-island higher education to well over one hundred by the close of the year.

The GTA offered a number of award-bearing programmes in 2010 in a variety of subject areas, ranging from marketing to mediation.

The Chartered Management Institute ("CMI") level 5 Diploma in Management and Leadership, which commenced in October, again recruited well with 10 delegates and for the first time we were able to offer the CMI level 7 Diploma in Strategic Management and Leadership. CMI Level 2 and Level 3 management qualifications were offered in conjunction with the Guernsey Business School. These courses are also run in partnership with the public sector and the mix of public/private delegates strongly enhances the group discussions and learning that take place.

The GTA has also again been successful in recruiting a cohort of students from Jersey and Guernsey on to the CMI Professional Certificate in Marketing.

The Project Management course Prince2 continued to recruit well and there were two runs with 100% pass rate at the Foundation Stage.

The GTA also achieved a 100% pass rate on the Certificate in Internal Workplace Mediation delivered by the Advisory, Conciliation and Arbitration Service. The course ran with a full cohort and will be repeated early in 2011.

Twenty-four delegates successfully completed the Institute of Directors Company Direction Programme during 2010. Due to demand, two cohorts of this prestigious course had been launched in October 2009. Fourteen delegates joined the 2010-11 programme and all have now completed the certificate element of the programme. They will all go on to complete the Diploma element in May 2011.

The Society of Trust and Estate Practitioners ("STEP") Foundation and Diploma Programmes in Offshore Trust Management were again delivered by Central Law Training. Fifty-two students completed the Foundation Programme with a further 117 students undertaking the modules for the Diploma Programme.

The International Compliance Association ("ICA") continues to offer diplomas in anti-money laundering and compliance. Sixteen students undertook the International Diploma in Compliance and eighteen took the Advanced Certificate and Diploma in Fund Administration. Further ICA courses include the Diploma in Financial Crime Prevention, which attracted eight delegates; the Diploma in Anti-Money Laundering, which eight people attended; and the International Certificate in Compliance and Financial Crime, which attracted 11 delegates.

The GTA were also pleased to be working with the Guernsey Business School on delivering tuition for the new Chartered Institute for Securities and Investment Risk in Financial Services Qualification. Ten delegates took the qualification, which is assessed by computer-based tests. One local delegate achieved the joint highest score nationally in the examination, which is designed to test a broad understanding of the general principles of business risk.

Ten students sat the Guernsey Insurance Certificate during 2010, an increase in the numbers over recent years. A total of 161 students have now successfully completed this qualification since its introduction. This locally designed programme is now awarded sixteen points under the Chartered Insurance Qualifications framework.

Following a review by Glasgow Caledonian University of its postgraduate programmes, the GTA is very pleased with the decision to retain and further promote the Certificate in Captive Insurance Management. This locally designed programme is awarded twenty points under the Chartered Insurance Qualifications framework. This qualification is particularly pertinent to the local insurance industry and eight students applied to take the Certificate during 2010.

The GTA was also pleased to launch the Institute of Legal Secretaries and PAs Legal Secretaries Diploma course for the fourth successive year. This course comprises five modules and attracted a take-up of nine delegates, all of whom are expected to complete the course successfully during 2011.

New award-bearing programmes for 2010

Continuing to innovate and bring fresh training opportunities to the island, the GTA launched a number of new award-bearing courses in 2010 – all of which were firsts for Guernsey.

Certificate in Professional PA and Secretarial Skills

The GTA launched the Certificate in Professional PA and Secretarial Skills in February in conjunction with UK-based training provider, Reed Learning. The Certificate was very well received and GTA students achieved excellent results; the 12 students who took the course were awarded seven distinctions and five merits. The course will run again early in 2011.

Certificate in Recruitment Practice

For the first time this year, students were able to work towards the Certificate in Recruitment Practice on-island. This three-day fast track was run in conjunction with the Recruitment Employment Confederation and covered modules on: understanding the recruitment marketplace, essential legislation and procedures, the relationship with the business community and the relationship with prospective job candidates. All of our delegates successfully gained the qualification.

Certificate in Digital Marketing

Working with the Institute of Direct Marketing ("IDM") the GTA launched an innovative new marketing course in December. The IDM Certificate in Digital Marketing is a six-month course at the cutting edge of marketing programmes. The programme is now running with seven delegates from Guernsey and Jersey who should complete in June 2011. Based on the level of interest in the course and positive feedback received from the current cohort, we are now exploring the possibility of launching the next-level Diploma in Digital Marketing in 2011.

Foundation Degree in Business and Management

In September the GTA launched its first ever undergraduate programme. The Foundation Degree in Business and Management is being delivered through Bournemouth University and will take three years to complete. The programme has attracted 11 delegates from a variety of backgrounds and has received some very positive early feedback. Also, for the first time on a GTA course we have introduced a mentoring scheme which will offer a further level of support for students and provide a link between the employer, the student, Bournemouth University and the GTA – this should prove an invaluable resource to our students bearing in mind the practical and vocational nature of the degree. All GTA mentors have received training in both mentoring and work-based learning and initial meetings with students setting out the purpose and scope of the mentoring scheme have taken place.

Soft-skills programmes

Despite the economic conditions, soft-skills courses in 2010 continued to recruit well and we have seen increased demand for in-house courses in this area as companies look to tailor their training provision, e.g. in subject areas such as report writing, appraisal skills and minute taking.

The GTA also looked to innovate in short courses and seminars e.g. a seminar in social network marketing delivered by Dr Lisa Harris of the University of Southampton and a seminar entitled Textual Harassment (examining IT-related mistakes and misconduct within organisations) which was run jointly with Commerce and Employment and proved very successful, attracting more than 30 delegates.

The GTA continued to work closely with the public sector and we scheduled over 40 soft-skill and management courses together in the course of the year. This partnership seems to work very effectively and we are keen to strengthen links here and increase the number of courses offered together in 2011.

Short courses and conferences

The GTA continues to work closely with local branches of professional organisations, and assisted the STEP local branch with the organisation of its annual conference, which was held on Thursday 10 June at St James and attracted over 120 delegates. Speakers were invited from the UK and locally to present on a number of relevant topics.

2010 saw the GTA facilitating the third Biennial Fraud Conference. This major event featured presentations from leading legal and accounting professionals from the local and international community who spoke on a range of fraud issues. The conference itself was attended by 75 delegates, and was preceded by a dinner attended by 120 guests to hear a talk by the guest speaker, BBC Crimewatch presenter Nick Ross.

October saw the second annual Employment Conference, a mock tribunal event in partnership with AO Hall which attracted 100 delegates. This conference focused on the topic of bullying at work and was attended by over 70 delegates.

The GTA continues to support the Guernsey Bar in the lead-up to the Bar examinations with a series of lectures delivered by local advocates. These seminars are available to aspirants and the wider legal profession and 35 delegates made 247 attendances at the 12 lectures during 2010.

Over 1500 delegates have attended short courses pertaining to the finance sector during 2010, covering topics such as fraud in the workplace, insider dealing, understanding treasury for support staff, and taxation of business in Guernsey.

New programmes for 2010 included Accounting Standards refresher, Anti-Bribery and Corruption, and Introduction to Credit Control. The GTA was also able to facilitate an increasing number of in-house training events: a bespoke series of seminars on Shares at Close, attended by 40 personnel; courses on accounting and trusts held in Alderney; and a course on finance for the non-financial manager for the States of Alderney.

New award-bearing programmes for 2010 (continued)

e-Business and information technology

The IT and e-Commerce Advisory Group continued to provide useful feedback and information on training and development needs within the sector. In 2010 the GTA and British Computer Society ("BCS") jointly offered a wide range of IT and e-Commerce-related seminars. The GTA also ran a number of short courses and professionally accredited programmes on topics such as Web Design Principles and Practicalities, ITIL Service Management, Data Protection, Business Systems Analysis and various Microsoft Applications.

The GTA has organised a number of in-house end-user and professional courses for private companies and endeavours to use local providers such as Sean Petralia and John Gocher, wherever possible.

The IT Training Needs Survey was conducted by the GTA in 2010. It aimed primarily to identify the IT training needs of local businesses, to assess whether identified needs are being met locally and, where local training provision is being used, to determine how effective it is. The information and data feedback through this survey will help the GTA to ensure IT and e-commerce training needs are met and the future needs are anticipated of all businesses in the Bailiwick.

The GTA continued to nurture its relationship with the BCS in 2010 and jointly to badge, administer and market for the BCS's series of lunchtime seminars. In addition to this the GTA and BCS jointly hosted the highly successful half-day IT conference on 11 March 2010 on the theme of fraud and security.

APPENDIX

FUNCTIONS, STRUCTURE AND CORPORATE GOVERNANCE AND OTHER CONTROL SYSTEMS OF THE COMMISSION

Functions of the Commission

The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law) established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the effective supervision of finance business in the Bailiwick". The statutory functions include those prescribed under or arising pursuant to the following regulatory laws:

- the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended;
- the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 as amended;
- the Insurance Business (Bailiwick of Guernsey) Law, 2002 as amended;
- the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 as amended.

Relationship with the States of Guernsey

The States Policy Council is responsible for international financial matters and for establishing the policy framework for financial regulation, including the government's relationship with, and reporting lines for, the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports referred to later in this appendix annually to the Policy Council. The Policy Council is also responsible for the administration of the Control of Borrowing Ordinances. Individual officials of the Commission act for the Policy Council in matters requiring consent under the Ordinances.

The Commissioners

The activities of the Commission's executive are overseen by the members of the Commission (Commissioners). The Commission Law provides that the Commission shall consist of a minimum of five members and a maximum of seven members elected by the States of Guernsey from persons nominated by the Policy Council and appearing to it to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. The Chairman is appointed for a period of one year from amongst the Commissioners and is elected by the States following nomination by the Policy Council. The Vice-Chairman is appointed for a period of one year by the Commissioners. Each member is appointed as a Commissioner for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. A member of the Commission must retire on reaching the age of 72 years.

The Commission currently has six Commissioners: Peter Harwood, David Mallett, Susie Farnon, Howard Flight, Alex Rodger and Cees Schrauwers. A brief résumé for each Commissioner is provided on page 7 of this report. All of the Commissioners are non-executive – three reside in Guernsey, with the remainder living in the United Kingdom.

There were 12 meetings of the Commissioners in 2010. The attendance of the individual Commissioners at these meetings was as follows: Peter Harwood 11, David Mallett 11, Susie Farnon 12, Howard Flight 11, Alex Rodger 12, Cees Schrauwers 11. Prior to each meeting, Commissioners are provided with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities.

The Commission Law also makes provision for the appointment of such officers and servants as are necessary for carrying out the Commission's functions and for the most senior officer to have the title of Director General.

Delegation of functions to executive staff

The Commissioners have delegated certain of their statutory functions to the executive staff of the Commission. These statutory functions are exercised by the executives both jointly and severally. All statutory functions of the Commission may be delegated to the executives except:

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy Council;
- any statutory functions which:
  - (i) require the Commissioners to consider representations concerning a decision which they propose to take; or
  - (ii) empower the Commission to cancel, revoke, suspend or withdraw a licence, consent, registration, permission or authorisation (except where the cancellation, revocation, suspension or withdrawal is done with the consent of the person who is, or who is acting on behalf of, the holder of the licence, consent, registration, permission or authorisation); or
  - (iii) empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy Council on its activities during the preceding year. The Chief Minister shall, as soon as possible, submit that report for consideration by the States.

The Commission Law also provides that the Commission shall:

(a) keep proper accounts and proper records in relation to those accounts; and

(b) prepare in respect of each year a statement of accounts giving a true and fair view of the state of affairs of the Commission;

and that the accounts of the Commission shall be:

(a) audited by auditors appointed by the States; and

(b) laid before the States.

The Commission includes a copy of its audited financial statements in the annual report to the Policy Council referred to above.

Report on internal control and corporate governance

Under the Commission Law, the Commission must also review in each year, by the appointment of appropriately qualified and independent professional persons or otherwise:

(a) the adequacy and application of the Commission's systems of internal control;

(b) the selection and application of the Commission's accounting policies and accounting procedures;

(c) the effective, efficient and economical management of the Commission's assets and resources; and

(d) the Commission's compliance with such generally accepted principles of good corporate governance as it is reasonable to regard as being applicable to the Commission.

The Commissioners are required to satisfy themselves in connection with the conclusions of each review and provide the Policy Council with a separate annual report on the matters covered by it.

The Commissioners are responsible for overseeing the Commission's corporate governance regime and for monitoring the effectiveness of management's systems of internal control. These systems are subject to regular review by management and address the risks to which the Commission is exposed. The Commission has an ongoing process for identifying, evaluating and managing operational risks (including regulatory and financial risks). In this connection, the Commission takes account of the guidance contained in the UK Code on Corporate Governance.

In accordance with the Commission Law, the Commissioners have reviewed the Commission's approach to risk management policies and processes. The annual report required by the law on internal control and corporate governance has been provided by the Commission to the Policy Council.

Audit and Risk Committee

The Commission's Audit and Risk Committee, which comprises Alex Rodger and Susie Farnon and is chaired by David Mallett, covers oversight of the management of risk – it reviews corporate governance and the systems of internal control and makes reports routinely to meetings of the Commissioners as a whole. Meetings are usually attended by the Director General, the Head of Finance and Operations and the Commission Secretary (who is the committee's secretary). The committee met three times in 2010. The attendance of the individual members at these meetings was as follows: David Mallett 3, Susie Farnon 3, Alex Rodger 3.

Review systems

Rather than appoint its own internal auditor to monitor the Commission's non-regulatory internal audit standards, the Commission has retained specialist external consultants to ensure that the Commission is up to date with current expectations. The corporate governance standards of the Commission have been reviewed by the Audit and Risk Committee and by the Commission's officers. The Commission is satisfied that it meets expectations in connection with internal audit and corporate governance. The International Monetary Fund ("IMF") undertook an evaluation of the Bailiwick with international regulatory and supervisory standard in 2010 under its Financial Stability Assessment Program. The Commission and the other authorities in Guernsey were found by the IMF to have a high level of compliance with these standards.