

**A Consultative Paper on the
Financial Services Rule Book
Financial Resources and Audit Requirements
(4th Consultation on Review and Consolidation of the Financial
Services Regulatory Legislation “CAROL 4”)**

16th April 2007



Financial Supervision Commission Barrantee Oaseirys

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SECTION 1

1. INTRODUCTION

On 6th March 2006 the Financial Supervision Commission issued a consultation on the scope and nature of the project to review and consolidate the financial services regulatory legislation (“CAROL 1”), with particular reference to the contents of the proposed Financial Services Bill. The results of the CAROL 1 consultation showed strong support for the Commission’s proposals (http://www.fsc.gov.im/doclibrary/previous_consult.xml). Further consultation on the Regulated Activities Order (“CAROL 2”) was issued on 1st June 2006 and the draft Bill (“CAROL 3”) was issued on 21st December 2006.

There will be a number of consultations on the content of the Financial Services Rule Book. This consultation (“CAROL 4”) covers the Financial Resources and Audit Requirements Chapters (see Appendices A and C). Section 2 of this document gives a brief overview of the Rules and Section 3 highlights the key changes to the current secondary legislation. The attached RoadMaps (see Appendices B and D) show what has happened to the relevant provisions in the current framework.

It would be much appreciated if we could have your comments on these chapters of the Rule Book as soon as possible. The closing date for comments is **22nd June 2007**.

Responses to: Mrs Shirley E Corlett
Senior Adviser - Policy & Legal Unit
Financial Supervision Commission
PO Box 58
Finch Hill House
Bucks Road
Douglas IM99 1 BT

Tel: (01624) 689323 E-mail: shirley.corlett@fsc.gov.im

If you wish to discuss any issue relating to the Rule Book, please telephone Shirley Corlett in the first instance or another member of the Policy & Legal Unit team -

Jane Bates: Tel: 689334
Liz Berry: Tel: 689335
Claire Whitelegg: Tel: 689332

SECTION 2

2. FINANCIAL SERVICES RULE BOOK – OVERVIEW

This Section gives an overview of the structure and content of the Rule Book and how it will apply to the various regulated sectors. The key differences between the Rule Book and the existing regulatory requirements are highlighted in Section 3.

2.1 Background

As discussed in CAROL I, it is proposed that there will be just one Regulatory Code or Rule Book that brings together the common standards and requirements that apply across all regulated sectors. Where there are different sector-specific requirements, these will be specified separately. The Commission will, of course, continue to issue guidance to industry where this is appropriate.

In designing the new Rule Book, we have reviewed rules in the UK, Jersey, Guernsey and other jurisdictions, as well as our own current laws to identify what appear to be the options best suited to the Isle of Man to help our licenceholders to remain competitive and develop their business opportunities globally. Wherever possible, we have simplified the requirements, ensuring clarity and consistency. We have also changed the layout of the Rule Book and incorporated a number of tables in order to make the Rules more user-friendly. However, inevitably, where requirements are subject to standardisation, this will result in some changes to sectoral requirements.

The Rule Book will have a number of chapters which will cover each of the following topics –

- Financial Resources
- Audit Requirements
- Clients' and Trust Money
- Clients' Assets
- Conduct of Business (including treating customers fairly)
- Advertising
- Compliance
- Risk Management and Internal Control
- General Requirements

There will also be an Interpretation Chapter which will be consulted upon in due course. In the meantime, existing definitions may be relied upon.

We will be consulting on the various chapters in stages, the first of these consultations being the Financial Resources and Audit Requirements Chapters.

As noted in CAROL I, the project is largely a consolidation of existing regulatory legislation. Most requirements of the Rule Book will be familiar to you as they reflect the current pillars of regulatory legislation (with some rearrangement and standardisation across all regulated sectors).

2.2 Structure of Rule Book content

Each chapter of the Rule Book will be divided into –

- Basic Requirements;
- General Requirements for all Licenceholders;
- General Requirements for Isle of Man incorporated entities;
- General Requirements for non-Isle of Man incorporated entities;
- Specific Requirements for Licenceholders undertaking different regulated activities.

Some existing Codes will appear in a different chapter of the Rule Book, to be consulted upon separately, or may have been removed and incorporated in the Licensing Policy. The relevant RoadMap will assist you in finding the new location of the rules. Where the new location is in a chapter which has yet to be drafted and consulted upon, only the name of the chapter is given.

SECTION 3

3. FINANCIAL SERVICES RULE BOOK – KEY CHANGES FINANCIAL RESOURCES AND AUDIT REQUIREMENTS

The rules relating to Financial Resources and Audit Requirements are a consolidation of the regulatory requirements contained in the following secondary legislation –

- Financial Supervision Commission (Audit Requirements) Regulatory Code 1991
- Financial Supervision Commission (Financial Resources and Compliance Reporting) Regulatory Code 2002
- Financial Supervision Commission (Stockbrokers) (No 2) Regulatory Code 2003
- Fiduciary Services (General Requirements) Regulatory Code 2005
- Banking (General Practice) Regulatory Code 2005

3.1 Basis of Approach

As with the Regulated Activities Order and Exemptions Regulations, the basis for the review of the Financial Resources and Audit Requirements has been to consolidate existing requirements to make a more universally applicable Rule Book. In many cases, the approach currently in place for Investment Business licenceholders has been used. Where there is a specific sectoral difference, different requirements have been applied.

3.2 Financial Resources

To assist with your navigation of CAROL 4, the more significant changes relating to financial resources are highlighted below.

3.2.1 Application of Financial Resources Rules. With the exception of sole traders, partnerships and Category 2 CSPs and TSPs (which are referred to in the Rules as “Professional Officers”), to maintain a consistent approach across the licensed sectors, the Financial Resources Rules will apply to all licenceholders. Sole traders and partnerships will continue to be required, by direction, to maintain a segregated bank account containing an amount meeting the current level of requirements on a “grandfathered” basis. Category 2 CSPs will be required to continue to demonstrate that they are solvent. The Financial Resources Rules will therefore impact most on fiduciaries and Category 1 investment businesses.

3.2.2 Reporting Requirements. In the case of banks, the current reporting requirements are unchanged. With the exception of financial advisers, all investment business licenceholders will be required to submit interim financial statements electronically on either a quarterly or half yearly basis dependent on activity. Financial advisers and fiduciaries will be required to monitor compliance with the financial resources requirements and be able to demonstrate compliance with these requirements by making working papers available during on-site visits, but will not be required to submit interim financial statements electronically. All licenceholders will be required to submit audited financial statements in hard copy.

3.2.3 *Electronic Submission.* It is hoped that the electronic submission of interim financial statements will reduce the potential for inaccurate returns and breaches while providing a secure system of submission. Assistance will be given to installing and operating the Electronic Returns Reporting System.

3.2.4 *Minimum Net Tangible Asset Requirement.* With the exception of banks, for which the current liquidity requirements are unchanged, all licenceholders will be required to maintain a Minimum Net Tangible Asset Requirement (similar to the current investment business requirements). The minimum Net Tangible Asset Requirement is a new requirement for fiduciaries, which currently have to meet a solvency test. The rationale for imposing this requirement, which is based on the activities of the licenceholder, is to ensure that regulated entities have sufficient assets to demonstrate the viability of their business. In addition, the calculation of solvency has varied from licenceholder to licenceholder and Commission reviews of the solvency of some fiduciaries have resulted in issues being identified.

Sample testing in this area has determined that there will be few, if any, problems in meeting the requirements.

In addition, licenceholders will have to meet a new Minimum Share Capital requirement based on activities undertaken. The Minimum Share Capital Requirement demonstrates commitment to the business and provides “a benchmark for entry” for those wishing to be licensed.

The levels of Minimum Net Tangible Asset Requirements and Minimum Share Capital Requirements have been based on the licenceholder’s activities. The Minimum Share Capital Requirement has a maximum level of £25,000. With the exception of Category 5 licenceholders (stockbrokers), the Minimum Net Tangible Asset Requirement for general investment business licenceholders is unchanged.

Acting as a Custodian either on behalf of a collective investment scheme or for clients is a newly defined activity and the Minimum Net Tangible Asset Requirement has been based on the requirements for Category 4 licenceholders. Another new activity is that of Promoter of a collective investment scheme and the requirements for this activity have been linked to investment advisers and those providing administrative services to collective investment schemes. The Minimum Net Tangible Asset requirement for these activities has been raised to £50,000 in the light of the fact that these services would be provided to regulated funds i.e. retail funds with retail investors and the increase brings the requirements closer to the requirements of other licenceholders involved in fund administration.

With regard to the financial resources of Fiduciaries, whilst the requirements are new, they are merely formalising existing guidance.

3.2.5 *Liquid Capital Requirement.* With the exception of banks, for which the current liquidity requirements are unchanged, all licenceholders will be required to meet a Liquid Capital Requirement which will allow for an orderly wind-down in the event that a licenceholder has trading difficulties or ceases to trade. The Liquid Capital Requirement consists of 3 months Expenditure Based Requirement plus a new requirement that Liquid Capital equivalent to the excess on the licenceholder’s Professional Indemnity Insurance policy be maintained (which formalises current practice for start-up operations). Requiring one excess amount to be included in

the Liquid Capital Requirement, rather than limiting the level of the excess, provides more flexibility and will enable licenceholders to have more control over their Professional Indemnity Insurance arrangements and enable them to seek better terms if their Liquid Capital position permits a higher excess. These arrangements will mainly affect Category I investment businesses and fiduciaries.

Testing has been undertaken in relation to compliance with the proposed requirements and there are some fiduciaries which currently would not comply with the arrangements due to undertakings given to group companies or lack of liquid capital. Whilst the Commission has noted these difficulties, it is proposed that the new requirement remain as it is considered reasonable and this is reinforced by the fact that the Jersey Financial Services Commission requires its fiduciaries to maintain 3 months Expenditure Based Requirement. In addition, since fiduciaries have been licensed, there have been occasions when the solvency of fiduciaries has been of concern due to a lack of a specific requirement ensuring an adequate cushion.

3.2.6 *Waiver or Modification of Rules.* Under the Financial Services Bill, any Rule can be waived or modified and therefore levels of Minimum Net Tangible Assets, Minimum Share Capital or Liquid Capital Requirement can be adjusted up or down as appropriate.

3.2.7 *CRR/PRR.* Schedule 2 of the Financial Resources Chapter contains the detailed calculation of Counterparty Risk Requirement and Position Risk Requirement applicable to stockbrokers. This Schedule would benefit from being streamlined if possible. We would specifically request that the stockbrokers give consideration to this Schedule and provide any comments on how this may be simplified or reduced.

3.2.8 *Banking Licenceholders.* Banking licenceholders will find most of their requirements unchanged.

3.3 Audit Requirements

3.3.1 *Application of Audit Requirement Rules.* The Audit Requirements Rules are extended to all licenceholders with the exception of unincorporated entities. Apart from ensuring that the current investment business Audit Requirement Regulatory Code is appropriate for all licenceholders, it is not envisaged that there will be many changes to the current requirements although these will be new to Category I investment businesses and fiduciaries.

3.3.2 *Auditors' Professional Indemnity Insurance.* The specific levels of Professional Indemnity insurance required by the auditor, with minimum levels varying by licenceholder type (for example £20m for Deposit Takers), have been replaced with a general statement that the auditor must have an appropriate level of PI cover suitable to the licenceholder being audited.

3.3.3 *On-Island Auditor.* To ensure that there is sufficient knowledge of the Island's legislation, a requirement that an auditor must have a permanent place of business in the Isle of Man has been added. Where a licenceholder has an existing auditor without a permanent place of business, for example, where the licenceholder is part of a non-IOM based group that employs a group auditor without an IOM presence,

the licenceholder will be able to seek a waiver from the requirement of this Rule and the Commission can determine if this is acceptable on a case by case basis.

3.3.4 Auditor Acceptability. A Rule has been introduced to require the licenceholder to ensure that an auditor has sufficient resources, knowledge, experience and competence to fulfil the audit requirements of the licenceholder prior to appointing the auditor. In response to the concerns raised by the IMF relating to the oversight of auditors, a Rule has been added to formalise the ability for the Commission to request from the licenceholder details of an auditor's resources, knowledge, experience and competence. In addition, where the Commission is not satisfied that an appointed or proposed auditor is suitable for the licenceholder, a direction can be issued to the licenceholder to terminate or not make the auditor appointment.

CHAPTER 3

FINANCIAL RESOURCES

Basic Requirement

A licenceholder shall ensure that it maintains and is able to demonstrate the existence of adequate financial resources to meet its business commitments and to withstand the risks to which its business is subject.

GENERAL REQUIREMENTS FOR ALL LICENCEHOLDERS

Application

1. Rules 2 to 9 apply to all licenceholders.

Accounting Reporting Date

2. The licenceholder shall notify the Commission of its annual Accounting Reporting Date.

Notification Requirements

3. A licenceholder shall give written notice to the Commission immediately where it has reason to believe that -
 - (a) it will be unable to submit a financial return; or
 - (b) it will be unable to comply or unable to demonstrate compliance with any part of this section, as a result of failure in accounting systems.

Reporting currency

4. A licenceholder's reporting currency on financial returns must be sterling unless otherwise agreed by the Commission, and a licenceholder must not change its reporting currency without the prior written approval of the Commission.

Completeness and Accuracy

5. The persons fulfilling the four-eyes roles are responsible for the completeness and accuracy of the financial returns that are submitted to the Commission.

Misleading Financial Returns

6. A licenceholder must notify the Commission as soon as it has reason to believe that any financial return previously supplied by it to the Commission was or has become misleading in any material respect.

Electronic Reporting

7. With the exception of annual financial statements, all financial returns shall be submitted to the Commission electronically. The return should be submitted by one individual designated for this purpose by the Board.

Parent Company Annual Financial Statements

8. The licenceholder shall provide to the Commission a copy of its immediate and ultimate parent companies' audited annual financial statements within four months of the Annual Reporting Date. Where either of these companies is incorporated in the Isle of Man, the audited financial statements shall be signed (see Table II).

Accounting Standards

9. The licenceholder shall ensure that its financial statements are prepared in accordance with International Financial Reporting Standards (as promulgated by the International Accounting Standards Board) or United Kingdom Accounting Standards (as promulgated by the Accounting Standards Board).

GENERAL REQUIREMENTS FOR ISLE OF MAN INCORPORATED LICENCEHOLDERS***Application***

10. Rules 11 to 14 apply to all licenceholders which are incorporated in the Isle of Man.

Change of Accounting Reporting Date

11. A licenceholder may change its annual Accounting Reporting Date provided that the Commission agrees in writing to such a change before it is made.

Retention of Accounting Records

12. (1) A licenceholder shall keep such accounting records in the Isle of Man as are necessary to accurately disclose the financial position of the business and, where appropriate, compliance with its financial resources requirements, at any time.

(2) A licenceholder shall preserve its accounting records for a minimum of six years from the date on which they are made or as required by any other statute, whichever is the longer.

(3) A licenceholder which surrenders its licence or whose licence is revoked shall preserve its accounting records for a minimum of six years from the date of surrender or revocation. The licenceholder shall notify the Commission in advance of the method and location of storage.

Parent Company Annual Financial Statements

13. The licenceholder shall provide to the Commission a copy of its immediate and ultimate parent companies' audited annual financial statements, as soon as these are available to the licenceholder (see Table II).

Subsidiary Annual Financial Statements

14. In respect of any subsidiary or associated company, the licenceholder shall provide to the Commission, within four months of the Annual Reporting Date, a signed copy of the company's audited annual financial statements, together with a detailed profit and loss account (see Table II).

GENERAL REQUIREMENTS FOR NON-ISLE OF MAN INCORPORATED LICENCEHOLDERS***Application***

15. Rules 16 to 18 apply to all licenceholders which are incorporated outside the Isle of Man in relation to regulated activities carried on by them in or from the Isle of Man.

Change of Accounting Reporting Date

16. A licenceholder shall notify the Commission before changing its annual Accounting Reporting Date.

Retention of Accounting Records

17. (1) The licenceholder shall keep such accounting records as are necessary to accurately disclose its business transacted in or from the Isle of Man at any time.

(2) The licenceholder shall preserve its accounting records for a minimum of six years from the date on which they are made or as required by any other statute, whichever is the longer.

(3) A licenceholder which surrenders its licence or whose licence is revoked shall preserve its accounting records for a minimum of six years from the date of surrender or revocation. The licenceholder shall notify the Commission in advance of the method and location of storage.

Submission of Financial Statements

18. The licenceholder shall provide the following documents to the Commission within four months of the Accounting Reporting Date:-

- (a) a copy of the audited financial statements of the licenceholder;

- (b) a detailed profit and loss account in respect of the licenceholder's operations in or from the Isle of Man.

SPECIFIC REQUIREMENTS FOR ALL INVESTMENT BUSINESS AND FIDUCIARY SERVICES LICENCEHOLDERS

Application

19. Rule 20 applies to all investment business and fiduciary services licenceholders.

Solvency and Failure to comply with Obligations

20. (1) A licenceholder shall ensure that at all times it is able to meet its liabilities as they fall due.
- (2) A licenceholder must notify the Commission as soon as it has reason to believe that it will be unable to make a payment to a creditor on the date that the payment is contractually due and payable. This includes amounts due to an exchange, approved exchange, clearing house or intermediate broker by the due date as required under the rules of such exchange, approved exchange or clearing house thereby causing the default of the licenceholder under those rules.

SPECIFIC REQUIREMENTS FOR ALL INVESTMENT BUSINESS AND FIDUCIARY SERVICES LICENCEHOLDERS (EXCEPT PROFESSIONAL OFFICERS)

Application

21. Rules 22 to 24 apply to all investment business and fiduciary services licenceholders except Professional Officers.

Contingencies and financial commitments

22. A licenceholder must notify the Commission as soon as it becomes aware of:
- (1) any guarantee, indemnity and other such commitment given by the licenceholder of an amount which could give rise to a claim under Rule 23 below;
- (2) any financial commitment (such as a guarantee) given in respect of the licenceholder by another member of the licenceholder's group in favour of an exchange, approved exchange or clearing house; and
- (3) any change in information previously submitted to the Commission concerning (1) or (2) above.

Claims under a contingency

23. Subject to Rule 22, a licenceholder must notify the Commission as soon as it becomes aware of any claim under a contingency made in writing by or against the licenceholder where any amount claimed or disputed is likely to exceed the lower of:

- (a) £100,000; or
- (b) 10% of the licenceholder's Minimum Net Tangible Asset Requirement.

Charges

24. A licenceholder must notify the Commission as soon as a charge has been registered against the licenceholder. The licenceholder should also confirm whether the charge has an adverse impact on the licenceholder's financial resources.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS AND FIDUCIARY SERVICES LICENCEHOLDERS (EXCEPT PROFESSIONAL OFFICERS)

Application

25. Rules 26 to 32 apply to all investment business and fiduciary services licenceholders which are incorporated in the Isle of Man except Professional Officers.

Financial Resources Requirements

26. A licenceholder shall meet the specific and independent requirements contained in Rule 27 and Table I. Where more than one regulated activity is undertaken the requirements contained in Table I are not cumulative but the highest level applies.

Specific Requirements

27. (1) Net tangible assets must meet or exceed the Minimum Net Tangible Asset Requirement as set out in Table I.
- (2) Paid up share capital must meet or exceed the minimum requirement as set out in Table I.
- (3) The Expenditure Based Requirement shall be determined by reference to the Annual Audited Expenditure.
- (4) Liquid Capital must meet or exceed the Liquid Capital Requirement at all times.
- (5) The licenceholder shall maintain appropriate procedures and controls to monitor these requirements on an on-going basis.

Table I – Minimum Share Capital and Net Tangible Asset Requirements

Description of activity	Minimum Share Capital	Minimum Net Tangible Asset Requirement
Investment Business		
Financial Adviser	£10,000	£10,000
Investment Adviser to Retirement Benefit Schemes	£15,000	£15,000
Discretionary Portfolio Manager	£25,000	£75,000
Any other Investment Business not already covered elsewhere	£25,000	£75,000
Stockbroker	£25,000	£175,000
Custodian	£25,000	£175,000
Collective Investment Schemes		
Promoter	£25,000	£50,000
Investment Adviser to a collective investment scheme	£25,000	£50,000
Provision of administration services to collective investment schemes or operators of such schemes that are not established on the IOM	£25,000	£50,000
Investment Manager to a collective investment scheme	£25,000	£75,000
Manager of authorised collective investment schemes or pure international collective investment schemes; or a manager/administrator of EIFs/PIFs	£25,000	£75,000
Manager of exempt international schemes	£25,000	£75,000
Manager/Administrator of another manager licensed to carry on activities	£25,000	£175,000
Custodian of a collective investment scheme	£25,000	£175,000
Trustee of authorised or pure international collective investment schemes	£3.5 million	£3.5 million
Fiduciary Services		
Corporate Service Provider (except Professional Officers)	£10,000	£10,000
Trust Service Provider (except Professional Officers)	£25,000	£25,000
Approved Trust Corporation	£25,000	£25,000

Net Tangible Assets

28. (1) Net tangible assets shall be calculated in accordance with Part A of Section 1 of Schedule 1 and Notes 1 to 4 in Section 5 of Schedule 1.

(2) A licenceholder shall immediately inform the Commission if at any time it has reason to believe that its Net Tangible Assets either has or will fall below 110% of the Minimum Net Tangible Asset Requirement contained in Table I, as appropriate. The Commission must be provided with a full explanation of the circumstances, and details of the steps that the licenceholder is taking or has taken to remedy the situation and prevent a breach from occurring or to correct the breach.

(3) Notwithstanding sub-paragraph (2), a licenceholder must immediately inform the Commission if at any time it has reason to believe it is or will be in breach of the Minimum Net Tangible Asset Requirement. The Commission must be provided with a full explanation of the circumstances of the breach or potential breach and details of the steps that the licenceholder is taking or has taken to remedy the breach and prevent it from recurring. If the licenceholder informs the Commission by telephone it must then provide full details in writing within 24 hours of the telephone call.

Liquid Capital

29. Liquid capital shall be calculated in accordance with Part B of Section 1 of Schedule 1 and Notes 5 to 9 in Section 5 of Schedule 1.

Annual Audited Expenditure

30. (1) Annual audited expenditure shall be calculated in accordance with Part A of Section 2 of Schedule 1 and Notes 14 to 20 of Section 5 of Schedule 1.

(2) Where the relevant audited financial statements are for a period other than a year, the annual audited expenditure shall be calculated on a proportional basis in accordance with the following calculation -

$$\frac{\text{(annual audited expenditure)} \times 12}{\text{length of period of financial statements in months.}}$$

(3) The Commission may require a licenceholder to adjust its relevant annual expenditure where:

(a) there has been a significant change in the circumstances or activities of the licenceholder; or

(b) the licenceholder has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the licenceholder; or

(c) it is a licenceholder's first period of account.

Liquid Capital Requirement

31. (1) A licenceholder must meet the Liquid Capital Requirement as calculated in Part B of Section 2 of Schedule 1 and Notes 21 to 22 of Section 5 of Schedule 1.

(2) A licenceholder shall immediately inform the Commission if at any time it has reason to believe that its liquid capital has or will fall below 110% of its Liquid Capital Requirement. The Commission must be provided with a full explanation of the circumstances, and details of the steps that the licenceholder is taking or has taken to remedy the situation to prevent a breach from occurring or to correct the breach. If the licenceholder informs the Commission by telephone it must then provide full details in a permanent form within 24 hours of the telephone call.

Preparation of Annual Financial Returns

32. (1) The licenceholder shall prepare annual financial returns in sufficient detail to verify the calculations required by Rules 27 to 31 and Schedule 1 which shall be submitted to the Commission in accordance with Table II below.

(2) Annual financial returns shall include:-

(a) unconsolidated balance sheet which shows the state of affairs of the licenceholder at the balance sheet date; and

(b) an unconsolidated profit and loss account which shows the profit or loss of the licenceholder for the whole accounting period; and

(c) an original signed copy of the audited financial statements; and

(d) a financial resources statement which shall be subject to audit in accordance with Part 6 - Audit Requirements of this Rule Book; and

(e) where there are differences between the annual financial returns and the interim financial returns (or in the case of a fiduciary or financial adviser, the working papers relating to the quarterly calculations), a reconciliation identifying the differences and the reasons for them.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS LICENCEHOLDERS WITH THE EXCEPTION OF INVESTMENT BUSINESS (FINANCIAL ADVISERS) LICENCEHOLDERS

Application

33. Rule 34 applies to all investment business licenceholders which are incorporated in the Isle of Man with the exception of financial advisers.

Preparation of Interim Financial Returns

34. (1) The licenceholder shall prepare interim and annual financial returns in sufficient detail to verify the calculations required by Rules 27 to 31 and Schedule 1 which shall be submitted to the Commission in accordance with Table II below.
- (2) Interim financial returns shall include:-
- (a) an unconsolidated balance sheet which shows the state of affairs of the licenceholder at the balance sheet date; and
 - (b) an unconsolidated profit and loss account which shows the profit or loss of the licenceholder for each interim period covered by the financial return and shall not be cumulative; and
 - (c) a financial resources statement.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED FIDUCIARY SERVICES LICENCEHOLDERS (EXCEPT PROFESSIONAL OFFICERS) AND INVESTMENT BUSINESS (FINANCIAL ADVISERS) LICENCEHOLDERS

Application

35. Rule 36 applies to all fiduciary services licenceholders (except Professional Officers) and investment business licenceholders authorised to give investment advice which are incorporated in the Isle of Man.

Monitoring of Financial Resources Requirements

36. The licenceholder shall monitor compliance with its financial resources requirements on a quarterly basis and shall provide evidence of the calculations required by Rules 27 to 31 to the Commission as required.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS (STOCKBROKER) LICENCEHOLDERS

POSITION RISK REQUIREMENT (PRR)

Application

37. Rule 38 applies only to investment business licenceholders authorised to carry on stockbroking activities which are incorporated in the Isle of Man and which carry on principal trading.

Obligation to calculate PRR

38. A licenceholder must calculate a minimum PRR in accordance with Section 1 of Schedule 2.

COUNTERPARTY RISK REQUIREMENT (CRR)

Application

39. Rule 40 applies only to investment business licenceholders authorised to carry on stockbroking activities which are incorporated in the Isle of Man.

Obligation to calculate CRR

40. A licenceholder must calculate its total CRR on exposures to counterparties as the sum of all the amounts calculated in accordance with Section 2 of Schedule 2.

Table II - Return Timetable

Return	Applicable to	Type of Licenceholder	Frequency of Return	Due Date
Audited Annual Financial Returns (see Rule 32)	All	All	Annually	Within four months of the Annual Reporting Date ("ARD")
Subsidiary's Annual Audited Financial Statements plus detailed profit and loss account (see Rule 14) *	Where applicable	All	Annually	
Immediate and Ultimate Parent's Annual Audited Financial Statements (see Rules 8 and 13) *	Where applicable	All	Annually	Within four months of the ARD if the licenceholder is Isle of Man incorporated or as soon as available if not
Unaudited Interim Financial Returns (see Rule 34)	All IOM incorporated	Discretionary Portfolio Managers, Stockbrokers, Custodians and any activity related to Collective Investment Schemes	Quarterly	Within one month of the period to which the return relates. The balance sheet date should coincide for one of these interim returns with the licenceholder's annual reporting date
		Investment Advisers to Retirement Benefit Schemes	Half Yearly	
Position Risk Reporting and Counterparty Risk Reporting Statements (see Rules 38 and 40)	All IOM incorporated	Stockbrokers only	Quarterly	

* These submissions may be submitted in hard copy or a link to an electronic copy may be provided. They may not be submitted via the online financial returns system.

SPECIFIC REQUIREMENTS FOR DEPOSIT TAKERS INCORPORATED IN THE ISLE OF MAN

Application

41. Rules 42 to 47 apply to all deposit takers which are incorporated in the Isle of Man.

Share Capital

42. A deposit taker shall have an authorised, issued and fully paid-up share capital of not less than £3,500,000 sterling or its equivalent in another currency.

Capital

43. (1) The deposit taker shall maintain a level of capital appropriate to the nature and scale of its business, expressed as a Risk Asset Ratio ("RAR").

(2) The minimum RAR shall be 10% except where the Commission has issued a recommendation to the deposit taker under section [] of the Financial Services Act 2007 to specify an alternative minimum RAR.

(3) The deposit taker shall not, at any time, permit its RAR to fall below the minimum RAR set out in (2) above or in any recommendation issued by the Commission to the deposit taker under (2), whichever is the higher.

(4) The deposit taker shall inform the Commission immediately if its RAR falls below the minimum RAR set out in (2) above or in any recommendation issued by the Commission to the deposit taker under (2), whichever is the higher.

(5) The deposit taker shall maintain adequate procedures and controls to monitor its financial position in order to ensure that its RAR is always in excess of the minimum set out in (2) above or in any recommendation issued by the Commission to the deposit taker under (2), whichever is the higher .

Deposit Taking Returns

44. (1) The deposit taker shall prepare the following deposit taking returns ("set of deposit taking returns") as at each calendar quarter-end:-

Form SR-1	Assets, Liabilities and Off Balance Sheet Items return
Form SR-2A	Capital, Current Period's Profit & Loss, Provisions and Non-performing Assets return
Form SR-2B	Large Exposures Reporting return
Form SR-2C	Memorandum Items return
Form SR-3A	Liquidity Risk return
Form SR-3B	Interest Rate Risk return
Form SR-4	Foreign Exchange and OTC Derivatives return; and

(2) The deposit taker shall complete an additional set of deposit taking returns as at its financial year end date if this does not fall on a calendar quarter-end.

(3) The set of deposit taking returns shall be submitted to the Commission within one month of the date to which they relate.

Accounting Standards

45. The financial statements shall include the following:-

(a) an analysis of assets and liabilities by maturity date in the following time bands, separately identifying deposit liabilities and placings with deposit takers:-

Sight	- less than 8 days
8 days	- less than 1 month
1 month	- less than 3 months
3 months	- less than 6 months
6 months	- less than 12 months
1 year	- less than 3 years
3 years	- less than 5 years
Over 5 years;	and

(b) the gross amount of all loans and advances due from intra-group companies; and

(c) the gross amount of all loans and advances due from, and guarantee commitments entered into on behalf of:-

- (i) shareholders; and
- (ii) directors and managers; and

(d) in respect of Large Exposures to the non-deposit taker sector, the number and total value of credit exposures which individually exceed 10% of the total of the Large Exposures Capital Base. Loans to related parties must be aggregated; and

(e) the following profit and loss information:-

- (i) Total income for the year;
- (ii) Interest income and expense; and
- (iii) The effect on the current year's profit and loss account of provisions for bad and doubtful debts, separately identifying amounts charged against the current year's income for amounts written off and provisions and any credit for releases of existing provisions, recoveries etc.

Submission of Accounting Information

46. The deposit taker shall provide the following documents to the Commission within four months of the end of the accounting period to which they relate: -

- (a) an original signed set of its annual audited financial statements;
- (b) its detailed profit and loss account;
- (c) a statement detailing the calculation of its Large Exposure Capital Base ("LECB"); and
- (d) a statement providing a reconciliation of all material differences between the set of deposit taking returns submitted to the Commission as at the deposit taker's year end and its audited financial statements.

Audited Financial Statements available to the Public

47. (1) Within four months of the Accounting Reporting Date, the deposit taker shall:-

- (a) make its full annual audited financial statements available for public inspection in the Isle of Man;
- (b) display a notice in its registered office and all other offices in the Isle of Man stating that a copy of the latest audited balance sheet of the deposit taker together with the last auditor's report (as it appears in the audited financial statements) may be inspected by any person on demand and that copies are available to be taken away.

(2) In addition to the financial statements at (1), deposit takers may offer abridged financial statements. If they do, such abridged financial statements shall contain the following information as a minimum:-

- (a) a Balance Sheet identifying separately:

Liabilities - Paid up element of issued share capital
 Revenue reserves
 Subordinated loans
 Deposit liabilities
 All other liabilities
 Total liabilities

Assets - Money Market assets, differentiating between intra-group and other
 Loans
 Investments
 Intangible assets
 Fixed assets
 All other assets

- Total assets
- (b) general - Note of any contingent liabilities
Names of Directors and Secretary
Immediate and ultimate parent
Subsidiaries
Registered Office
Auditor's report
A note that a copy of the full audited financial statements is available upon request (specifying any fee that will be charged)

SPECIFIC REQUIREMENTS FOR DEPOSIT TAKING LICENCEHOLDERS OPERATING IN OR FROM THE ISLE OF MAN WHICH ARE INCORPORATED OUTSIDE THE ISLE OF MAN

Application

48. Rules 49 and 50 apply to deposit takers which are incorporated outside the Isle of Man, in relation to deposit taking business carried on by them in or from the Isle of Man.

Deposit taking Returns

49. (1) The deposit taker shall prepare the following deposit taking returns ("set of deposit taking returns") as at each calendar quarter-end:-

Form SR1	Assets, Liabilities and Off Balance Sheet Items return
Form SR-2A	Capital, Current Period's Profit & Loss, Provisions and Non-performing Assets return (the deposit taker shall not complete the section on capital)
Form SR-2B	Large Exposures Reporting return
Form SR-2C	Memorandum Items return
Form SR-3A	Liquidity Risk return

(2) The deposit taker shall complete an additional set of deposit taking returns as at its financial year end date if this does not fall on a calendar quarter-end.

(3) The set of deposit taking returns shall be submitted to the Commission within one month of the date to which they relate.

Audited Financial Statements available to the Public

50. (1) Within four months of the Accounting Reporting Date, the deposit taker shall:-

- (a) make its full annual audited financial statements available for public inspection in the Isle of Man;

- (b) display a notice in all its offices in the Isle of Man stating that a copy of the latest audited balance sheet of the deposit taker together with the last auditor's report (as it appears in the audited financial statements) may be inspected by any person on demand and that copies are available to be taken away;
- (2) In addition to the financial statements at (1) above, deposit takers may offer abridged financial statements.

SCHEDULE 1

FINANCIAL RESOURCES STATEMENT

Section 1 - Calculation of Net Tangible Assets and Liquid Capital

Net Tangible Assets and Liquid Capital Calculation		£	£
Part A	Capital and Reserves		X
	Less:		
	Goodwill and other intangible assets	X	
	Any accumulated losses of subsidiaries or related companies	X	
			X
	Add:		
	Qualifying subordinated loans		X
	NET TANGIBLE ASSETS		X
Part B	Less:		
	Tangible fixed assets	X	
	Fixed asset investments	X	
	Stock/Inventories (excluding stocks of investments)	X	
	Disallowed Debtors Adjustment (see Section 3)	X	
	Market Value Adjustments (see Section 4)	X	
	Amounts given as guarantees or charges over assets	X	
			X
	Add:		
	Qualifying secured liabilities	X	
	Non refundable deferred income	X	
		X	
	Liquid Capital		X
Part C	Less (if applicable):		
	PRR	X	
	CRR	X	
	Net Liquid Capital		X
Part D	Paid up Share Capital /Share Premium		X
	Less Minimum Share Capital/Share Premium Requirement (see Table I)		X
	Surplus/Deficit		X

Section 2 - Calculation of Liquid Capital Requirement

Calculation of Liquid Capital Requirement				
			£	£
Part A	Operating expenses		X	
	Interest payable		X	
	Tax expense		X	
	Other expenses		X	
	Total Audited Expenditure			X
	Audited expenditure			X
	<i>Adjustments to Expenditure</i>			
	Discretionary bonuses/profit share		X	
	Bad debt expense		X	
	Exceptional costs (if agreed with FSC)		X	
	Total Adjustment to Expenditure			X
	Annual Audited Expenditure (AAE)			X
Part B	Net Liquid Capital			X
	Less: Liquid Capital Requirement:			
	Expenditure Based Requirement (AAE x 1/4)		X	
	Excess on PII Insurance (if applicable)		X	
	Other		X	
	Total Liquid Capital Requirement			X
	Excess/Shortfall of Liquid Capital			X/(X)
110% of Total Liquid Capital Requirement			X	

Section 3 - Disallowed Debtors Adjustment

Disallowed Debtors Adjustment			
		£	£
Loans owing to licenceholder (including related party and group loans)			X
Total debtors, WIP, accrued income and prepayments			X
			X
Less:			
Debtors or WIP o/s less than 3 months		X	
Prepaid expenses for 3 months or less		X	
Amounts due from related parties that have a fixed repayment term of 3 months or less or arise in the normal course of business and are settled at least every 60 days (unless proven to the FSC that the counterparty has liquid funds that will enable it to repay within 3 months if necessary)		X	
			X
Total disallowed debtors and loans			X

Section 4 - Market Value Adjustments

Market Value Adjustments	Market Value	MV Adj %	Market Value Adjustment	MV less MV Adjustment	Book Value	MV < BV
Certificates of Deposit	X	0%	(X)	X	X	(X)
UK Treasury Bills	X	5%	(X)	X	X	(X)
Quoted fixed rate securities	X	10%	(X)	X	X	(X)
Quoted floating rate and index-linked securities	X	15%	(X)	X	X	(X)
Units in CIS authorised or recognised in IOM or UK	X	15%	(X)	X	X	(X)
Designated stocks	X	20%	(X)	X	X	(X)
Inv on recognised exchange not covered above and ICIS units (Not EIFs/PIFs, Exempt ICIS)	X	30%	(X)	X	X	(X)
Other current asset investments	X	100%	(X)	X	X	(X)
Total market value adjustment						(X)
Settlement adjustments					£	£
Valuation adjustment for creditors outstanding for >30 days after settlement date - Excess of MV over Creditor amount					X	
Valuation adjustment for amount paid in advance where delivery has been outstanding for more than 5 days					X	
Total settlement adjustments						(X)
Total Investment adjustment						(X)

Section 5 – Accompanying Notes

Accompanying Notes		
1	Capital and Reserves	<p>Capital and reserves are to be based on audited balance sheets prepared so as to give a true and fair view in accordance with accounting principles generally accepted in the UK or International Financial Reporting Standards.</p> <p>Historical cost accounting, as modified at the option of the licenceholder by the inclusion of investments at net realisable value and of certain fixed assets at revalued amounts must be applied.</p> <p>A licenceholder may include freehold and leasehold land and buildings at a valuation in excess of historical cost provided that the assets are included in the licenceholder's latest audited financial statements at the revalued amount. For this purpose the value of the property shall be taken as its open market value on an existing use basis, if it has been valued by a qualified surveyor or valuer within the preceding 18 months, and in other cases as its net book value.</p> <p>The Commission may require evidence of the valuation or request that a valuation be carried out at the licenceholder's expense.</p>

2	Goodwill and other intangible assets	Disallowed
3	Shortfall in attributable net assets of a subsidiary or related company	<p>Shortfall in attributable net assets of a subsidiary or related company compared with the book value of the investment in that subsidiary or related company.</p> <p>The shortfall should be calculated as the accumulated losses of the subsidiary or related company not the net liability figure. Provision should be made for this deficiency or (in the case of a related company) the portion attributable to the licenceholder as well as deducting the full book value of the investment as a fixed asset investment.</p> <p>Where an adjustment has been made to the book value of an investment in a subsidiary or related company in calculating the net tangible assets only the adjusted amount should be deducted to avoid double counting, but where there is a deficiency of net tangible assets in a subsidiary or related companies, this must not be added back.</p>
4	Qualifying subordinated loans	<p>A loan to a licenceholder may be treated as a qualifying subordinated loan for the purposes of this Rule provided that it is in the same form as the model issued by the Commission and it is signed by authorised signatories of all of the parties. The amount to be treated as qualifying subordinated loan for the purposes of this Rule shall be limited to three times net tangible assets prior to adding back any amount in respect of such loans.</p> <p>A licenceholder must provide the Commission with five business days written notice of any repayment, prepayment or termination of a subordinated loan, except:</p> <ul style="list-style-type: none"> • where the licenceholders financial resources after payment of interest or principal etc would be less than or equal to 120% of its Liquid Capital Requirement; in which case a licenceholder must obtain the prior written approval of the Commission before repayment etc; or • where the Commission otherwise permits.
5	<p>Disallowed Debtors Adjustment</p> <p>See Section 3 of Schedule 1.</p>	<p>Debtors added back include all debtors and Work in Progress due and receivable within 3 months and prepayments for 3 months or less.</p> <p>Amounts due from related parties are disallowed unless:</p> <ul style="list-style-type: none"> • they have a fixed repayment term of 3 months or less; • they arise in the normal course of business and are settled every 60 days, or • the licenceholder can provide audited financial statements of the related party, made up the same year end as the licenceholders own financial statements, which demonstrate that the related party has liquid funds that would enable it to repay the loan within 3 months if necessary.
6	<p>Market Value Adjustment (if applicable)</p> <p>See Section 4 of Schedule 1.</p>	<p>Market Value adjustments</p> <p>Unless calculating a PRR requirement, the percentages in Section 4 shall be applied to calculate the amount by which the market value less the investments adjustment is lower than the book value of current asset investments. This requirement does not apply to stockbrokers who must calculate a PRR requirement in accordance with the PRR guidance. This calculation is to be provided to the Commission and any exceptions to the above percentages must be agreed in writing by the Commission.</p> <p>Settlement adjustments</p> <p>Unless calculating a CRR requirement (See below), a valuation adjustment must be calculated for then following:</p> <ul style="list-style-type: none"> • Debtors arising from sales of investments outstanding for 30 days or more from contractual settlement date, in which case each debtor shall be included at the lower of its book value and the market value of the underlying investments, but only if the licenceholder retains control of the relevant documents of title. • Creditors arising from purchases of investments outstanding for more than thirty days from contractual settlement date, the extent (if any) to which the market value of the underlying investments exceeds the amount of each creditor.

7	Amounts given as guarantees or charges over assets	Where a licensed entity has notified the Commission that it has entered into a guarantee arrangement or given a charge over its assets, an appropriate adjustment should be made to reduce the Liquid Capital. (A regulated entity should not issue a guarantee or grant a charge over its assets without prior approval from the Commission).
8	Qualifying secured liabilities	A liability secured against a freehold or leasehold land and buildings, where the property is the sole security for the liability, may be treated as a qualifying secured liability to the extent of the lower of: A – the total of the secured liability due more than one year after the balance sheet date; or B – 80% of the value of the property on which the liability is secured. For the purposes of the above, the value of the property shall be taken as its open market value on an existing use basis, if it has been valued by a qualified surveyor or valuer within the preceding 18 months, or in other cases its net book value. The Commission may require evidence of the valuation or request that a valuation be carried out at the licenceholder's expense.
9	Non refundable deferred income	Where the licenceholders has received income (e.g. in the form of annual fees billed in advance) which is non-refundable under the terms of the contract this amount should be added back.
12	PRR - See Part C of Section 1	See Rule 38 and Schedule 2.
13	CRR - See Part C of Section 1	See Rule 40 and Schedule 2.
	Expenditure Based Requirement	
14	Profit and Loss Account	A detailed profit and loss account should be submitted to the Commission in order to verify the amounts included in the following captions.
15	Operating expenses	Per audited financial statements.
16	Interest payable	'Netting off' is not permitted under any circumstances, for example, interest payable must not be "netted off" against interest receivable. Interest payable must be treated as an expense.
17	Other expenses	As agreed in advance with the Commission.
18	Discretionary bonuses etc	Any form of discretionary (i.e. not contractual) profit related bonus payable to employees, Directors, Partners or Proprietors made can be deducted from operating expenses for the purposes of the expenditure based requirement.
19	Bad debt expense	Where a bad debt provision relates to a debtor that has been disallowed in the calculation of liquid capital, the related expense may be included as an adjustment when arriving at the Annual Audited Expenditure.
20	Exceptional costs	Exceptional items either as defined in UK Financial Reporting Standard 3, or IAS 1. Examples given in IAS1 include Asset write downs, restructuring costs. Profit or loss on disposal of assets, discontinuing operations and reversal of provision. Litigation settlements would not be acceptable as deductions unless the litigation concluded during the relevant financial year and there are no ongoing costs.
21	Excess on PII insurance x 1	The licenceholder should maintain liquid capital to be able to fund the excess on one potential claim on the PII insurance policy, except where a letter of support is in place from a group company.
22	Other	As determined by the Commission (e.g. a deduction for contingent liabilities if required).

SCHEDULE 2

POSITION RISK REQUIREMENT AND COUNTERPARTY RISK REQUIREMENT

Section 1 - Calculation of Position Risk Requirement ("PRR")**Obligation to calculate PRR**

1. A licenceholder must calculate a minimum PRR in the following way.
 - (1) **Frequency of calculation.** A licenceholder must be able to monitor its total PRR on an intra-day basis and must recalculate it in a full and detailed manner before executing any trade which is likely to increase it to such a level that the licenceholder's financial resources requirement might exceed the licenceholder's financial resources.
 - (2) **Marking to market.** A licenceholder must mark to market its positions, whether or not on the balance sheet, on as prudent and consistent basis, as well as having regard to the liquidity of the instrument concerned, at least once every business day and more frequently as appropriate.
 - (3) **Non marketable investments.** A licenceholder must calculate the PRR for any position which is not a marketable investment as 100% of the mark to market value of the position or, other than in respect of a derivative (whatever the nature of the underlying instrument) or off balance sheet contract when the PRR is 100% of the value of the notional position underlying the contract.
 - (4) **Approach to PRR calculation.** A licenceholder must calculate the total PRR by multiplying all positions in marketable investments by the relevant percentage stated in the Table A below and summing the results.

Table A**Position risk requirement****1: Debt**

Debt	Maturity		
	0-2 years	2-5 years	Over 5 years
Qualifying debt security			
- fixed interest	3.5%	5.5%	9.5%
- floating rate notes	10%	10%	10%
Non-qualifying debt security			
- fixed interest	10%	20%	30%
- floating rate notes	30%	30%	30%

2: Equities

Equities traded on or under the rules of an exchange or an approved exchange (not including USM stocks in the UK)	25%
Other	100%

3: Stock positions in physical commodities

Stock positions in physical commodities associated with a licenceholder's investment business	30% of realisable value
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4: Certain derivatives and foreign exchange

Exchange traded futures and written options	4 x initial margin requirement
OTC futures and written options	Apply the appropriate percentage shown in A, B & C above to the mark to market value of the underlying position
Purchased options	Apply the appropriate percentage shown in A, B & C above to the mark to market value of the underlying position but the result may be limited to the mark to market value of the option
Contracts for differences	20% of the mark to market value of the contract
Foreign exchange exposure	10% of the net open long position

5: Concentrated positions

PRR on a concentrated exposure to an issuer or an issue must be calculated in accordance with the concentrated position method.

6: Other investments

Single premium unit linked bonds and units in a regulated collective investment scheme	50% of realisable value
Any other investments	100% of mark to market value of investment or underlying instrument

Notes to Table A**Percentage**

- 1 A percentage means, unless otherwise indicated, a percentage of the mark to market value of the aggregate of the long and the short positions in the particular category.

Netting

- 2 The long or (short position) in a particular instrument is the net of any long or short positions held in that same instrument (i.e. a long position in X shares can be offset on a share for share basis against a short position in X shares) but positions in similar instruments (e.g. X shares against Y shares) cannot be offset in this way.

Stock positions in physical commodities

- 3 A stock position in physical commodities is the mark to market value of the sum of:
- (i) commodities where the full contract price has been paid;
 - (ii) work in progress and finished goods which result from the processing of commodities; and
 - (iii) raw materials which will be combined with commodities to produce a finished processed commodity.
- 4 A stock position in physical commodities is regarded as being associated with a licenceholder's investment business if the contract associated with the physical commodity was made for investment rather than commercial purposes. Indications of this are:
- (i) the contract is exchange traded, or
 - (ii) the performance of the contract is guaranteed by an exchange, an approved exchange or a clearing house.

Section 2 - Calculation of Counterparty Risk Requirement ("CRR")

Obligation to calculate CRR

1. (1) A licenceholder must calculate its total CRR on exposures to counterparties as the sum of all the amounts calculated in accordance with the paragraphs referred to in Table B below.
- (2) **Frequency of calculation.** A licenceholder must calculate its CRR at least once each business day; for the purposes of the relevant calculations the licenceholder may use prices of investments and physical commodities as at the close of business on the previous day.
- (3) **Negative amounts.** A licenceholder must not include any CRR if it is a negative amount.

Table B

Counterparty Risk Requirement	
Paragraphs	
2	Cash against documents transactions
3	Free deliveries of securities and physical commodities
4	Concentrated risk to one counterparty
5	Options purchased for a counterparty
6	Swaps, forward contracts and OTC derivatives
7	Qualifying and other deposits
8	Loans to counterparties
9	Other amounts owed to a licenceholder arising out of investment business or investment dealing activities

- (4) **Instruments for which no CRR has been specified.** Where a licenceholder is in doubt as to the classification of an item for the purposes of CRR, it must promptly seek advice from the Commission and until the Commission informs the licenceholder of the correct treatment in the CRR calculation, the licenceholder must add to its CRR the whole of the exposure on the item concerned.
- (5) **Provisions.** A licenceholder may reduce the exposure on which its CRR is calculated to the extent that it makes provision for a specific counterparty balance.
- (6) **Connected companies.** For the avoidance of doubt, a licenceholder must calculate a CRR as appropriate on exposures to or from connected companies.
- (7) **Basis of valuation.** For the purposes of valuing instruments and physical commodities at market value in the calculation of CRR, a licenceholder must be consistent in the basis it chooses and may use either mid market value or bid and offer prices (as appropriate).
- (8) **Acceptable collateral.** A licenceholder may reduce the exposure to a counterparty on which its CRR is calculated to the extent that it holds acceptable collateral from that counterparty.
- (9) **Nil weighted counterparty exposures.** A licenceholder may disregard any counterparty exposure calculated in accordance with paragraphs 2 to 9, if the counterparty is or the contract is guaranteed by or is subject to the full faith and credit of a sovereign government or province or state thereof (or a corporation over 75% owned by such government, province or state), which is a member of the OECD and the government, province, state or corporation has not defaulted, or entered into any rescheduling or similar arrangement, or announced the intention of so doing, in respect of itself or its agency's debt within the last five years.

Cash against documents transactions

2. (1) A licenceholder which enters into a transaction on a cash against documents basis must calculate the market risk for transactions still unsettled 16 calendar days after settlement date as set out in (2) below and must then multiply this by the appropriate percentage set out in Table C below to calculate a CRR for each separate unsettled transaction.

Table C

Percentage to be applied to the <i>market risk</i>	
Calendar days after settlement day	Percentage
0 – 15	Nil
16 – 30	25%
31 – 45	50%
46 – 60	75%
Over 60	100%

(2) Market risk calculation:

(a) Where a licenceholder has neither delivered securities nor received payment when purchasing securities for, or selling securities to, a counterparty, the market risk is the excess of the contract value over the market value of the securities.

(b) Where a licenceholder has neither received securities nor made payment when selling securities for, or purchasing securities from, a counterparty, the market risk is the excess of the market value over the contract value of the securities.

(3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder's total CRR for cash against documents transactions.

Free deliveries of securities

3. (1) When a licenceholder makes delivery to a counterparty of securities without receiving payment or pays for securities without receiving the certificates of good title, the licenceholder must calculate the free delivery value for each transaction.

(2) A licenceholder must calculate the free delivery value for each transaction as set out below and multiply this value by the appropriate percentage in Table D below for free deliveries of securities as follows –

(a) if the licenceholder has delivered securities to a counterparty and has not received payment, the free delivery amount is the full amount due to the licenceholder (i.e. the contract value);

(b) if the licenceholder has made payment to a counterparty for securities and not received the certificates of good title, the free delivery amount is the market value of the securities.

(3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder's total CRR for free deliveries of securities.

Table D

Percentage to be applied to *free deliveries* relating to *securities*

Nature of counterparty to whom free delivery is made		Business days since delivery		
		0- 3	4 - 15	over 15
1	A counterparty to whom securities have been delivered or to whom payment for securities has been made	Nil	100% of contract or market value	100% of contract or market value
2	A regulated financial institution or regulated banking institution to whom securities have been delivered or payment made with the expectation that market practice will result in a settlement day longer than three days from delivery date	15% of contract or market value		100% of contract or market value
2A	A counterparty to whom securities have been delivered which settle through the Crest or to whom payment for such securities has been made.	15% of contract or market value		100% of contract or market value
3	A Manager, underwriter, sub-underwriter or member of a selling syndicate or issuer to whom payment for securities has been made; or a manager of a regulated collective investment scheme to whom units of the scheme have been delivered or payment for units of the scheme has been made.	Nil		100% of contract or market value or, if the issue is a country approved by the Commission, 15% of contract or market value.

Concentrated risk to one counterparty

4. (1) When the total amount due to a licenceholder arising from exchange traded variation margins from a single counterparty (or several counterparties grouped together by the licenceholder for margin or credit treatment) is outstanding under a credit line granted in accordance with an adequate credit management policy and exceeds 25% of the licenceholder's financial resources, the licenceholder must calculate an additional CRR according to Table E below.

Table E

Concentrated risk percentages

% of financial resources exposed to counterparty	Standard CRR for variation margin	Standard CRR for free delivery	Additional CRR
0 – 25%	10%	15%	Nil
25% - 50%	10%	15%	lower of (1) the excess or (2) the sum of 15% for variation margin plus 10% for free deliveries
over 50%	10%	15%	lower of (1) the excess or (2) the sum of 40% for variation margin plus 35% for free deliveries

(2) **Use of approved bank bonds.** If an approved bank bond forms a part of a licenceholder's financial resources, a licenceholder may include it in financial resources for the purposes of (1) above at its face value.

(3) The sum of the amounts calculated in accordance with (1) above is the total CRR for concentrated risk to one counterparty.

Options purchased for a counterparty

5. (1) **Single premium options.** Where a licenceholder has purchased a single premium option on behalf of a counterparty and the counterparty has not paid the full option premium cost by three business days after trade date, a licenceholder must calculate a CRR as the amount by which the option premium owed to the licenceholder exceeds the market value of the option or acceptable collateral.

(2) **Traditional options.** Where a licenceholder has purchased a traditional option for its own account or a counterparty and paid the option premium, it must calculate a CRR equal to the value of the option premium.

(3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder's CRR in respect of purchased options.

Swaps, forward contracts and OTC derivatives

6. (1) A licenceholder which has an exposure arising from the OTC instruments listed in Table F must calculate a CRR by multiplying the credit equivalent amount by the credit percentage contained in Table G below.

(2) **Credit equivalent amount.** A licenceholder must calculate the credit equivalent amount in accordance with Table F below.

Table F

Credit equivalent amount		
OTC instruments	Credit equivalent amount	
	If A is positive	If A is negative
Interest rate swaps: single currency		
(1) Floating rate swapped against floating rate	A	nil
(2) fixed rate swapped against floating rate:		
(a) under one year to maturity	A	nil
(b) over one year to maturity	A + 0.5% of N	0.5% of N
Cross currency swaps		
(1) under one year to maturity	A + 1% of N	1% of N
(2) over one year to maturity	A + 5% of N	5% of N
FRAs, futures, purchased or written options, and other contracts for differences based solely on interest rates		
(1) under one year to maturity	A	nil
(2) over one year to maturity	A + 0.5% of N	0.5% of N
Futures, purchased or written options, and other contracts for differences based wholly or partly on exchange rates, commodity prices and equity prices		

(1)	contracts under 14 days original maturity	Nil	nil
(2)	under one year to maturity	A + 1% of N	1% of N
(3)	over one year to maturity	A + 5% of N	5% of N
Notes			
1	A = (a) the market risk of the contract; (b) in the case of a purchased option, the market value of the option; or (c) in the case of a written option, the excess of contract value over market value. N = the notional or actual amount underlying the contract		
2	Written options Where the premium on a written option has been received within three business days from trade date, the credit equivalent amount shall be zero.		

(3) **Credit percentages.** A licenceholder may opt to calculate the CRR using the highest available credit percentage in Table G below in order to avoid undue complication.

Table G

Credit percentages		
Status of the counterparty		%
1	A licenceholder, a supranational organisation, a United Kingdom discount house, a gilt edged market maker, a stock exchange money broker, a regulated banking institution, a building society under the Building Societies Act 1986, an Isle of Man or United Kingdom local authority, a investment business licenceholder and other licenceholders which have regulations applied to them which, in the opinion of the Commission, are adequate	2%
2	Any other counterparty.	5%

(4) **Netting.** A licenceholder which has offsetting exposures in exactly the same type of contract with a counterparty may net these by novation before calculating the CRR if it has a written agreement evidencing a legally enforceable right to do so.

(5) **Equivalent contracts.** This Rule also applies to contracts which, although they are exchange traded and related to the value of an exchange traded security or other index, are fully dependent upon the issuer for performance (e.g. covered warrants).

(6) **Regulated connected companies.** Where a licenceholder carries out significant swaps business with a connected company which has, in the opinion of the Commission, adequate regulation applied to it, the licenceholder may, with the prior written approval of the Commission, disapply all or part of this Rule so far as it applies to interest rate or foreign exchange swaps with that connected company.

(7) **Timing.** A licenceholder must calculate a CRR equal to 100% of the credit equivalent amount in respect of amounts due to the licenceholder for periodic or final settlement of transactions covered by this Rule which remain outstanding three business days after the due date.

(8) The sum of the amounts calculated in accordance with this Rule is the licenceholder's CRR for swaps, forward contracts and OTC derivatives.

Qualifying and other deposits

7. (1) Subject to (2) below, a licenceholder must calculate a CRR for a deposit referred to in the table below by multiplying the value of the deposit by the appropriate percentage contained in Table H below.

Table H

Qualifying and other deposit risk percentages	
Type of deposit	%
Qualifying deposits	nil
Other deposits with an approved bank related to a transaction creating an offsetting liability for the licenceholder or subject to an agreement with the bank allowing its use as collateral for a loan that may be withdrawn within:	
- three months to one year	2.5%
- over one year	4.0%
Note: all other deposits are subject to a liquidity adjustment	

(2) All qualifying and other deposits outstanding three days after a repayment request has been made or more than three days past maturity date are subject to a full CRR.

(3) The sum of the amounts calculated in accordance with Table H above is the licenceholder's CRR for qualifying deposits and other deposits.

Loans to counterparties

8. (1) A licenceholder must calculate a 100% CRR on the amount by which a loan to a counterparty is not:
- (a) secured by acceptable collateral; or
 - (b) offset against an amount owed by the licenceholder to the counterparty within three months where there is an agreement in writing which the licenceholder believes to be legally enforceable, entered into by an official authorised by the debtor, allowing the licenceholder to set off amounts owed by it against debt due to it.

(2) The sum of the amounts calculated in accordance with this Rule is the licenceholder's CRR for loans to counterparties.

Other amounts owed to a licenceholder arising out of investment business or investment dealing activities

9. (1) ***Nil CRR items.*** The following receivables arising out of investment business or regulated dealing activities do not require a CRR at any time:
- (a) any debt not covered elsewhere in the CRR Rules to the extent that it is adequately secured;
 - (b) amounts in respect of 30 day items specified in (3) below which have been outstanding for less than 30 days from the date on which they were first recorded on the licenceholder's balance sheet; and
 - (c) accrued income for interest on marketable investments, except where it has been outstanding for more than 30 days after the date that the interest was due to be received.

(2) ***CRR on amounts owed to a licenceholder in respect of international underwriting and stabilisation activities –***

(a) Where management or other fees are owed to a licenceholder in respect of international underwriting or stabilisation activities, the licenceholder must calculate full CRR on any amounts remaining unpaid 30 days after they first appeared on the licenceholder's balance sheet.

(b) A licenceholder acting as stabilising manager must also calculate a CRR equal to 100% of any income accrued as a result of net profit on stabilising activities while the stabilising account remains open.

(3) ***CRR on 30 day items.*** A licenceholder must calculate a 100% CRR in respect of the following receivables due to the licenceholder if they have been outstanding for more than 30 days from the date on which they were first recorded on the licenceholder's balance sheet:

- (a) commissions and fees earned in connection with the licenceholder's investment business;
- (b) commissions and fees earned which are due and payable from client bank accounts;
- (c) repayments of marketable investments at maturity or call;
- (d) the value of scrip issues and rights issues;
- (e) proceeds arising from takeovers and mergers;
- (f) domestic underwriting or stabilisation fees; and
- (g) accrued income and work in progress.

(4) ***100% CRR items.*** A licenceholder must calculate a 100% CRR in respect of other receivables arising from investment business and investment dealing activities not covered elsewhere in this Rule from the time that the receivable is recorded on the balance sheet.

(5) The sum of the amounts calculated in accordance with this Rule is the CRR for other amounts owed to the licenceholder arising out of investment business or investment dealing activities.

SCHEDULE 3

DEPOSIT TAKING RETURNS

This schedule specifies the content of the deposit taking return forms to be submitted by the deposit taker to the Commission in accordance with Rule 47 or 60, whichever is applicable. The deposit taking returns are:-

Form SR-1	Assets, Liabilities and Off Balance Sheet Items return;
Form SR-2A	Capital, Current Period's Profit & Loss, Provisions and Non-performing Assets return;
Form SR-2B	Large Exposures Reporting return;
Form SR-2C	Memorandum Items return;
Form SR-3A	Liquidity Risk return;
Form SR-3B	Interest Rate Risk return;
Form SR-4	Foreign Exchange and OTC Derivatives return.

Form SR-1 – Assets, Liabilities and Off-Balance Sheet Items

- The form is split into assets, liabilities and off-balance sheet items.
- Sterling and other currency denominated balances must be reported.
- All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Assets

- Cash – at bank – notes and coins
- Cash – gold bullion
- Cash items in the course of collection
- Money market assets – balances with, and loans and advances to, Zone A credit institutions
- Money market assets – balances with, and loans and advances to, Zone B credit institutions with a residual maturity of 1 year or less
- Money market assets – balances with, and loans and advances to, Zone B credit institutions with a residual maturity of more than 1 year
- Certificates of deposit issued by Zone A credit institutions
- Certificates of deposit issued by Zone B credit institutions with a residual maturity of 1 year or less
- Certificates of deposit issued by Zone B credit institutions with a residual maturity of more than one year
- Promissory notes and short-term paper issued by Zone A credit institutions
- Promissory notes and short-term paper issued by Zone B credit institutions with a residual maturity of 1 year or less
- Promissory notes and short-term paper issued by Zone B credit institutions with a residual maturity of more than 1 year
- Floating rate notes (un-subordinated) of residual maturity of 1 year or less issued by Zone A credit institutions
- Floating rate notes (un-subordinated) of residual maturity of 1 year or less issued by Zone B credit institutions

- Floating rate notes (subordinated – of a capital nature) of residual maturity of 1 year or less issued by Zone A and Zone B credit institutions
- Other placings – bank acceptances – short term drafts accepted by a Zone A or Zone B credit institution
- Other placings – other – short-term notes or drafts issued by a corporate entity
- Treasury and local authority bills (residual maturity less than 1 year) issued by Zone A central governments and central banks
- Treasury and local authority bills (residual maturity less than 1 year) issued by Zone B central governments and central banks denominated in the local currency and funded by liabilities in the same currency
- Treasury and local authority bills (residual maturity less than 1 year) issued by Zone B central governments and central banks not denominated in the local currency and funded by liabilities in the same currency
- Loans to, or explicitly guaranteed by, Zone A central governments and central banks
- Loans to, or explicitly guaranteed by, Zone B central governments and central banks denominated in the local currency and funded by liabilities in the same currency
- Loans to, or explicitly guaranteed by, Zone B central governments and central banks not denominated in the local currency and funded by liabilities in the same currency
- Loans to, or explicitly guaranteed by, Zone A public sector entities, including claims on, or guaranteed by, the state governments of the Isle of Man and Channel Islands
- Loans to, or explicitly guaranteed by, Zone B public sector entities, regional governments or local authorities
- Loans to commercial entities owned by public sector entities (Zone A and Zone B)
- Loans secured by conditional bond and security or mortgages on residential property
- Loans to the non-bank private sector 100% secured by cash on deposit with the reporting bank (legal right of set-off)
- Loans to the non-bank private sector 100% secured by cash on deposit with a third party Zone A credit institution
- Loans to the non-bank private sector 100% secured by Zone A central government fixed interest securities with a maturity of 1 year or less, or similar floating rate securities of any maturity
- Loans to the non-bank private sector 100% secured by Zone A central government fixed interest securities with a residual maturity of over 1 year
- Loans to the non-bank private sector 100% secured by a guarantee from another Zone A credit institution
- Loans to the non-bank private sector 100% secured by a guarantee from another Zone B credit institution with a residual maturity of 1 year or less
- Other secured loans to the non-bank private sector
- Unsecured personal loans to the non-bank private sector
- Other unsecured loans to the non-bank private sector
- Hire purchase and instalment credit to the non-bank private sector
- Assets leased out under finance leases (excluding claims on central governments or credit institutions)
- Investments in Zone A central government and central bank floating rate notes of any maturity, and fixed interest rate paper of residual maturity less than 1 year
- Investments in Zone A central government and central bank fixed interest rate paper with a term to maturity of over 1 year
- Investments in Zone B central government and central bank floating rate notes and fixed interest rate paper of residual maturity of less than 1 year denominated in the local currency and funded in the local currency
- Investments in Zone B central government and central bank floating rate notes and fixed interest rate paper of residual maturity of more than 1 year denominated in the local currency and funded in the local currency
- Investments in Zone B central government and central bank floating rate notes and fixed interest rate paper of any maturity not denominated in the local currency and funded in the local currency
- Investments in the capital of credit institutions (residual maturity over 1 year)
- Investments in fixed, floating and variable rate securities with residual maturity of over 1 year issued by Zone A credit institutions

- Investments in fixed, floating and variable rate securities with residual maturity of over 1 year issued by Zone B credit institutions
- Investments in subsidiary and associated companies
- Investments in company debt and equity securities quoted on a recognised stock exchange
- Investments in company debt and equity securities not quoted on a recognised stock exchange
- Investments in the capital of other companies
- Items in suspense
- Premises owned and occupied by the reporting deposit taker
- Other land and property owned by the reporting deposit taker
- Plant, equipment, leasehold premises, leasehold improvements and motor vehicles
- Debtors and prepayments
- Settlement balances
- Participations and syndications – reporting deposit taker acting as manager or co-manager
- Operating leases
- Other assets individually exceeding 10% of LECB
- Other assets resulting from the fair value of off balance sheet items
- Other assets not of a capital nature
- Other assets of a capital nature
- Total assets
- Risk weights applying to off-balance sheet items (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- Total risk-weighted assets (this does not apply to deposit takers which are incorporated outside the Isle of Man)

Liabilities

- Deposits due to credit institutions
- Deposits due to central governments and public sector entities
- Deposits due to other customers
- Deposits held as 100% security for exposures entered into on behalf of customers
- Interest payable
- Certificates of deposit issued
- Promissory notes, bills and other short-term paper issued
- Ineligible term debt
- Items in suspense
- Credit items in the course of transmission
- Specific/individual provisions for bad and doubtful debts
- Provision for current taxation
- Unearned finance charges on hire purchase and instalment credit agreements
- General/ collective provisions in excess of 1.25% of total risk weighted assets
- Reserves arising on the directors' revaluation of fixed assets
- Other provisions
- Creditors and accruals
- Settlement balances
- Taxation (excluding current taxation)
- Dividends payable
- Participations and syndications – reporting deposit taker acting as manager or co-manager
- Other liabilities greater than 10% of the reporting deposit taker's LECB
- Other liabilities
- Other liabilities resulting from the fair value of off balance sheet items
- Total capital and reserves
- Total liabilities

Off-balance sheet items

- Guarantees given and direct credit substitutes (acceptances, risk participations, irrevocable obligations and standby letters of credit) 100% secured by cash on deposit with the reporting deposit taker
- Guarantees given and direct credit substitutes (acceptances, risk participations, irrevocable obligations and standby letters of credit) – weighted at 10%
- Guarantees given supported by a parental guarantee, any guarantees given to other credit institutions and guarantees given which are 100% secured by cash on deposit with a third party credit institution
- Guarantees given fully secured against residential property
- Guarantees given and direct credit substitutes (acceptances, risk participations, irrevocable obligations and standby letters of credit) – weighted at 100%
- Guarantees given which are of a capital nature
- Sale and repurchase agreements where the reporting deposit taker is the seller of the asset and the asset sold is not reported on the balance sheet
- Asset sales with recourse (credit risk remains with the reporting deposit taker)
- Forward asset purchases except foreign currency spot deposits with value date one or two working days after trade date
- Forward deposits placed except foreign currency spot deposits with value date one or two working days after trade date
- Uncalled partly paid shares and securities
- Transaction related contingent items (guarantees that support particular obligations) such as performance bonds, bid bonds, warranties and standby letters of credit
- Note issuance facilities and revolving underwriting facilities
- Credit lines and commitments over one year
- Trade related contingent items such as documentary letters of credit
- Other commitments less than one year
- Endorsements of bills
- Interest rate risk capital calculation (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- Foreign exchange exposure; aggregate of net short open positions (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- OTC derivatives – interest rate related contracts (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- OTC derivatives – foreign exchange related contracts, including gold (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- OTC derivatives – equity contracts (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- OTC derivatives – precious metal contracts, except gold (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- OTC derivatives – commodity contracts (this does not apply to deposit takers which are incorporated outside the Isle of Man)
- Total risk weights applying to off-balance sheet items (this does not apply to deposit takers which are incorporated outside the Isle of Man)

Form SR-2A – Capital, Current Period's Profit and Loss, Provisions and Non-performing Assets

- All monetary balances must be reported in sterling to the nearest round thousand without decimal points.
- Deposit takers incorporated outside the Isle of Man are not required to complete the capital section.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Capital**Tier 1 Capital**

- Ordinary shares, amount paid up (net of holdings of own shares)
- Perpetual non-cumulative preference shares
- General reserves (including Tier 1 share premia)
- Current period's profits (if verified by the reporting deposit taker's external auditor)
- Minority interests (in Tier 1 capital)

Less deductions:

- Current period's losses (if appropriate)
- Goodwill and other intangible assets
- Net unrealised losses on equities held in the available-for-sale financial assets category

Tier 2 Capital

Tier 2 capital is the following upper tier 2 capital and lower tier 2 capital items subject to the total tier 2 capital being equal to or less than the total tier 1 capital. The following information is required:

Upper Tier 2 Capital

- General/ collective provisions (up to a maximum of 1.25% of total risk weighted assets)
- Fixed asset revaluation reserve
- Unsecured convertible undated (perpetual) subordinated debt
- Perpetual cumulative preference shares
- Minority interests (in Tier 2 capital)

Lower Tier 2 Capital

- Dated (term) preference shares
- Unsecured dated (term) subordinated loan stock (original minimum term to maturity of 5 years and 1 day – subject to amortisation, and must not exceed 50% of total tier 1 capital)

Total capital and reserves

- Total Tier 1 and Tier 2 Capital
- Un-audited current period's profits
- Other ineligible capital

Adjusted Capital Base

- Eligible Capital (total Tier 1 and Tier 2 Capital)

Less deductions:

- Investments in subsidiary and associated companies
- Investments in the capital of other credit institutions
- Other deductions (on or off balance sheet – of a capital nature)

Current Period's Profit and Loss

The profit and loss account should cover the period from the end of the previous financial year-end to the date of the return.

Income

Income from deposit taking

- Interest received and receivable
- Interest paid and payable
- Loss / profit on foreign exchange dealing and currency positions
- Loss / profit on investments held for dealing
- Income from deposit taking fees, charges and commissions
- Decrease / increase in book value of investments

Fee and other income from "non-deposit taking" services related to customers / clients

- Investment management fees
- Trust and company administration fees
- Trustee / Custodian fees
- Fund management fees
- Investment dealing profits and commissions
- Other

Dividends / share of profits (or losses) from subsidiaries and associated companies
Other income

Expenses

- Operations – staff
- Operations – occupancy
- Operations – other
- Group management / administration charge
- Interest paid and payable on unsecured subordinated debt
- Net charge / (credit) for specific/ individual and general/ collective bad debt provisions
- Other expenses

Profit or loss

- Total profit / (loss) before taxation, extraordinary items and dividends
- Current taxation provision
- Extraordinary items
- Dividends paid and payable
- Total profit / (loss) after taxation, extraordinary items and dividends

Provisions against bad and doubtful debts

- Reporting date (last financial year-end)
- Previous balance at last financial year-end reporting date – specific/ individual and general/ collective provisions
- Charge / (release) to profit and loss account – specific/ individual and general/ collective provisions
- Amounts written off – specific/ individual provisions only
- Recoveries of amounts previously written off – specific/ individual provisions only
- Current balance – specific/individual and general/ collective provisions
- Gross value of loans against which specific/individual provisions have been made
- Analysis of provisions made other than against loans – specific/ individual and general/ collective

Non-performing assets and loans

- Loans and other assets – 60 days past due date
- Loans and other assets – 90 days past due date

Form SR2-B – Large Exposures Reporting

- Exposures to be reported are split between exposures to non-credit institutions and exposures to credit institutions.
- All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Exposures to non-credit institutions

- Deposit takers incorporated in the Isle of Man shall report all such exposures of 10% or above of their LECB.
- Deposit takers incorporated outside the Isle of Man are required to report their ten largest such exposures.

For each exposure, or group of closely related exposures, the following information is required:

- The name of the customer / counterparty
- Whether the customer / counterparty is connected to the reporting deposit taker
- The value of the exposure at the reporting date (whether drawn down or otherwise) gross of specific/ individual provisions
- Specific/ individual bad debt provisions
- Maturity date(s)
- Currency denomination
- Where the exposure is reported on Form SR-1
- The facility limit
- The maximum exposure in the quarter
- The nature of the security
- The date a large exposure card was submitted to the Commission (this does not apply to deposit takers which are incorporated outside the Isle of Man)

Exposures to credit institutions

- Deposit takers incorporated in the Isle of Man shall report all such exposures of 10% or above of their LECB.
- Deposit takers incorporated outside the Isle of Man are required to report their ten largest such exposures.

For each exposure, or group of closely related exposures, the following information is required:

- The name of the credit institution
- Where the exposure is reported on Form SR-1
- Maturity date(s)
- The limit (maximum amount that can be put at risk)
- The current amount at risk

Form SR-2C – Memorandum Items

All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

- Amounts due to parties connected to the reporting deposit taker, split between
 - group company credit institutions

- other group companies
- directors, controllers and their associates, and
- non-group companies, trusts and other bodies with which the directors and controllers are associated
- Amounts due from parties connected to the reporting deposit taker, split between
 - group company credit institutions
 - other group companies
 - directors, controllers and their associates, and
 - non-group companies, trusts and other bodies with which the directors and controllers are associated
- Aggregate value of all investments
- Market valuation of quoted investments
- Directors' valuation of unquoted investments
- Encumbered assets
- Total fiduciary deposits
- Number of staff employed – full time versus part time
- Number of accounts
- Deposits/loans received from other Isle of Man credit institutions
- Risk asset ratio (this does not apply to deposit takers which are incorporated outside the Isle of Man)

Form SR-3A - Liquidity Risk

All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Assets and liabilities, including off balance sheet items, by maturity date as follows:-

- Sight less than 8 days
- 8 days less than 1 month
- 1 month less than 3 months
- 3 months less than 6 months
- 6 months less than 12 months
- 1 year less than 3 years
- 3 years less than 5 years
- Over 5 years

The following information is required in relation to assets and liabilities:

Assets

- Deposits with, and Certificates of Deposit (“CDs”) issued by, group credit institutions
- Deposits with credit institutions
- Deposits with credit institutions incorporating embedded options
- CDs, Floating Rate Notes (FRNs) and bills of exchange purchased
- Bonds issued by credit institutions, and other instruments incorporating embedded options
- Bonds issued by Zone A governments
- Bonds issued by Zone B governments
- Other investments
- Loans and overdrafts
- Residential mortgages
- All other assets
- Foreign exchange cash inflows
- Undrawn committed standby facilities
- Other known future cash inflows

- Behavioural Adjustments

Liabilities

- Demand and notice accounts – Retail
- Demand and notice accounts – Other
- Fixed term deposits – Retail
- Fixed term deposits – Other
- Deposits and deposit bonds issued incorporating embedded options
- Total capital and reserves
- All other liabilities
- Foreign exchange cash outflows
- Undrawn commitments
- Other known future cash flows
- Behavioural Adjustments

Mismatches

From the assets and liabilities reported, figures for:

- Net adjusted mismatch position
- Cumulative mismatch position
- Cumulative mismatch position as a % of total deposit liabilities

Analysis of the ten largest depositors (including credit institutions)

Information is to be reported by:-

- Customer / Counterparty name
- Amount
- Maturity Date
- Currency

Analysis of non-credit institution depositors

Information is to be reported on a geographical basis by:-

- Isle of Man:-
 - Individuals
 - Other
- United Kingdom
- Republic of Ireland
- Other EU Countries
- European non EU Countries
- Middle East
- Far East (including Japan)
- North America (including Canada)
- Other

Form SR-3B - Interest Rate Risk

All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Assets and liabilities, including off balance sheet items, by maturity date as follows:

- Sight less than 1 month
- 1 month less than 3 months
- 3 months less than 6 months
- 6 months less than 12 months
- 1 year less than 3 years
- 3 years less than 5 years
- Over 5 years / undated

The following information is required in relation to assets and liabilities:

Assets

- Deposits with credit institutions
- Deposits with credit institutions incorporating embedded options
- CDs, FRNs and bills of exchange purchased
- Bonds and other instruments incorporating embedded options
- Other investments
- Loans and overdrafts
- Residential mortgages – floating and variable rate
- Residential mortgages – fixed rate
- All other assets
- Forward foreign exchange purchases
- Other interest rate related contracts

Liabilities

- Demand and notice accounts
- Fixed term deposits
- Deposit bonds Issued
- Deposits, and deposit bonds issued incorporating embedded options
- All other deposit liabilities
- Forward foreign exchange sales
- Other interest rate related contracts
- Total liabilities

Amount at risk

From the assets and liabilities reported, figures for:

- *Net Position*
- *Weighted Position*
- *Amount at Risk*

Summary Sheet

Carried forward Amounts at Risk are required for:

- Sterling currency
- All specified currencies
- All other currencies

- Total amount at risk

Form SR-4 – Foreign Exchange and OTC Derivatives

All monetary balances must be reported in sterling to the nearest round thousand without decimal points.

The deposit taker shall report the following information as at the end of each calendar quarter:-

Section 1- Foreign Currency Exposure (including Gold)

The following information is required in relation to a reporting deposit taker's foreign currency and Gold exposure:

- Gross spot claims
- Gross spot liabilities
- Net spot claims / (liabilities)
- Net forward purchases / (sales)
- Known net future income / (expense) not already included
- Net purchases / (sales) of currency and gold futures contracts
- Adjustments for profit and loss and specific/ individual provisions
- Net overall long / (short) position
- Adjustment for structural assets / (liabilities)
- Net reportable long / (short) position.

Returns are required in respect of:

- US Dollars
- Euros
- Japanese Yen
- Swiss Francs
- Gold
- Any currencies other than sterling where net spot claims or liabilities exceed £100,000
- The aggregate net long and net short positions of foreign currencies not specified above
- Translation/revaluation adjustment (for deposit takers whose capital is wholly or partly denominated in foreign currency).

Section 2 – Over the Counter (OTC) Derivatives

The nominal amount underlying the contract and any positive mark to market value of OTC derivative contracts are recorded on a maturity ladder as follows:

- Less than 1 year
- Over one year, less than five years
- Five years and over
- Unanalysed
- The system generated entry for the total weighted amounts for each section (as described below) are translated to Form SR-1 for the risk weighted asset calculation.

Returns are to be made in relation to:

- Interest rate related contracts
- Foreign Exchange contracts (including Gold)
- Equity Contracts

- Precious Metals Contracts (excluding Gold)
- Commodities.

**RoadMap for Financial Resources Chapter of the Regulatory Rule Book
Secondary legislation under the Financial Services Act [2007]**

Previous Code Reference	Subject of Code	Rule Reference (in Chapter 3 of the Rule Book unless otherwise stated)	Change and Rationale for Change	Impact/Need for Comments
<i>Investment Business</i>				
FR&CR Code I Stockbrokers Code 27	Citation, commencement, revocation, interpretation and application	Citation, commencement, revocation and application will be moved to Part 1 to be completed at the end of the consultation on the Rule Book. Application is also covered through-out the chapter. Interpretation is moved to Part 2.	Interpretation remains the same. Citation, commencement, revocation and application are updated as necessary.	None
FR&CR Code 2(1) and Stockbrokers Codes 28 and 62	General requirement to maintain adequate financial resources	Moved to Basic Requirement at commencement of Chapter.	Change from Code to Basic Requirement at commencement of Chapter. Wording also similar to Jersey FSC requirement.	None
FR&CR Code 2(2) and 2(3) Stockbrokers Codes 28, 62 and 97	General requirement to maintain adequate financial resources	Rules 20(1) and 26	Wording amended slightly. Clarification given to how the requirements of Table I apply (i.e. not cumulative and highest level applies). Table I details the minimum net tangible asset requirements and capital requirements for all licenceholders.	Material
Stockbrokers Code 30	Internal Systems & Controls	Moved to Risk Management and Internal	To be consulted on at a later stage.	None

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		Control Chapter		
FR&CR Code 3 and Stockbrokers Codes 100 to 102 and 105 to 106	Specific requirements	Rule 27 plus Table I and Schedule I, Section 5 (Notes)	Financial Resources Requirements which need to be met or exceeded to be applied to all licenceholders. Addresses inconsistencies in requirements for different licenceholders. Minimum Net Tangible Assets (“MNTA”) have been extended to all investment business and fiduciary services licenceholders and have been categorised by type of activity. A minimum paid up share capital/share premium requirement has been added.	Material for CSPs/TSPs and Stockbrokers Limited for Investment Business
FR&CR Code 4 and Stockbrokers Codes 52 and 98	Net Tangible Assets	Rule 28, Schedule I, Sections 1 and 5 (Notes)	A minimum paid up share capital/share premium requirement has been added. Most of the requirements already exist for investment businesses (although these have been simplified to cover generic licenceholder types) but the amendments have been compared with Jersey’s requirements. The calculation of disallowed debtors has been simplified and amended to allow amounts from related parties to be added back under certain circumstances.	Fiduciaries will have new MNTA requirement and both fiduciaries and investment businesses will have a minimum capital requirement and a liquid capital requirement.
FR&CR Code 5 and Stockbrokers Code 104	Liquid Capital	Rule 29, Part B of Schedule I, Section 1 and Section 5 (Notes 5 - 9)	Stockbrokers Primary, Base and Absolute minimum requirements and liquidity adjustment replaced by share capital and MNTA.	
New Rule	Liquid Capital Requirement	Rule 31, Part B of Schedule I, Section 2 and Section 5 (Notes)	Expenditure Based Requirement replaced by Liquid Capital Requirement to incorporate PII excess and other requirements. The proforma calculation has been based on the existing Expenditure Based requirement as contained in the FSC	Material for CSPs/TSPs Limited for Investment Business Liquid Capital

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			(Financial Resources and Compliance Reporting) Code.	Requirement is new.
FR&CR Code 6	Investment Adjustments	Schedule I, Sections 4 and 5 (Note 6)	Includes settlement adjustments as well as market value adjustments. Now called Market Value Adjustments. Some changes to percentages for Treasury Bills and quoted fixed rate and floated rate securities to bring in line with requirements in other jurisdictions.	Limited
FR&CR Code 7	Qualifying Secured Liabilities	Schedule I, Sections 1 and 5 (Note 8)	Change of location only.	None
FR&CR Code 8 And Stockbrokers Code 99	Qualifying Subordinated Loans	Schedule I, Sections 1 and 5 (Note 4)	Additional requirement to either notify or seek the Commission's permission before any repayment.	Limited
FR&CR Code 9 And Stockbrokers Code 103	Annual Audited Expenditure	Rule 30, Part A of Schedule I, Section 2 and Section 5 (Notes 14 - 20)	The calculation has been simplified and consideration has been given to the calculation used by the Jersey FSC. Rule 22(3) ensures that where service companies are responsible for expenses and a management charge is paid by the licenceholder, the management charge is realistic (Stockbrokers Code).	Limited
FR&CR Code 10	Categories of Licenceholders	Deleted	No longer required as the focus of the new regime is on regulated activity rather than categories of licenceholder.	None
FR&CR Code 11	Category 1 group (a)			
FR&CR Code 12	Category 1 group (b)			
FR&CR Code 13	Category 2 group (a)			
FR&CR Code 14	Category 2 group (b)			
FR&CR Code 15	Category 3 group (a)			
FR&CR Code 16	Category 3 group (b)			

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FR&CR Code 17	Category 4			
FR&CR Codes 18 and 19 Stockbrokers Codes 29, 34, 35, 36 and 44	Accounting Records	Rules 12 and 17	The Banking requirement has been adopted (although now more generic) which differentiates between IOM incorporated and non-IOM incorporated licenceholders. Also, the clarification of what is expected in relation to accounting records has been removed and a definition of accounting records will be included in Part 2. The Rule still refers to a 6 year period but also refers to the requirements of other statutes. Other types of record-keeping (including correspondence with the Commission) will be addressed in Conduct of Business/General Requirements parts of the Rule Book.	None/Limited
FR&CR Code 20(1) and 21(1)	Notification of Accounting Reference Date	Rule 2	Change of name to Accounting Reporting Date	None
FR&CR Code 20 Stockbrokers Codes 47, 48, 66 and 69	Preparation of financial statements by Category 1 licenceholders and stockbrokers	Merged into Rules 18, 32 and 34, Rule 36 and Schedule I, Section 4	All investment business licenceholders (except financial advisers) will be required to electronically submit interim financial statements (see Rule 7) including a financial resources statement although the frequency of such statements will be determined by activity (see Table II). Financial statements must be in sufficient detail to verify calculations on Financial Resources Statements. Fiduciaries and financial advisers will need to monitor their financial resources on a quarterly basis and be able to demonstrate that they have been in compliance with the requirements. Audited annual financial statements will be	Material
FR&CR Code 21	Preparation of financial statements by Categories 2, 3 and 4 licenceholders			

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			submitted in hard copy and should have original signatures.	
FR&CR Code 22	Compliance Statement	Has been moved to Compliance Chapter	To be consulted on at a later stage.	None
FR&CR Codes 20(2) and 21(1)(a) Stockbrokers Codes 49 and 50	Electronic Reporting + signatories	Rules 5 and 7	All financial returns (with the exception of the annual statutory report and accounts) to be submitted electronically by one person designated for this purpose by the Board. The persons fulfilling the 4-eyes roles are responsible for the completeness and accuracy of the returns.	Limited
FR&CR Code 23 Stockbrokers Code 61	Change in Accounting Reference Date	Rules 11 and 16	This has been split to clarify that the Commission must approve the change in accounting reference date for IOM incorporated entities but only be notified in the case of non-IOM incorporated entities. Banking licenceholders have previously only had to notify not seek prior approval.	Limited
FR&CR Code 24 Stockbrokers Codes 31, 51 and 59	Notification Requirements	Rule 3	Covers both IOM incorporated and non-IOM incorporated licenceholders. Rule clarified to require written notice.	None
FR&CR Schedule 1 –	Balance Sheet Format	Rules 32(1) and 34(1)	Formats have been removed but Rules 31(1) and 33(1) require returns to have sufficient detail to verify the calculations required by Schedule 1. As electronic submissions will be submitted, the format will be standardised.	Limited
FR&CR Schedule 2	Profit & Loss Account Format			
FR&CR Schedule 3	Financial Resources Statement Format	Schedule 1	Amended to be more generic and less focused on investment business as well as simplifying the calculation.	Material
FR&CR Schedule 4	Annual Financial Declaration Format	Deleted	Not considered meaningful.	Limited
FR&CR Schedule	Compliance Statement	Moved to Compliance	Compliance elements separated out into a	None

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5		Chapter	separate chapter.	
Stockbrokers Code 53	Deficiency in Subsidiary	Deleted	Not required as it would be identified elsewhere e.g. in the Net Tangible Asset calculation	None
Stockbrokers Code 72	Reporting Currency	Rule 4	New requirement (except stockbrokers) for reporting currency to be sterling unless Commission's approval obtained.	Limited
Stockbrokers Code 37	Reconciliation of Licenceholders' balances	Deleted	Licenceholders should be responsible for deciding frequency of reconciliations.	None
Stockbrokers Code 54	Contingencies and Financial Commitments	Rule 22	New requirement (except stockbrokers) to require notification of contingencies and other financial commitments.	Material
Stockbrokers Code 56	Claims under a Contingency	Rule 23	New requirement (except stockbrokers) to require notification of a claim under a contingency.	Material
New	Charges	Rule 24	New rule to require licenceholders to notify the Commission as soon as a charge is registered against the licenceholder.	Material
Stockbrokers Code 55	Failure to comply with obligations	Rule 20	New requirement (except stockbrokers) to require notification of when unable to pay creditors or an exchange.	Limited
Stockbrokers Code 57	Misleading Financial Reporting Statements	Rule 6	New requirement (except stockbrokers) to require notification of where a financial statement was or has become misleading.	Limited
Stockbrokers Codes 67, 68, 70 and 71	Form and Content of Financial Reporting Statements	Deleted	Given the maturity of the industry, some of these provisions are considered inherent, therefore to reduce red tape and ensure the regulatory thrust is apparent these are removed.	Limited
Stockbrokers	Position Risk Requirement	Rules 37 and 38 and	No change but could these be significantly	None

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Codes 108 and 109		Section 1 of Schedule 2	reduced?	
Stockbrokers Codes 110 to 118	Counterparty Risk Requirement	Rules 39 and 40 and Section 2 of Schedule 2	No change but could these be significantly reduced?	None
FR&CR Code 3 Stockbrokers Codes 33 and 58	Professional Indemnity Insurance	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Stockbrokers Code 32	Auditors	Moved to Audit Requirements Chapter	To be consulted on at a later stage.	None
Stockbrokers Codes 38 – 40	Risk Management and Internal Control – Exposure Limits; Management Information and Systems of Internal Control	Moved to Risk Management and Internal Control Chapter	To be consulted on at a later stage.	None
Stockbrokers Codes 41- 46	Nature, accessibility and retention of records	Moved to Conduct of Business Chapter	To be consulted on at a later stage.	None
Stockbrokers Code 60	Departure from accounting principles and codes	Deleted	Will be covered by audited accounts	None
Stockbrokers Code 63	Qualification of audit report	Moved to Audit Requirements Chapter	To be consulted on at a later stage.	None
Stockbrokers Code 64	Reconciliation of clients' money and assets	Moved to Clients' Money/Assets Chapter	To be consulted on at a later stage.	None
Stockbrokers Code 65	Variation of Capital	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Stockbrokers Codes 73 to 77	Accounting Policies	Deleted	Covered under auditing standards	None
Stockbrokers Code 78	Securities Lending	Moved into Clients' Assets Chapter	To be consulted on at a later stage.	None
Stockbrokers Code 79	Repurchase and reverse repurchase agreements etc	Moved into Conduct of Business Chapter	To be consulted on at a later stage.	None
Stockbrokers Codes 80 and 81	Foreign currency and Valuation of positions	Moved into Clients' Assets Chapter	To be consulted on at a later stage.	None

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Stockbroker Codes 82 to 95	Appointment and duties of Auditor	Moved into Audit Requirements Chapter	To be consulted on at a later stage.	None
Stockbroker Code 107	Deficiencies in subsidiaries	Deleted	This would be identified in the NTA calculation	None
New Requirement	Various	Rules 8, 9, 13, and 14	To bring into line with other regulated sectors,	Limited
Banking				
Banking Code 4	Application for IOM incorporated Banks	Rule 41	No change	None
Banking Code 5	Licensing/Share Capital	Rule 42	Sub-paragraph 5(2) is deleted as it will form part of the licensing policy.	None
Banking Code 12	Capital	Rule 43	No change	None
Banking Code 20	Banking Returns	Rules 44 and 5	No change	None
Banking Code 21	Financial Statements and Accounting Records	Sub-paragraph (1) is removed as it is a requirement of the Companies Acts. Sub-paragraph (2) is moved to the Audit Requirements Chapter.	2006 companies will be required to have annual audited financial statements.	None
Banking Code 22	Change to Financial Year End	Rules 2, 11 and 16	Prior approval required rather than notification only. Changed to be consistent with other regulated activities.	Limited
Banking Code 23	Accounting Standards	Rules 45 and 9	No change	None
Banking Code 25	Submission of Accounting Information	Rules 46, 8, 13 and 14 With some sub-paragraphs moved to Compliance and Audit Requirement Chapters	Sub-paragraph (c) (Annual Compliance Certificate) is moved to Compliance Chapter; sub-paragraphs (d) and (e) (Auditor's Management letter) is moved to Audit Requirements Chapter.	None
Banking Code 26	Retention of Accounting Records	Rule 12	No change	None

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Banking Code 28	Audited Financial Statements available to the Public	Rule 47	No change	None
Banking Code 65	Application for non-IOM incorporated Banks	Rule 48	No change	None
Banking Code 66	Licensing	Deleted	It will form part of the licensing policy.	None
Banking Code 74	Banking Returns	Rules 49 and 5	No change	None
Banking Code 76	Financial Statements and Accounting Records	Rules 18, 8 and 13 With some sub-paragraphs moved to Compliance and Audit Requirement Chapters	Sub-paragraph (c) (Annual Compliance Certificate) is moved to Compliance Chapter; sub-paragraph (d) (Auditor's Management letter) is moved to Audit Requirements Chapter. Paragraph 76(2) is moved to Rules 8 and 13	None
Banking Code 77	Retention of Accounting Records	Rule 17	No change.	None
Banking Codes 27 and 78	Written Communications with the Commission	Moved to Conduct of Business Chapter	To be consulted on at a later stage.	None
Banking Code 79	Audited Financial Statements available to the Public	Rule 50	No change.	None
Banking Code Schedule I	Banking Returns	Schedule 3	No change.	None
Banking Codes 6 to 10 and 67 to 69	Corporate Governance; New Appointments and Departures from Office; Directors; Company Secretary; and "Four-eyes"	Moved to Risk Management and Internal Control Chapter	To be consulted on at a later stage.	None
Banking Codes 11 and 70	Compliance Officer and MLRO	Moved to the Compliance Chapter.	To be consulted on at a later stage.	None
Banking Codes 13 to 19 and 71 to 73	Ownership and Share Transfers	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Banking Codes	Auditor's report on Banking	Moved to Audit	To be consulted on at a later stage.	None

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24 and 75	Returns	Requirements Chapter		
Banking Codes 29 to 31	Auditors	Moved to Audit Requirements Chapter	To be consulted on at a later stage.	None
Banking Codes 32 to 40 and 80 to 85	Credit Risk; Large Exposures; Arrears and Provisioning Policy; Liquidity; Foreign Exchange Risk; and Interest Rate Risk	Moved to Risk Management and Internal Control Chapter	To be consulted on at a later stage.	None
Banking Codes 41 and 86	Money Laundering and financing of terrorism	Moved to the Compliance Chapter.	To be consulted on at a later stage.	None
Banking Codes 42 to 45 and 87 to 90	Controls and Procedures	Moved to Risk Management and Internal Control Chapter	To be consulted on at a later stage.	None
Banking Codes 46 to 50 and 91 to 94	Involuntary and cessation of business and Services and products	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Banking Codes 51 and 95	Delegation of function/ outsourcing	Moved to Risk Management and Internal Control Chapter	To be consulted on at a later stage.	None
Banking Codes 52 to 58 and 96 to 102	Managed Banks and General Requirements	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Banking Codes 59 to 61 and 103 to 105	Advertising and reference to the Depositors' Compensation Scheme	Moved to Advertising and General Requirements Chapters	To be consulted on at a later stage.	None
Banking Codes 62 and 106	Staff Disciplinary Action	Moved to General Requirements Chapter	To be consulted on at a later stage.	None
Banking Codes 63 and 107	Internal Complaints Procedure	Moved to Conduct of Business Chapter	To be consulted on at a later stage.	None
Banking Codes	Legal Proceedings	Moved to General	To be consulted on at a later stage.	None

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64 and 108		Requirements Chapter		
New Requirements	Various	Rules 3, 4, 6, and 7	To bring into line with other regulated sectors, see details regarding rules above	Limited
<i>Fiduciary Services</i>				
Gen. Req. Code 11(1), 11(3), 11(4), 11(5), 11(6) and 11(7) plus Guidance	Financial Resources, going concern and reporting requirements	Replaced with Basic Requirement, Rules 20(1), 26 to 32 and 36 and Table I.	Requirement to maintain Minimum Net Tangible Assets, Minimum Share Capital and Liquid Capital Requirement rather than “going concern”. Also a requirement to be able to evidence monitoring on a quarterly basis.	Material
Gen. Req. Code 11(1) and (2)	Annual Compliance Return	Rule 20	Same requirement to meet liabilities as they fall due but wording relating to inability to pay debts standardised into a notification if unable to pay a creditor.	Limited
Gen. Req. Code 11(8)	Change in Accounting Reference Date	Rules 11 and 16	This has been split to clarify that the Commission must approve the change in accounting reference date for IOM incorporated entities but only be notified in the case of non-IOM incorporated entities. Name has been changed to Accounting Reporting Date. Banking licenceholders have previously only had to notify not seek prior approval.	Limited
Gen. Req. Code 11(9)	Matters on which auditor/ reporting accountant required to report	See Part 6 - Audit Requirements Chapter	See Audit Requirements Chapter and RoadMap	None
New Requirements	Various	Rules 3 to 9, 11, 17, 18, 22 to 32, and 36	To bring into line with other regulated sectors, see details regarding rules above.	Material
Gen Req. Code 18	Professional Indemnity Insurance	Moved to General Requirements Chapter	To be consulted on at a later stage.	None

CHAPTER 6

AUDIT REQUIREMENTS

Basic Requirement

A licenceholder shall arrange for its annual financial statements to be audited by an independent and suitably qualified auditor.

GENERAL REQUIREMENTS FOR ISLE OF MAN INCORPORATED LICENCEHOLDERS

Application

1. Rules 2 to 11 apply to all licenceholders incorporated in the Isle of Man.

Appointment

2. (1) Subject to Rule 2(4) each licenceholder shall have in office at all times an auditor who is properly qualified and eligible to act in accordance with this part of the Rule Book.

(2) Subject to Rule 2(3), a person is not properly qualified to act as an auditor of a licenceholder unless he:

- (a) is a member of and holds a current practising certificate from one or more of:

The Institute of Chartered Accountants in England and Wales;
The Institute of Chartered Accountants of Scotland;
The Institute of Chartered Accountants in Ireland; or
The Chartered Association of Certified Accountants; and

- (b) has a permanent place of business on the Island; and

(c) is covered by an appropriate level of Professional Indemnity insurance suitable to the licenceholder being audited.

(3) An individual is ineligible to act as an auditor, or as the principal directly responsible in the firm for the audit, of a licenceholder if he, or his firm, is:-

(a) a director, partner, controller, officer, tied agent or employee of the licenceholder;

(b) a partner of, or in the employment of, any person in (a) above;

(c) a spouse, parent, step-parent, child, step-child or other close relative of any person in (a) above;

(d) a person who is not otherwise independent of the licenceholder, having regard to the code of ethics issued from time to time by the body of accountants of which he is a member; or

(e) a person disqualified by the Commission from acting as an auditor of a licenceholder;

and for this purpose an auditor shall not be regarded as an officer or employee of the licenceholder solely by reason of being auditor of that licenceholder.

(4) If at any time the licenceholder fails to have an auditor in office for a period exceeding four weeks the Commission may direct the licenceholder to identify and appoint a suitably qualified auditor.

Suitability of Auditor

3. (1) Prior to the appointment of an auditor, the licenceholder must ensure that the auditor:

(a) has sufficient resources, knowledge, experience and competence to fulfil the duties defined in this part of this Rule Book; and

(b) has an appropriate level of Professional Indemnity insurance.

(2) A licenceholder shall provide evidence to the Commission of the suitability in respect of resources, knowledge, experience and competence of the auditor or proposed auditor on request.

(3) If the Commission believes an auditor is not suitable to fulfil the duties defined in this Rule Book, the Commission may direct the licenceholder to terminate the appointment and to identify and appoint an alternative, suitably qualified auditor.

Requirements for Auditors

4. Where the same firm carries out the internal and external audits of a licenceholder, separate partners or directors shall be responsible for these audits.

Engagement Letter

5. (1) A licenceholder shall obtain from its auditor an engagement letter which will:-

(a) define clearly the extent of the rights and duties of the auditor; and

(b) be signed and accepted in writing by or on behalf of each of the licenceholder and the auditor before the commencement of the appointment.

(2) A licenceholder shall provide a copy of the engagement letter to the Commission on request.

Annual Financial Statements

6. (1) The licenceholder shall prepare financial statements annually which shall be audited by the licenceholder's appointed auditor in accordance with internationally accepted auditing practices and standards.

(2) The audited financial statements, which shall include a specific auditor's report addressed to the Commission, shall be submitted to the Commission within four months of the licenceholder's Annual Reporting Date.

Notification

7. (1) A licenceholder must give notice to the Commission in writing upon the appointment of an auditor and of any removal or resignation from office of an auditor, and the reasons (if any) for that removal or resignation, forthwith following his ceasing to hold office.

(2) Where an auditor resigns or is removed by the licenceholder or is not reappointed at the end of his term in office, the auditor shall provide a signed statement direct to the Commission stating either:-

(a) that there are no circumstances connected with his ceasing to hold office which the auditor considers should be brought to the attention of the Commission; or

(b) the circumstances connected with his ceasing to hold office which are required to be brought to the Commission's attention under section [] of the Financial Services Act 2007.

(3) A licenceholder shall notify the Commission forthwith where it has reason to believe that its auditor is likely to qualify his report on the annual financial statements of the licenceholder.

Management Letter

8. Within four months of the end of the accounting period to which they relate the licenceholder shall:-

(1) provide the Commission with a copy of any management letter, that the licenceholder has received from its auditor in respect of its audit of the annual financial statements, which contains any recommendations to the licenceholder to remedy any weakness in the systems and internal controls of the licenceholder; and

(2) inform the Commission whether the licenceholder has implemented or is implementing those recommendations, and if not, the reasons for that decision; or

(3) where the auditor is not issuing a management letter, provide the Commission with a copy of the auditor's letter confirming this fact.

Rights and Duties

9. (1) A licenceholder shall afford an auditor the right of access at all times to its accounting and any other records relevant to the auditor's duties and the right to obtain from the officers, controllers and managers of the licenceholder such information and explanations as the auditor may consider necessary in the performance of his duties.
- (2) A licenceholder shall permit and require his auditor to provide to the Commission such information and opinions as the Commission requests, being information or opinions relevant to the functions of the Commission.

Contents of Audit Reports

10. (1) The auditor's report shall state whether, in the auditor's opinion:-
- (a) the annual financial statements have been properly prepared in accordance with Part 3 (Financial Resources) of this Rule Book;
 - (b) the balance sheet and profit and loss account are in agreement with the licenceholder's accounting records;
 - (c) proper accounting records appropriate to the business carried on by the licenceholder have been maintained throughout the financial year;
 - (d) where a subsidiary of the licenceholder is a nominee company in whose name clients' investments are registered, whether that nominee company has maintained throughout the year systems for the safe custody, identification and control of documents of title which are adequate and which include reconciliations between the records maintained (whether by the licenceholder or the nominee company) and statements or confirmation from banks and custodians at appropriate intervals.

Reporting Accountant

11. Where a reporting accountant, appointed under clause [] of the Financial Services Act, identifies in the course of the work for which they have been appointed any material breach of any part of this Rule Book the reporting accountant's report to the Commission shall include details of the breach.

GENERAL REQUIREMENTS FOR NON-ISLE OF MAN INCORPORATED LICENCEHOLDERS

Application

12. Rule 13 applies to all licenceholders which are incorporated outside the Isle of Man in relation to regulated activities carried on by them in or from the Isle of Man.

Management Letter

13. Within four months of its Annual Reporting Date the licenceholder shall:-
- (1) provide the Commission with a copy of an auditor's management letter, in respect of operations in the Isle of Man, which contains any recommendations to the licenceholder to remedy any weakness in the systems and internal controls of the licenceholder; and
 - (2) inform the Commission whether the licenceholder has implemented or is implementing those recommendations, and if not, the reasons for that decision; or
 - (3) if the auditor is not issuing a management letter, in respect of operations in the Isle of Man, provide the Commission with a copy of the auditor's letter confirming this fact.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS AND FIDUCIARY SERVICES LICENCEHOLDERS (EXCEPT PROFESSIONAL OFFICERS)

Application

14. Rule 15 applies to all investment business and fiduciary services licenceholders which are incorporated in the Isle of Man except Professional Officers.

Contents of Audit Reports

15. The auditor's report on the annual financial statements, addressed to the Commission, shall state whether in the auditor's opinion:-
- (1) the reconciliation referred to in Rule [] of Part 3 (Financial Resources) of this Rule Book has been properly prepared;
 - (2) the licenceholder's Specific Requirements have been properly calculated in accordance with Rule [] of Part 3 (Financial Resources) of this Rule Book;
 - (3) the licenceholder's Financial Resources have been properly calculated in accordance with Rules [] of Part 3 (Financial Resources) of this Rule Book;
 - (4) the licenceholder has maintained throughout the financial year systems adequate to have enabled it to comply with Parts 4 (Client Money) and 5 (Client Assets) of this Rule Book and was in compliance with those Rules at the balance sheet date; and

(5) reconciliations of Clients' Money and Clients' Assets have been performed in accordance with Parts 4 and 5 of this Rule Book.

SPECIFIC REQUIREMENTS FOR ALL DEPOSIT TAKERS

Application

16. Rule 17 applies to all deposit takers.

Auditor's report on Returns

17. (1) The licenceholder shall ensure that the auditor verifies one calendar quarter's set of returns, as submitted to the Commission during the financial year, against the relevant accounting records and the auditor shall report his findings in writing to the licenceholder. The set of returns selected shall not be that which coincides with the licenceholder's Annual Reporting Date.

(2) The licenceholder shall submit a copy of the auditor's report on this matter to the Commission, within four months of the licenceholder's Annual Reporting Date.

(3) Where the auditor's report identifies exceptions, the licenceholder shall provide the Commission with its written comments on these when it submits the auditor's report to the Commission.

SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED DEPOSIT TAKERS

Application

18. Rule 19 applies to all deposit takers which are incorporated in the Isle of Man.

Contents of Audit Reports

19. The licenceholder will within four months of its Annual Reporting Date provide to the commission a letter from its auditor confirming that in the auditors opinion the licenceholder has complied with:

(1) Rule [] of Part 3 (Financial Resources) of this Rule Book;

(2) Rule [] of Part 11 (General Requirements) of this Rule Book (*relating to Creation of charges over assets*);

(3) Rule 17 of this Part of the Rule Book;

(4) Rules [] of Part 11 (General Requirements) of this Rule Book (*relating to Retention of accounting records*); and

(5) Rule [] of Part 7 (Conduct of Business) of this Rule Book (*relating to Written communications with the Commission*)

RoadMap for Audit Requirements Chapter of the Regulatory Rule Book Secondary legislation under the Financial Services Act [2007]				
Previous Code Reference	Subject of Code	Revised Rule Reference in Chapter 6 unless otherwise stated	Change and Rationale for Change	Impact/Need for Comments
<i>Investment Business</i>				
AR Code 1	Citation, commencement, interpretation and application	Citation, commencement, and application will be moved to Chapter 1 to be completed at the end of the consultation on the Rule Book. Application is also covered throughout the chapter. Interpretation is moved to Chapter 2.	For consistency the application of the audit requirements has been extended to include all incorporated investment business licenceholders.	Limited
AR Code 2 Stockbrokers Code 32, 83 to 86, 88 and 89	Appointment (including Engagement Letter)	Rules 2, 3 and 5	To ensure familiarity with local legislation, the auditor is required to have a permanent place of business in IOM. Licenceholders with auditors without such a presence may apply for a waiver under the Act from the requirements of this Rule. The auditor must hold a current practising certificate in addition to being a member of one of the relevant professional	Limited

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			<p>associations / institutes.</p> <p>The specific minimum PI cover requirement of £10m, has been replaced with a general requirement that the level of PI cover is suitable for the licenceholder being audited. To ensure that auditor appointments are appropriate, a requirement for the licenceholder to ensure that the auditor has suitable resources, experience, knowledge, competence and PI cover. Additionally, the Commission has the right to request information on an auditor and to direct that an appointment is terminated if the auditor is deemed not to be suitable. The Commission may direct the licenceholder to appoint an auditor if the office is vacant for 4 weeks or more (rather than the Commission having the right to appoint an auditor in these circumstances). The commission can request a copy of the Engagement Letter.</p>	
AR Code 3 Stockbroker Code 63, 87, 92, 93 and 94	Notification	Rules 7, 8 and 13	<p>Requirement to provide a copy of a management report from the auditor (rather than notify receipt of) within 4 months of the Annual Reporting Date (a reduction of 2 months from existing requirements)</p> <p>Requirement for written Commission approval in the Stockbroker Code prior to</p>	None

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			changing auditor has been removed.	
AR Code 4 Stockbroker Code 90	Rights and Duties	Rule 9	No change	None
AR Code 5 Stockbroker Code 91	Contents of Audit Reports	Rule 10 and 15	No material change	None
New Requirement	Requirements for Auditors	Rule 4	Where the same audit firm is used for both the internal and external audit of a licenceholder, a different partner or director must be responsible for each.	None
New Requirement	Annual Financial Statements	Rule 6	Includes within the Audit Rules the requirement to provide audited financial returns within 4 months of the Annual Reporting Date (also included in Financial Resources Rules).	None
New Requirement	Reporting Accountant	Rule 11	Where a reporting accountant has been appointed by the Commission. The reporting accountant's report must indicate any breaches of the Rule Book discovered in the course of their work.	None
Banking				
General Requirements Code 21	Annual Financial Statements	Rule 6	No change	None
General Requirements Code 25(1)(d)	Management Letter	Rule 13	Requirement that the licenceholder notifies the Commission of its actions in response to a management letter.	None

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General Requirements Code 25(1)(e)	Auditor's Letter	Rule 19	No change	None
General Requirements Code 29	Requirements of Auditors	Covered within Rules 2 to 4	The specific requirements relating to the audit partner's experience have been replaced by more generic rules relating to the suitability of the auditor.	None
General Requirements Code 30 and 31	Removal / Resignation of Auditor	Rule 7	No material change	None
General Requirements Code 24 and 75	Auditor's report on Banking Returns	Rule 17	No change	None
New Requirements	Various	Rules 2, 3 and 5 - 12	To bring into line with other regulated sectors.	Limited
<i>Fiduciary Services</i>				
New requirements	All	Rules 1 - 15	To bring into line with other regulated sectors.	Material