

**A Further Consultative Paper on the  
Financial Services Rule Book  
Financial Resources and Audit Requirements  
(Consultation on Review and Consolidation of the  
Financial Services Regulatory Legislation)**

**24<sup>th</sup> September 2007**



**Financial Supervision Commission Barrantee Oaseirys**

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## ***SECTION 1***

### ***1. INTRODUCTION***

The Financial Supervision Commission has issued a number of consultation documents on the consolidation and review of financial services legislation:-

- **CAROL 1** (issued on 6<sup>th</sup> March 2006) covered the scope and nature of the project to review and consolidate the financial services regulatory legislation, with particular reference to the contents of the proposed Financial Services Bill;
- **CAROL 2** (issued on 1<sup>st</sup> June 2006) published drafts of the Regulated Activities Order and Exemption Regulations;
- **CAROL 3** (issued on 21<sup>st</sup> December 2006) published the draft Bill; and
- **CAROL 4** (issued on 16<sup>th</sup> April 2007) published the first chapters of the Rule Book covering Financial Resources and Audit Requirements.

Whilst work is continuing on other chapters of the Rule Book, the subject of this consultation is to publish the comments received on CAROL 4 and to reissue revised versions of the Financial Resources and Audit Requirements chapters.

It would be much appreciated if we could have any comments on these revised chapters of the Rule Book as soon as possible. The closing date for comments is **16<sup>th</sup> November 2007**.

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## **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 was on the Financial Resources and Audit Requirements Chapters which consolidated the regulatory requirements relating to Financial Resources and Audit 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; and
- Banking (General Practice) Regulatory Code 2005.

This consultation is to consider the revised versions of the Financial Resources and Audit Requirements Chapters in light of comments from industry.

As noted in CAROL 4, 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 specific 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.

## **SECTION 3**

### **3. FINANCIAL SERVICES RULE BOOK – MAIN COMMENTS/CHANGES FINANCIAL RESOURCES AND AUDIT REQUIREMENTS**

#### **3.1 Basis of Approach**

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. The comments from industry, which are summarised in Section 4, have been considered and to assist with your navigation of this consultative paper, the more significant comments/changes are highlighted below.

#### **3.2 Financial Resources**

**3.2.1 *Application of Consolidated Approach to Financial Resources.*** Concerns have been raised over the cost implications of the minimum share capital, minimum net tangible asset and liquid capital requirements, particularly in relation to the Fiduciary Service Providers, where the requirements are new. There is concern that the Commission is adopting a “one size fits all” regime which does not take into account the different risks associated with the various licenceholder activities.

**3.2.2 *Minimum Share Capital/Minimum Net Tangible Asset Requirements.*** The Commission has adopted the minimum share capital (which now includes share premium) requirement as it demonstrates commitment to the business and provides “a benchmark for entry” for regulated entities. The minimum net tangible asset requirement ensures the viability of the licenceholder and prevents the share capital being paid away. The levels identified in Table I of the Financial Resources Chapter take account of the risk profiles of the various activities.

**3.2.3 *Liquid Capital Requirement.*** This requirement has been adopted to ensure that licenceholders have sufficient liquid capital to allow for an orderly wind-down in the event that a licenceholder has trading difficulties or ceases to trade. Some licenceholders felt that this requirement would have cost implications both from the need to retain additional liquid capital rather than rather than make the most economic use of those assets, and from potential restructuring of financial arrangements. This requirement is not an unusual one for regulated entities, the Jersey Financial Services Commission has a similar requirement. However, it is accepted that some licenceholders may have to restructure their financial arrangements and it is suggested that those with difficulties approach the Commission for guidance on this issue. There was also a suggestion that the Commission need only apply the liquid capital requirement to those licenceholders who need it. This suggestion has been rejected since it would be difficult to administer and could create an unlevel playing field.

**3.2.2 *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. However, some comment has been made regarding issues with the financial return system. If you are experiencing any difficulties with the system, please contact the Commission's Operations Division.

**3.2.3 *Promoters.*** The minimum share capital requirement and the minimum net tangible asset requirement for promoters have been reduced to £10,000.

**3.2.4 *Counterparty Risk Requirement/Position Risk Requirement.*** Following comments from stockbrokers, the Position Risk Requirement calculation has been removed as this is covered as part of the financial resources requirements calculation. In addition, the calculation of Counterparty Risk Requirement applicable to stockbrokers has been simplified and reduced.

### **3.3 Audit Requirements**

**3.3.1 *Audit of Non-trading Subsidiaries.*** Following comments from a number of sources, it has been decided that audit of non-trading subsidiaries will not be required. However, the rules for trading subsidiaries override Companies Acts or any exemptions in other jurisdictions so subsidiaries exempt under other regulations would still require an audit

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

**3.3.3 *Auditor Acceptability.*** Following a number of comments from industry, the Rule previously 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, has been removed. However, 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.

## SECTION 4

### 4. SUMMARY OF INDUSTRY COMMENTS FINANCIAL RESOURCES AND AUDIT REQUIREMENTS

Comment	Response
<b><i>General Comments on CAROL 4</i></b>	
FSA are to focus on principles and outcome – focussed rules in their handbook. May we expect a similar change of emphasis in IOM?	The Commission aims to achieve a balanced medium between principles and rules. Financial resources requirements by nature is rules driven but there is more scope for principles in conduct of business, general requirements etc.
Overall drafting could be clearer as to which sections specifically apply to which licenceholders.	See revised version.
<b><i>Financial Resources Chapter</i></b>	
<b>FRR Rule 2</b> – “accounting report date” has not been defined – should this be annual reporting date? As this is the term used in remainder of chapter.	Should be annual reporting date - amended in revised draft.
<b>FRR Rule 5</b> – states that “4 eyes” are responsible for the completeness and accuracy of returns but the “4 eyes” may not be a director or an accountant so may not be in a position to be responsible for the completeness and accuracy of the returns. Suggest Finance Director or company accountant be responsible.	This has been amended to make the licenceholder responsible for the completeness and accuracy of the financial returns.
<b>FRR Rule 6</b> – requirement to inform the Commission if any previous return has been misleading may be too onerous.	We disagree. If previous returns have been incorrect breaches may have occurred that the Commission would not know about and decisions regarding supervision of the licenceholder may be incorrect if based on erroneous returns.
<b>FRR Rule 7</b> - Electronic reporting – difficulties that are currently experienced will need to be resolved before it goes “on-line”.	No significant difficulties have been notified to the Commission. Anyone experiencing difficulties should notify the Commission’s Operations Division.
<b>FRR Rule 7</b> - Suggest appointment of deputy in absence of nominated person for electronic reporting. Should the appointment of such people be formally approved by the board?	Agreed. Included in the revised draft. Nominated person to be formally approved by Board.
<b>FRR Rule 7</b> – this rule makes reference to an individual designated by the “Board” – is this chapter of the rulebook only intended to apply to corporate licenceholders?	Theoretically, yes. The whole chapter will be amended to exclude professional officers. The licensing policy now limits applicants to corporate bodies however, existing sole traders and partnerships to have rules modified to fit.

FRR Rule 8 – parent company audited accounts are required but the parent may be exempt from audit in another jurisdiction.	Requirement for parent of licenceholder to be audited to remain regardless of whether audit is required in another jurisdiction. It may be possible to apply for a waiver if the parent’s accounts are not considered material.
FRR Rule 8 – is it necessary to provide parent company financial statements when they are publicly available anyway?	Yes – but where available on the internet notification when the accounts become available is sufficient. Other issues have been raised on this point – see below.
FRR Rule 8 - by signed do you mean hard copy accounts must be delivered?	Yes – although if they are available on a website notification of this and where to find them would also be acceptable.
FRR Rule 8 – also should it include a long-stop date?	Amended to introduce long stop date of 6 months.
FRR Rules 8 and 13 – duplication and inconsistency for submission of parent company accounts between 4 months and as soon as possible.	Agreed – this is amended in the revised draft.
FRR Rule 9 - allows IFRS or UK GAAP but what about Irish GAAP and US GAAP? Should it be “internationally accepted accounting standards”?	Amended to “other internationally accepted accounting standards”.
FRR Rule 12(2) - clarify requirement to retain records..... By adding with which the licenceholder is bound to comply.	Agreed. Wording amended.
FRR Rule 14 - audit of non-trading subsidiaries should be replaced with confirmation that they are non-trading.	Yes if copies of accounts show that no trading has taken place.
FRR Rule 14 – “associated company” is not defined.  Is reference to 4 months of annual reporting date that of the licenceholder? Is reference to signed Financial Statements and detailed profit and loss a reference to the subsidiary or associate?	Existing banking definition to be used - “ <i>associated company</i> ” means: (a) any company in which the bank holds more than 20% of the equity shares; or (b) a company, other than a subsidiary, over which the bank is able to exercise a significant influence; and (i) the bank’s interest in the company is effectively that of a partner in a joint venture or consortium; or (ii) the bank has a long-term and substantial interest in the company.  Yes.  It refers to both.
FRR Rule 14 - subsidiaries – will need to address companies who are exempt from audit and others exempt from audit e.g. BVIs, under turnover limit etc.	These rules override Companies Acts or any exemptions in other jurisdictions so subsidiaries exempt under other regulations would still require an audit. It may be possible to apply for a waiver if the subsidiary’s accounts are not considered material.
FRR Rule 18 - define what detailed profit and loss means – would this need to be audited – additional costs may be involved.	Detailed profit and loss to be prepared in sufficient detail to identify the different components of the income and expenses. No requirement for it to be audited.

<p><b>FRR Rules 22/23</b> – rule 22(1) (<b>Guarantees, contingencies and financial commitments</b>) may be difficult to interpret in relation to rule 23 (<b>Claims</b>).</p> <p>Should 22(1) just relate to guarantees etc that would result in claims greater than rule 23 threshold? 10% of net tangible assets seems low.</p> <p>“under a contingency” seems likely to cause confusion – if a claim is notified why is this relevant?</p>	<p>Rule 22(1) (now 20(1)) amended to add “subject to rules 21 and 22”.</p> <p>Limit removed and replaced with “material” amount.</p> <p>Removed words “under a contingency”.</p>
<p><b>FRR Rule 24</b> - requirement to notify when a charge has been registered is in conflict with requirement not to charge any assets without consent of the Commission.</p>	<p>Rule 24 (now rule 22) to be changed to include prior approval to be obtained from the Commission.</p>
<p><b>FRR Rules 26 – 32</b> - Question the need to apply “one size fits all” consistent approach to financial resources requirements (banks are already different) as should be tailored by risk e.g. fund managers higher risk than CSP. Current proposals could lead some CSPs to relocate or consolidate away from IOM and discourage new business without any compensating advantages in terms of meaningful protection for IOM.</p>	<p>Now rules 24 – 30 Different risks are acknowledged and accounted for in the differing levels of share capital and financial resource requirements.</p> <p>It is understood that the main issue is in relation to the liquid capital requirement which is also imposed in Jersey.</p>
<p><b>FRR Rule 27</b> - share capital is a blunt instrument which can be subscribed one day and spent the next. Minimum share capital and net tangible assets is a reflection of size rather than ability to continue in business. Imposition of liquid capital requirement will impose a further cost to FSPs as companies will need to keep potentially substantial additional resources within the business rather than make the most economic use of those assets</p>	<p>Now rule 25 Share capital requirement is considered a “benchmark for entry” and the minimum net tangible assets requirement ensures that the capital is not paid away.</p> <p>Liquid capital is the measure to be used to assess ability to continue in business. Liquid capital requirement is designed to ensure that the licenceholder has sufficient liquid capital to facilitate an orderly wind-down if necessary and is imposed in Jersey.</p>
<p><b>FRR Rule 27</b> - against imposition of a blanket/consistent approach to financial resources across all sectors/for all FSPs. Suggest that financial resources requirements (liquid capital requirement) only applied to businesses that the Commission decides need monitoring and let the rest just submit annual financial statements (to save the cost for the whole industry of whom most do not have problems and to allow FSPs to make the best economic use of resources). Agree that 3 months is a reasonable time to allow for the orderly wind-down of a company. Also FSPs may need to restructure their finances in order to meet the liquid capital requirement and this may well have a cost.</p>	<p>Now rule 25 It would be difficult to apply a liquid capital requirement on a case by case basis as it would be difficult to administer and could create an unlevel playing field.</p> <p>3 months liquid capital is a standard requirement to allow for an orderly wind down. Jersey has a similar requirement.</p> <p>A small number of FSPs may need to restructure their finances and this may have a cost. It is suggested that those with difficulties approach the Commission for guidance on this issue.</p>

<p><b>FRR Rule 27</b> - calculation of disallowed debtors does not take into account the potential for bad debts given that FSPs, which often bill clients annually in advance, are generally in control of client company bank accounts.</p>	<p>Now rule 25. Whilst it is accepted that FSPs are generally in control of the client company bank accounts, and as a consequence, bad debts are rare, the debtors may not be “liquid” i.e. may not be collected within three months.</p>
<p><b>FRR Rule 27(1)</b> – net tangible assets must exceed minimum at all times which does not agree with Rule 26 which states that a licenceholder must monitor financial resources quarterly not “at all times”. Would not be able to audit “at all times” unless daily calculations produced and audited – unworkable. Suggest define as at a minimum quarterly with increased frequencies required where close to 110% or between 110% and 100%.</p>	<p>Now rule 25. Financial resources should be monitored at all times. The frequency of such monitoring will be determined by the level of surplus of financial resources. Monitoring may need to be undertaken on a daily basis if the surplus is between 100% and 110% or close to 110%. Audit comment addressed below.</p>
<p><b>FRR Rule 27(2)</b> - Minimum share capital should be expanded to include non-distributable reserves such as share premium and capitalised profit and loss reserves.</p>	<p>Now rule 25. Share premium has been included in revised draft but not profit and loss reserves.</p>
<p><b>CAROL 4 Consultation Paper Paragraph 3.2.5, FRR Rule 27(4) and AR Rule 10</b> - Issues regarding wording of “at all times” in relation to audit confirmation for liquid capital.  Will the Commission require segregation of assets where there is only a small margin?</p>	<p>Now rule 25. Licenceholders must ensure that liquid capital must meet or exceed the liquid capital requirement at all times. Auditors are required to report that the annual financial statements have been properly prepared in accordance with Part 3 (Financial Resources) of this Rule Book. Auditors are not asked to confirm that liquid capital has exceeded the requirement at all times. No – it is considered that capital, net tangible assets and liquid capital requirements are sufficient.</p>
<p><b>FRR Rule 28</b> – Why is the net tangible assets requirement 110%?</p>	<p>Now rule 26. It is not. The net tangible assets requirement is 100%. The 110% level is a trigger level.</p>
<p><b>FRR Rule 32 (2)(d)</b> – the Financial Resources Statement needs an audit – are auditors require to opine that net tangible assets have been in excess at all times? What is the Financial Resources Statement?</p>	<p>Now rule 30 (2)(d).It is outlined in Schedule 1.  Auditors are not required to opine that net tangible assets have been in excess at all times, but at the interim and year end periods.</p>
<p><b>FRR Rule 42</b> - Will the Commission allow banks to reduce their capital to £3.5m?</p>	<p>Now rule 38. This may not be an issue as banks will still need to maintain their other financial resource requirements which may require capital to be maintained at current level.</p>
<p><b>FRR Rule 43(5)</b> - RAR must be above minimum at all times – same issue with “at all times” – licenceholders without real time accounting would struggle to comply.</p>	<p>Now rule 39 (5). Licenceholders must ensure this requirement is met but auditors are not required to confirm this.</p>
<p><b>FRR Rule 45</b> - Titled “Accounting Standards” but should really be “Accounting Disclosure requirements”.</p>	<p>Now rule 41. Agreed to be amended in revised draft.</p>

<p><b>FRR Rule 47</b> - Copy of Financial Statements to be made available has been replaced with balance sheet and auditors report. Audit firms could not permit an audit report to be published without the full financial statements to which it relates. This should be deleted.</p>	<p>Now rule 46. This is in existing legislation but has been amended so that financial statements are to be made available at the registered office in the Isle of Man and the reference to balance sheet only has been removed.</p>
<p><b>FRR Table II</b> – difficult to understand.</p> <p>Second column – thought that only applies to investment business and FSPs (except category 2)</p> <p>Should “where applicable” be defined somewhere?</p> <p>Second row – should this be associates as well as subsidiaries –see rule 14?</p> <p>Fourth row – states that applies to “all IOM incorporated” however rule 34 does not apply to fiduciary services licenceholders – is this correct?</p>	<p>See amended version.</p> <p>Category 2 TSPs/CSPs (professional officers) are excluded from the chapter.</p> <p>This should not be necessary, either there is a subsidiary/parent or there is not.</p> <p>Yes – amended.</p> <p>Yes – amended.</p>
<p><b>FRR Table II</b> - should not appear as if part of the special requirements for IOM stockbrokers after 40 on page 10; it needs to be separated completely as it applies to all licenceholders</p> <p>It is necessary to have Banks, deposit takers, non deposit takers etc – are they not just banks? Same comment applies to quarterly banking return / deposit taking returns.</p>	<p>See revised draft</p>
<p><b>CAROL 4 Consultation Paper Paragraph 3.2.6</b> – the level of minimum NTA, capital etc can be adjusted on a case by case basis. The Commission should make clear the circumstances in which this would take place and how it would be made applicable – i.e. would it be by direction or licence condition.</p>	<p>Preference is to leave wording as it is so that discretion can be applied. The method of applying an adjustment would also depend on the circumstances.</p>
<p><b>CAROL 4 Consultation Paper Paragraph 3.2.1</b> – states that FRR rules do not apply to Category 2 FSPs but the title of rules 22 to 31 includes (except Professional Officers) which suggests that rules 19 and 20 <i>do</i> relate to Category 2. Needs to be clarified.</p>	<p>Professional officers exempted from the entire chapter in the revised draft.</p>
<p><b>FRR General Comment</b> - A CSP or TSP should not be seen as being similar to a bank or insurance company and there is no reason why similar types of legislation should apply for the different types of business.</p>	<p>The Commission is trying to consolidate and simplify its approach but account is taken of different business streams by different levels.</p>
<p><b>FRR General Comment</b> - The imposition of a one-size fits all financial resources requirements, in circumstances where most FSPs are financially viable, will add to the compliance burden but will not add to the efficiency of the sector.</p>	<p>There is not a “one size fits all” approach. The levels of financial resources requirements take account of the different business streams. The compliance burden should not be that much greater than ensuring that the FSP is solvent.</p>

<p><b>FRR General Comment</b> - The proposals may make the sector more inefficient and CSPs may divert business to associates in more relaxed locations. We run the risk of losing business without producing any meaningful protection for our clients.</p>	<p>It is unclear why imposing clear financial resources requirements would make the sector more inefficient. Jersey is imposing a similar liquid capital requirement.</p>
<p><b>CAROL 4 Consultation Paper Paragraphs 3.2.2, 3.2.4, 3.2.5 and 3.2.8</b> – query where changes are when wording is either unchanged or mostly unchanged.</p>	<p>Some wording has been amended slightly to a more up to date format but if the RoadMap indicates unchanged or mostly unchanged then the meaning is unlikely to have changed.</p>
<p><b>FRR Schedule 1, Section 2</b> – what would be included in the tax expense adjustment (specifically the DCP which is a tax on shareholders)?</p>	<p>This is the tax charge of the company not an adjustment to tax. Although the majority of IOM companies are 0% there is still potentially a tax charge for income from land and property or overseas tax such as UK non-resident landlord tax.</p>
<p><b>FRR Schedule 1, Section 2</b> - Depreciation and amortisation should be added back in the expenditure based requirement calculation.</p>	<p>Agreed – to be included in revised draft.</p>
<p><b>FRR Schedule 1, Section 3</b> - Disallowed debtors adjustment is confusing. Section 3 appears to suggest that all debtors except those which have been outstanding for less than 3 months are disallowed. Note 5 suggests that debtors due and receivable within 3 months are added back.</p>	<p>Note 5 amended to clarify.</p>
<p><b>FRR Schedule 1</b> - Reference to accounting principles should be accounting standards.  <b>Section 5 box 1</b> – investments at net realisable value and fixed assets at revalued amounts. Should say “in accordance with accounting standards” otherwise potential conflict between the Commission and accounting standards.  <b>Section 5 box 7</b> - Seems to allow charges which is at odds with chapter 3.</p>	<p>Agreed and amended.   Wording amended in revised draft.   Wording amended.</p>
<p><b>FRR Schedule 1, Section 5, Paragraph 4</b> - Qualifying subordinated loans should not be restricted to 3 times net tangible assets as can't be repaid without permission and are an effective way of meeting requirements without additional costs of increases in capital etc. Also retention of profits may not be possible due to DPC.</p>	<p>Agreed – the combination of minimum share capital, net tangible assets and liquid capital negate the need to restrict subordinated loans - this is amended in the revised draft.</p>
<p><b>FRR Schedule 1, Section 5 Paragraph 21</b> - Will the existing letter of comfort be sufficient for group PII?</p>	<p>Probably but difficult to confirm at this stage.</p>
<p><b>FRR General Comment</b> - Would require generous transition period due to need to re-structure business to meet financial resources requirements and an indication of what these are likely to be would be helpful for those who</p>	<p>The bill is not to be introduced until Q1 2008 at the earliest and a transitional period will apply.</p>

will be required to make changes to meet the financial resources requirements.	
<b>FRR General Comment</b> - General comments regarding applicability to Sole traders, Category 2 CSPs/TSPs, partnerships and LLCs.	Licensing policy has been changed to restrict applicants to corporate bodies. Existing sole traders and partnerships will have rules modified to fit. Category 2 CSPs/TSPs (Professional Officers) are exempt from the financial resources requirements. Revised draft amended.
<b>General Financial Resources Point</b> – As a multi-jurisdictional office, there should be an exception to the parameterised financial/solvency by individual regulated entity reporting.	The concept of "group" financial resources had formed part of discussions prior to the issuance of CAROL 4 but was discarded as it was felt it was important for each separate legal entity to meet its own financial resources requirements. One rationale for this was that it would be possible for the "group" or main licenceholder to meet its requirements but perhaps one of the group's subsidiaries may not, in its own right, meet its requirements. In the event that a client/investor attempted to sue the subsidiary for compensation or other redress, it could have adverse reputational issues for the Isle of Man and the Commission if it could be demonstrated that the licenceholder did not "stand alone financially" particularly if the group failed to support the subsidiary. However, it may be possible to look at individual waivers/modifications from the financial resources requirements.
<b>FRR General Comment</b> - The position of banks carrying out investment business under the exemption granted to banking licenceholders could be clarified.	Banks will no longer be exempt but have investment business activities identified on the schedule to the licence. There is now a statement at the beginning of the chapter which states that the highest standard of financial resources applies.
<b>FRR General Comment</b> - There are a number of licenceholders who for various reasons would not currently meet the requirements but in none of these cases is financial viability in doubt.	The financial resources rules aim to ensure the financial viability of licenceholders as well as reduce risks. Some licenceholders have for example issued guarantees to other group companies which cannot be quantified. This is not appropriate in a regulated entity.
<b><i>Audit Requirements Chapter</i></b>	
<b>AR Rule 2</b> - Definition of auditor is under review in the Companies (Amendment) Bill. Consider whether definition should include a member firm as well as an individual.	This point is under review in the proposed Companies (Amendment) Bill.
<b>AR Rules 2 and 3</b> – There are a number of reservations about level of PII cover. Appropriate level of PII should be defined or guidance given otherwise what is appropriate – potentially a tiered structure?	Following comments, guidance will be given in relation to auditors' PII. It is proposed that auditors of banks should have £20 million, and auditors of investment businesses (with the exception of financial advisers and promoters)

Auditors are unable to disclose their level of PII so how would the licenceholder know the level?	should have £10 million.
<b>AR Rule 3</b> - Auditor experience issue – suggest that wording is amended such that the Directors could minute the basis of their decision to appoint a certain auditor. It is suggested that the Commission does not use “ensure that” as this wording is inappropriate.	This was clearly a difficult area for many therefore this requirement is replaced by the Commission issuing guidance on the PII levels of auditors.
<b>AR Rule 3</b> - should the reference to duties defined in this rulebook instead refer to duties defined in this <i>part of the</i> rulebook”.	Yes – amended in revised draft.
<b>AR Rule 6</b> – Internationally accepted auditing practices and standards should be clarified as ISA (UK and Ireland) or ISA – please review wording.	Amended to refer to International or UK accounting standards or other internationally recognised accounting standards.
<b>AR Rule 6.2</b> – clarification regarding auditors report on Financial Statements and audit report to the Commission.	Wording amended in revised version.
<b>AR Rule 8</b> - All licenceholders must submit their management letters to the Commission. To avoid confusion suggest this is amended to refer to the Report to those charged with governance under ISA260 in addition to the management letter?	In addition to the management letter the Rule has been amended to include ISA260.
<b>AR Rule 10</b> - Audit report will be required to state that..... “Proper accounting records have been maintained throughout the financial year.” The accounting records may not reflect the exact figures in the financial statements due to journals, tax corrections etc. plus restatement of first quarter returns to reflect audit adjustments. Many licenceholders do not real time account. Auditors therefore cannot sign off that they have been maintained throughout the year. Comments reserved on ‘accounting records’ until future consultation.	It is accepted that some adjustments may be made during the year. The requirement to confirm that proper accounting records have been maintained throughout the year is an existing investment business requirement and there have been no difficulties in obtaining these confirmations in the past.
<b>AR Rule 10(1)(d)</b> – nominee company has maintained adequate systems..... this should be the licenceholder rather than the nominee.	Agreed – amended in revised draft.
<b>AR Rule 13</b> – audited accounts of parent – but parent may be exempt.	Requirement for parent of licenceholder to be audited to remain regardless of whether audit is required in jurisdiction. It may be possible to apply for a waiver if the parent’s accounts are not considered material.
<b>AR Rule 14</b> – audited accounts of subsidiaries – they may be exempt.	Non trading subsidiaries will not be subject to audit but others will be subject to audit regardless of whether audit is required in jurisdiction. It may be possible to apply for a waiver if the subsidiary’s accounts are not

	considered material.
<b>AR Rule 15</b> - Misunderstanding between audit report and report to the Commission.	Wording amended in revised draft.
<b>AR Rule 15</b> – should the reference in AR 15(1) be a reference to Rule 32(2)(e) of the Financial Resources Chapter of the Rule Book? Do rules 15(2) and 15(3) cover the same point? The FR chapter does not seem to distinguish between a licenceholders “Specific Requirements” and its “Financial Resources”.	Yes, correct.  No they are different points.  Will delete “Specific Requirements” and refer only to “Financial Resources Requirements”.
<b>AR Rule 19</b> - Requirement for auditors to report on written communications with the Commission being kept. Are the Commission going to copy auditors in on all correspondence to enable us to establish the completeness of the records being kept?	The requirement has been removed.  Auditors are currently copied in on matters of significance, general correspondence is not considered material.
<b>AR General Comment</b> - FSA are withdrawing mandatory audit for small entities so this would make IOM less competitive. Does the Commission wish to continue to over-regulate the smaller businesses?	The UK is a different market to IOM. The IOM is more comparable to Jersey / Guernsey and has the same requirements as they do. The Commission has not received requests from smaller licenceholders to consider audit exemptions.
<b>AR Rule 15/FRR Rule 27(1)</b> NTAs must exceed minimum at all times which does not agree with FRR Rule 26 which states that a licenceholder must monitor financial resources quarterly not “at all times”. Would not be able to audit “at all times” unless daily calculations produced and audited – unworkable.	Licenceholders must ensure that liquid capital must meet or exceed the liquid capital requirement at all times. Auditors are required to report that the annual financial statements have been properly prepared in accordance with Part 3 (Financial Resources) of this Rule Book. Auditors are not asked to confirm that liquid capital has exceeded the requirement at all times
<b>AR General Comment</b> - The adoption of International Auditing Standards has placed a burden on auditors and additional costs will be incurred which will affect smaller licensed entities disproportionately. Consideration is being given to resigning all audits (and it is believed that other smaller audit firms will follow) leaving only the “big 4” firm to audit at a price! The Commission prefers licenceholders to use the “big 4” rather than small audit firms.	The Commission does not expect all licenceholders to appoint one of the “big 4” as auditors.  There appears to be some fundamental misunderstanding of the proposals and it is hoped that the revised chapters will resolve these.
<b>AR General Comment</b> - Guidance required from the Commission on place of business.	This point will be considered.
<b>CAROL 4 Consultation Paper Paragraph 3.3.3</b> - Fully agree. Should further state that the audit report should be signed off by the IOM office (where group audit) as off-island auditors do not have correct IOM regulatory knowledge. Where group auditors are involved there is a tendency to spend little time on immaterial subsidiaries.	Agreed – wording amended in revised draft



## CHAPTER 3

### FINANCIAL RESOURCES

This chapter does not apply to Professional Officers.

#### **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.*

Where more than one regulated activity is undertaken the requirements contained in this chapter are not cumulative instead the highest level applies.

#### **GENERAL REQUIREMENTS FOR ALL LICENCEHOLDERS**

##### ***Application***

1. Rules 2 to 9 apply to all licenceholders.

##### ***Annual Reporting Date***

2. The licenceholder shall notify the Commission of its Annual 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 by the due date; or
  - (b) it will be unable to comply or unable to demonstrate compliance with any part of this chapter, 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 licenceholder shall be responsible for the completeness and accuracy of the financial returns that are submitted to the Commission.

##### ***Inaccurate or 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 incorrect or has subsequently 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 in the format provided on the Financial Reporting System. The returns should be submitted by a nominated individual or, in their absence, a nominated deputy. The appointment of the nominated individual and the nominated deputy must be approved by the Board and their names shall be notified to the Commission.

### ***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 as soon as they become available and in any case within six months of the licenceholder's Annual Reporting Date. Where either of these companies is incorporated in the Isle of Man, the copy of the audited financial statements shall be a signed copy. (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) or other internationally recognised accounting standards.

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

### ***Application***

10. Rules 11 to 13 apply to all licenceholders which are incorporated in the Isle of Man.

### ***Change of Annual Reporting Date***

11. A licenceholder may change its Annual 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 with which the licenceholder is bound to comply, 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.

### ***Subsidiary Annual Financial Statements***

13. In respect of any subsidiary or associated company, other than those confirmed by the company's auditors as being non-trading, 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***

14. Rules 15 to 17 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 Annual Reporting Date***

15. A licenceholder shall notify the Commission before changing its Annual Reporting Date.

### ***Retention of Accounting Records***

16. (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, with which the licenceholder is bound to comply, 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***

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

- (a) a signed 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***

18. Rules 19 to 22 apply to all investment business and fiduciary services licenceholders.

### ***Solvency and Failure to comply with Obligations***

19. (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. If the licenceholder informs the Commission by telephone it must then provide full details in writing within 24 hours of the telephone call.

### ***Guarantees, contingencies and financial commitments***

20. (1) A licenceholder should not issue a guarantee without prior approval from the Commission.
- (2) Subject to rules 21 and 22 below, a licenceholder must notify the Commission as soon as it becomes aware of:
- (a) any indemnity or other such commitment given by the licenceholder of an amount which could give rise to a claim under rule 21 below;
  - (b) 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;
  - (c) any contingent liability that could potentially have a significant adverse effect on the licenceholder's ability to meet its financial resources requirements; and
  - (c) any change in information previously submitted to the Commission concerning (a) or (b) above.

### ***Claims***

21. Subject to Rule 20, a licenceholder must notify the Commission as soon as it becomes aware of any claim made in writing by or against the licenceholder where any amount claimed or disputed is material.

### ***Charges***

22. (1) A regulated entity should not enter into any arrangement to grant a charge over its assets without prior approval from the Commission.
- (2) A licenceholder must notify the Commission as soon as a charge has been registered against the licenceholder by another party. The licenceholder should also confirm whether the charge has a significant adverse effect on the licenceholder's ability to meet its financial resources requirements. If the licenceholder informs the Commission by telephone it must then provide full details in writing within 24 hours of the telephone call.

## **FINANCIAL RESOURCES REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS AND FIDUCIARY SERVICES LICENCEHOLDERS**

### ***Application***

23. Rules 24 to 30 apply to all investment business and fiduciary services licenceholders which are incorporated in the Isle of Man.
24. A licenceholder shall meet the requirements contained in Rule 25 and Table I.
25. (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, which may include paid up share premium, 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
<b>Investment Business</b>		
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
<b>Collective Investment Schemes</b>		
Promoter	£10,000	£10,000
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
Asset 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 other international collective investment schemes (EIFs, Continuing EIFs, PIFs, QIFs, and SIFs); or a manager / administrator of overseas schemes.	£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
<b>Fiduciary Services</b>		
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**

26. (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 have or will fall below 110% of the Minimum Net Tangible Asset Requirement contained in Table I. 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***

27. 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***

28. (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***

29. (1) A licenceholder must meet the Liquid Capital Requirement as calculated in Part B of Section 2 of Schedule 1 and Notes 18 and 19 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 writing within 24 hours of the telephone call.

### ***Preparation of Annual Financial Returns***

30. (1) The licenceholder shall prepare annual financial returns in sufficient detail to verify the calculations required by Rules 25 to 29 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.

## **FINANCIAL RESOURCES REQUIREMENTS FOR ISLE OF MAN INCORPORATED INVESTMENT BUSINESS LICENCEHOLDERS WITH THE EXCEPTION OF FINANCIAL ADVISERS AND PROMOTERS**

### ***Application***

31. Rule 32 applies to all investment business licenceholders which are incorporated in the Isle of Man with the exception of financial advisers and promoters.

***Preparation of Interim Financial Returns***

32. (1) The licenceholder shall prepare interim and annual financial returns in sufficient detail to verify the calculations required by Rules 25 to 29 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.

**FINANCIAL RESOURCES REQUIREMENTS FOR ISLE OF MAN INCORPORATED FIDUCIARY SERVICES LICENCEHOLDERS, FINANCIAL ADVISERS AND PROMOTERS*****Application***

33. Rule 34 applies to all fiduciary services licenceholders, financial advisers and promoters which are incorporated in the Isle of Man.

***Monitoring of Financial Resources Requirements***

34. The licenceholder shall monitor compliance with its financial resources requirements on a quarterly basis and shall provide evidence of the calculations required by Rules 25 to 29 to the Commission as required.

**SPECIFIC REQUIREMENTS FOR ISLE OF MAN INCORPORATED STOCKBROKERS*****COUNTERPARTY RISK REQUIREMENT (CRR)******Application***

35. Rule 36 applies only to investment business licenceholders which are incorporated in the Isle of Man and are authorised to carry on stockbroking activities.

***Obligation to calculate CRR***

36. 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**

<b>Return</b>	<b>Applicable to</b>	<b>Frequency of Return**</b>	<b>Due Date</b>
Audited Annual Financial Returns (see Rule 31)	All investment businesses and fiduciary service providers	Annually	Within four months of the Annual Reporting Date ("ARD")
Subsidiary and/or Associated Companies Annual Audited Financial Statements plus detailed profit and loss account (see Rule 13) *	All investment businesses and fiduciary service providers, where applicable	Annually	Within four months of the Licenceholder's ARD
Immediate and Ultimate Parent's Annual Audited Financial Statements (see Rule 8) *	All investment businesses and fiduciary service providers, where applicable	Annually	As soon as available and, in any case, within six months of the licenceholder's ARD.
Unaudited Interim Financial Returns (see Rule 32)	All IOM incorporated investment businesses, except for financial advisers, promoters and investment advisers to retirement benefit 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
	All IOM incorporated investment advisers to retirement benefit schemes	Half Yearly	
Counterparty Risk Reporting Statements (see Rule 36 )	All IOM incorporated stockbrokers	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.

\*\* The calculations to prepare returns may need to be undertaken more frequently if the licenceholder is close to 110% or between 110% and 100% of the financial resources requirement.

## **SPECIFIC REQUIREMENTS FOR DEPOSIT TAKERS INCORPORATED IN THE ISLE OF MAN**

### ***Application***

37. Rules 38 to 43 apply to all deposit takers which are incorporated in the Isle of Man.

### ***Share Capital***

38. 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***

39. (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***

40. (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 Disclosure Requirements***

41. The financial statements shall include the following disclosures:-

(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***

42. 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***

43. (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 at its registered office or place of business;

(b) display a notice in its registered office and all other places of business in the Isle of Man stating that a copy of the latest audited financial statements of the deposit taker 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***

44. Rules 45 and 46 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***

45. (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***

46. (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 financial statements of the deposit taker 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
	<b>Add:</b>		
	Qualifying subordinated loans		X
	<b>NET TANGIBLE ASSETS</b>		<b>X</b>
Part B	<b>Less:</b>		
	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
	<b>Add:</b>		
	Qualifying secured liabilities	X	
	Non refundable deferred income	X	
		X	
	<b>Liquid Capital</b>		<b>X</b>
Part C	<b>Less (if applicable):</b>		
	CRR	X	
	<b>Net Liquid Capital</b>		<b>X</b>
Part D	<b>Paid up Share Capital /Share Premium</b>		<b>X</b>
	<b>Less Minimum Share Capital/Share Premium Requirement (see Table I)</b>		<b>X</b>
	<b>Surplus/Deficit</b>		<b>X</b>

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

### 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
			<b>X</b>
<b>Less:</b>			
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
<b>Total disallowed debtors and loans</b>			<b>X</b>

**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)
<b>Total market value adjustment</b>						(X)
<b>Settlement adjustments</b>					£	£
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	
<b>Total settlement adjustments</b>						(X)
<b>Total Investment adjustment</b>						(X)

**Section 5 – Accompanying Notes**

<b>Accompanying Notes</b>		
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 standards generally accepted in the UK or International Financial Reporting Standards, or other internationally accepted accounting 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, in accordance with the accounting standards being used to prepare the licenceholders financial statements, 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>

		The Commission may require evidence of the valuation or request that a valuation be carried out at the licenceholder's expense.
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.</p> <ul style="list-style-type: none"> <li>A licenceholder must obtain the prior written approval of the Commission before the repayment, prepayment or termination of a subordinated loan.</li> </ul>
5	Disallowed Debtors Adjustment  See Section 3 of Schedule 1.	<p>Debtors and Work in Progress are disallowed unless they 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"> <li>they have a fixed repayment term of 3 months or less;</li> <li>they arise in the normal course of business and are settled every 60 days, or</li> <li>the licenceholder can provide audited financial statements of the related party, made up the same year end as the licenceholder's 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.</li> </ul>
6	Market Value Adjustment (if applicable)  See Section 4 of Schedule 1.	<p><b>Market Value adjustments</b></p> <p>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 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><b>Settlement adjustments</b></p> <p>Unless calculating a CRR requirement (See below), a valuation adjustment must be calculated for the following:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
7	Amounts given as guarantees or charges over assets	Where a licensed entity has obtained approval from the Commission to enter into a guarantee arrangement or give a charge over its assets, an appropriate adjustment should be made to reduce the Liquid Capital.
8	Qualifying secured liabilities	A liability secured against 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

		<p>the lower of:</p> <p>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.</p> <p>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.</p>
9	Non refundable deferred income	Where the licenceholder 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.
10	CRR - See Part C of Section 1	See Rule 36 and Schedule 2.
	<b>Expenditure Based Requirement</b>	
11	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 captions set out below.
12	Operating expenses	Per audited financial statements.
13	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.
14	Other expenses	As agreed in advance with the Commission.
15	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.
16	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.
17	Exceptional costs	Exceptional items either as defined in UK FRS 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.
18	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.
19	Other	As determined by the Commission (e.g. a deduction for contingent liabilities if required).

## SCHEDULE 2

## COUNTERPARTY RISK REQUIREMENT

**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**

<b>Counterparty Risk Requirement</b>	
<b>Paragraphs</b>	
<b>2</b>	Cash against documents transactions
<b>3</b>	Free deliveries of securities and physical commodities
<b>4</b>	Options purchased for a counterparty

- (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**

<b>Percentage to be applied to the <i>market risk</i></b>	
<b>Calendar days after settlement day</b>	<b>Percentage</b>
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.

**Options purchased for a counterparty**

4. (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 within 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.

## 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 40 or 45, 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) with a residual maturity of 1 year or less issued by Zone A credit institutions
- Floating rate notes (un-subordinated) with a residual maturity of 1 year or less issued by Zone B credit institutions

- Floating rate notes (subordinated – of a capital nature) with a 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 premiums)
- 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.

## CHAPTER 6

## AUDIT REQUIREMENTS

This chapter does not apply to Professional Officers.

**Basic Requirement**

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

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

1. Rules 2 to 9 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 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.

*Guidance Note: The Commission would expect the auditors of banks to have Professional Indemnity Insurance of at least £20 million and the auditors of investment businesses (with the exception of financial advisers and promoters) to have Professional Indemnity Insurance of at least £10 million.*

- (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. If the Commission believes an auditor is not suitable to fulfil the duties defined in this part of the 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.

### ***Annual Financial Statements***

5. (1) The licenceholder shall prepare financial statements annually which shall be audited by the licenceholder's appointed auditor 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) or other internationally recognised accounting standards.

(2) The audited financial statements shall be submitted to the Commission within four months of the licenceholder's Annual Reporting Date.

### ***Notification***

6. (1) A licenceholder must notify 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, immediately 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 17 of the Financial Services Act 2007.

(3) A licenceholder shall notify the Commission immediately where it has reason to believe that its auditor is likely to modify its audit report in any way on the licenceholder's annual financial statements.

### ***Management Letter***

7. Within four months of the Annual Reporting Date 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; and

(4) provide the Commission with a copy of the auditor's report to those charged with governance under ISA260.

### ***Rights and Duties***

8. (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.

### ***Reporting Accountant***

9. Where a reporting accountant, appointed under section 23 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***

10. Rule 11 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***

11. Within four months of its Annual Reporting Date the licenceholder shall:-

- (1) provide the Commission with a copy of the 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;
- (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**

### ***Application***

12. Rule 13 applies to all investment business and fiduciary services licenceholders which are incorporated in the Isle of Man.

### ***Contents of Auditor's Report to the Commission***

13. The auditor's shall prepare a report, addressed to the Commission, which shall state, where applicable to the activities of the licenceholder, whether in the auditor's opinion:-

- (1) proper accounting records appropriate to the business carried on by the licenceholder have been maintained throughout the financial year;
- (2) the annual financial return has been properly prepared in accordance with Part 3 (Financial Resources) of this Rule Book;

- (3) the balance sheet and profit and loss account submitted in electronic format are in agreement with the licenceholder's accounting records;
- (4) the reconciliation referred to in Rule 31(2)(e) of Part 3 (Financial Resources) of this Rule Book has been properly prepared;
- (5) the licenceholder's Financial Resources Requirements have been properly calculated in accordance with Rule [ ] of Part 3 (Financial Resources) of this Rule Book;
- (6) 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
- (7) where a subsidiary of the licenceholder is a nominee company in whose name clients' investments are registered, whether the licenceholder 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.
- (8) reconciliations of Clients' Money and Clients' Assets have been performed in accordance with Parts 4 and 5 of this Rule Book.

Where the licenceholder is part of a group subject to a group audit, the audit report shall be signed off by the Isle of Man office of the auditor.

## **SPECIFIC REQUIREMENTS FOR ALL DEPOSIT TAKERS**

### ***Application***

14. Rule 15 applies to all deposit takers.

### ***Auditor's report on Quarterly Returns***

15. (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***

16. Rule 17 applies to all deposit takers which are incorporated in the Isle of Man.

### ***Contents of Auditor's report to the Commission***

17. The licenceholder will within four months of its Annual Reporting Date provide to the commission a report 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