

Consultation on the Review of Financial Services Legislation

Draft Amendments to –

**The Regulated Activities Order 2009, as amended
The Financial Services (Exemptions) Regulations 2009, as amended
The Financial Services Rule Book 2009, as amended
The Financial Services (Fees) Order 2011
The Collective Investment Schemes (Fees) Order 2011**

***This consultation will be of particular relevance to all licenceholders
(particularly those conducting payment services),
licence applicants and exempt and excluded persons.***

Issue date 1 July 2011

Closing date 31 August 2011



Financial Supervision Commission Barrantee Oaseirys

CONTENTS

Page No.

Section 1	INTRODUCTION	
	<i>1.1 Background</i>	2
	<i>1.2 High level rationale</i>	3
	<i>1.3 Consultation process</i>	3
Section 2	PROPOSALS – OVERVIEW	
	<i>2.1 Key changes to the Regulated Activities Order (“RAO”)</i>	5
	<i>2.2 Key changes to the Financial Services (Exemptions) Regulations (“ERegs”)</i>	6
	<i>2.3 Key changes to the Financial Services Rule Book (“Rule Book”)</i>	8
	<i>2.4 Draft amendments to the Financial Services (Fees) Order 2011 (“the Fees Order”)</i>	13
	<i>2.5 Draft amendments to the Collective Investment Schemes (Fees) Order 2011 (“CIS Fees Order”)</i>	13
	<i>Schedule 1 – Rules applicable to Class 8 licenceholders</i>	14
Appendix A -	Draft Regulated Activities Order 2011	
Appendix B -	Draft Financial Services (Exemptions) Regulations 2011	
Appendix C -	Draft Financial Services Rule Book 2011	
Appendix D -	Draft Financial Services (Fees) Order 2011, as amended	
Appendix E -	Draft Collective Investment Schemes (Fees) Order 2011, as amended	

SECTION 1 - INTRODUCTION

1.1 Background

Draft amendments to the Regulated Activities Order and Financial Services (Exemption) Regulations

The Regulated Activities Order (“RAO”) is an essential piece of secondary legislation under the Financial Services Act 2008. It specifies and defines the activities which constitute “regulated activities”, and sets out “exclusions” (i.e. activities which are not regulated activities).

The Financial Services (Exemption) Regulations (“ERegs”) set out exemptions for certain persons from the need to hold a licence under the Financial Services Act 2008. Exempted activity remains regulated activity but it can be performed without a financial services licence.

Changes to these pieces of legislation may mean that activities that were previously excluded or exempt from requiring a licence become licensable. Therefore, it is very important that anyone relying on any exemption or exclusion considers the changes thoroughly to ensure that any change to their position is understood, and any necessary action is taken.

Draft amendments to the Financial Services Rule Book

The Financial Services Rule Book (“the Rule Book”) is an important and large piece of secondary legislation. It incorporates the detailed requirements that all licenceholders must abide by and is amended from time to time to maintain its accuracy and functionality.

Method of amendment

The Commission appreciates the need for a period of stability with regard to the financial services legislation. Therefore, the number of amendments proposed to the RAO, ERegs and Rule Book relating to Classes 1, 2, 3, 4, 5 and 7 is small, and the changes are mainly to provide clarity or relax some existing requirements.

However, with regard to Classes 6 and 8, a significant number of changes are proposed: *Class 6 e-money* is moved into Class 8 *Money transmission services* as sub-class (4) and, for the first time, Class 8 will be subject to the Rule Book and not just Anti-Money Laundering provisions. In view of this, the Commission has reverted to the method of repealing and replacing the legislation with 2011 versions rather than amending the existing legislation.

In order to make the consultation as user-friendly as possible and to direct readers to the pertinent areas for their consideration, the Appendices contain the RAO, ERegs and the Rule Book showing all of the proposed amendments in tracked changes, and Section 2 of this document contains details of the changes per class of regulated activity. This should assist with your navigation of the consultation and give some background into the reasons for the proposed changes.

As with previous consultations, where the style and layout of the legislation has been modernised, any changes that are simply reformatting or relate to style but where the meaning is unchanged are not in tracked changes and have not been highlighted.

It is anticipated that all amendments will become operational on 1 January 2012.

1.2 High level rationale

The Commission's regulatory objectives are set out in section 2 to the Financial Services Act 2008. These are:

- (a) securing an appropriate degree of protection for the customers of persons carrying on a regulated activity;
- (b) the reduction of financial crime; and
- (c) supporting the Island's economy and its development as an international finance centre.

The proposals in this paper support objectives (a) and (c).

In addition to this, under paragraph 3 of Schedule 1 to the Financial Services Act 2008, the Commission is required to give consideration to certain factors.

The table below sets out the list of factors contained in paragraph 3 of Schedule 1 that have a bearing on the proposals.

FACTOR	INFORMATION
The need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden.	The amendments to the legislation are required to ensure that it remains effective and proportionate. In addition, some amendments reduce the burden on industry and many have been proposed as a result of comments from industry. Therefore by revising the requirements the Commission demonstrates that it is responsive to commercial developments.
The need to safeguard the reputation of the Island.	By maintaining an effective regulatory regime, there is an appropriate degree of protection for customers and the reputation of the Island is safeguarded.
The international character of financial services and markets and the desirability of maintaining the competitive position of the Island.	By ensuring that the regulatory requirements are up-to-date, the Island maintains its competitive position. The changes to rules for Class 8 reflect changes in Europe that the Island needs to replicate in order to progress its application to become a member of SEPA.
The desirability of facilitating the development of the financial services industry.	An effective and up-to-date legislative framework will facilitate the development of the financial services industry.

1.3 Consultation process

The Commission views open dialogue with industry and other stakeholders as an essential element in developing an optimal regulatory framework. The Commission therefore appreciates the time spent reading and commenting upon these proposals.

With the exception of proposals relating to Class 1 deposit taking which will cover large exposures and liquidity which will be consulted upon separately with the banks, the

Commission's proposals are set out in Section 2. All comments and observations will be welcomed.

The closing date for comments is **31 August 2011**.

We would be most grateful if comments could be received as soon as possible and **no later than the above date**.

Responses should be sent in writing or by e-mail to:

Shirley E Corlett (Mrs) MSc, MCSI
Deputy Director – Policy
Policy & Legal Division
Financial Supervision Commission
PO Box 58
Finch Hill House
Bucks Road
Douglas IM99 1BT

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

The purpose of this consultation is to obtain views and gather evidence from which to take an informed decision on the proposed amendments to the legislation. A response to this consultation will not necessarily result in a change to in the proposals.

A summary of the comments received along with the Commission's response will be published on the Commission's website after all comments have been considered.

Anonymous submissions will not be considered or included in the summary of comments. Being mindful that public identification of respondents is likely to serve as a deterrent to submission, **no respondents will be publicly identified**.

SECTION 2 - PROPOSALS

A number of changes have been made to the RAO, ERegs and Rule Book to include the Foundations Act 2011 (“the FAct”) under the assumption that the FAct will receive Royal Assent prior to the making of the new financial services legislation. If, however, the FAct does not receive Royal Assent, the changes relating to foundations will need to be removed and new amending legislation will need to be drafted once Royal Assent has been received.

In the event that Royal Assent is delayed and separate amending legislation is required, the Commission will not re-consult on these amendments, therefore, if you have any comments to make on these foundation related amendments, please make them by 31 August 2011.

Words in parenthesis and italics are defined terms within the relevant legislation.

2.1 Key changes to the Regulated Activities Order

A revised version of the RAO showing all proposed amendments (other than formatting or style changes) in tracked changes is included in this consultation as Appendix A. The key changes are -

Class 4 – Corporate services

Sub-class (5) - Acting as a registered agent under the Limited Liability Companies Act 1996 and the Companies Act 2006 has been amended to include acting as a registered agent for a foundation under the FAct.

In addition, for the purposes of Class 4 regulated activity only, the definition of “*company*” has been extended to include a foundation established under the FAct. The definition of company in this Class is different to the general interpretation in Schedule 2 to the RAO.

Class 5 – Trust services

Sub-classes (1) Acting as a sole trustee in relation to an express trust and (2) Acting as a trustee (other than a sole trustee) in relation to an express trust have been amended to clarify that where a licenceholder is acting as trustee of a trust, the administration of that trust is covered by sub-class (1) or (2) and sub-class (3) *Providing trust administration services in relation to an express trust* is not required.

Sub-class (3) Providing trust administration services in relation to an express trust has been amended to clarify that administration includes providing or arranging for accommodation address facilities for a trust. This brings Class 5 into line with Class 4 in relation to accommodation addresses, although the activity has not been given its own sub-class as the level of activity is expected to be minimal.

Sub-class 6 Acting as an enforcer in relation to a purpose trust has also been amended to include acting as the “*enforcer*” of a foundation within the meaning of the FAct.

Class 6 – e-money

This Class has been moved into a new sub-class of Class 8 – Class 8(4). The rationale for this is that electronic money issuance and payment services are becoming very similar and it is felt more appropriate that they are regulated in a similar way. This also reflects

similar moves in the UK and EU. Any exclusions for issuance of e-money from other Classes (e.g. Class 1) have been amended accordingly.

Class 8 - Money transmission services

Class 8(2) Provision and execution of payment services, either directly or as agent has been split to differentiate between the licenceholder providing payment services directly (Class 8(2)(a)) or as agent (Class 8(2)(b)). The rationale for this is that, for the first time, parts of the Rule Book will be applied to Class 8 and it has been determined that it is appropriate to apply a “lighter-touch” regulatory framework where the activity is carried on as agent. See also the definition section of the RAO.

Class 8(4) Issue of electronic money has a new exclusion to ensure that the Island’s definitions reflect the definitions in the EU’s e-money Directive. See also the definition section of the RAO.

Interpretation

The following definitions have been changed -

- “*agent*” has been extended to include a person who provides payment services on behalf of an issuer of electronic money or a payment institution;
- “*deposit*” has been extended to clarify that a sum is not a deposit if it is received by a payment institution from a payment service user with a view to the provision of payment services; nor is it a deposit if it is immediately exchanged for electronic money;
- “*director*” has been extended from that contained in that Act to include a member of the council of a foundation established under the FAct;
- “*electronic money*” has been updated to reflect the current European definition;
- “*enforcer*” has been extended to cover an enforcer to a foundation established under FAct;
- “*overseas person*” has been extended to include a foundation established under the FAct.

2.2 Key Changes to the Financial Services (Exemptions) Regulations

A revised version of the ERegs showing all proposed amendments (other than formatting or style changes) in tracked changes is included in this consultation as Appendix B. The key changes are -

Class 4 – Corporate services

A definition of “*company*” which replicates the definition in Class 4 of the RAO has been included to include a foundation established under the law of the Island. The definition of “*company*” in this Class is different to the general interpretation in Schedule 3 to the ERegs.

Exemption 4.2 – Directorships – de minimis activities

Although not a change to the exemption, it must be noted that the inclusion of foundation council roles in the definition of director means these will form part of the de minimis. The de minimis level will not be raised.

Exemption 4.10 – Activities of certain persons

This exemption has been re-titled “*Activities of the Isle of Man Post Office*” to clarify that this is the only person able to take advantage of the exemption. The exemption has been extended from the current sub-class (4) *Providing or arranging for accommodation address facilities for a company* to include sub-class (13) *Providing or arranging for accommodation address facilities for a partnership* as the Post Office could be deemed to be undertaking activities in either sub-class as per the accommodation address definition in Part 1 of Schedule 2 to the ERegs.

Class 5 - Trust services

Exemption 5.1 – Corporate trustees, protectors and enforcers

This exemption has been amended to include acting as the “*enforcer*” of a foundation within the meaning of the FAct.

Exemption 5.4 – De minimis activities

This exemption has been amended to include acting as the “*enforcer*” of a foundation within the meaning of the FAct. Although not a change to the exemption, it must be noted that the inclusion of foundation enforcer roles means these form part of the de minimis. The de minimis level will not be raised.

Class 6 – e-money

As Class 6 has been moved into a new sub-class of Class 8 – Class 8(4) all exemptions under this section have been incorporated into Class 8.

Class 8 – Money transmission services

As Class 6 has been moved to Class 8, certain exemptions and definitions have been split to cover Class 8(4).

New Exemption 8.3A - Activities of certain agents

This new exemption exempts persons who are agents of a Class 1 licenceholder (“the principal”), where that service or activity is conducted for that principal.

Interpretation

The following definitions have been changed or inserted -

- “*director*” has been extended from that contained in that Act to include a member of the council of a foundation established under the FAct.
- “*overseas person*” has been included in the ERegs which cross-refers to the definition in the RAO.

2.3 Key changes to the Financial Services Rule Book

A revised version of the Rule Book showing all proposed amendments (other than formatting or style changes) in tracked changes is included in this consultation as Appendix C.

The issues being addressed in the update of the Rule Book are mainly the clarification or relaxation of existing rules and the application of existing and new rules for Class 8. The key changes are detailed below.

Amendments affecting Class 6 (e-money) only

Class 6 (e-money) has been moved to Class 8(4). Following this move, the main change is that rather than having to operate an e-money float (which is a client account), e-money issuers will be required to hold “*relevant funds*” in a “*segregated payment account*” replicating the UK and EU situation. The “*segregated payment account*” is not a client account but an account in the name of the licenceholder and for which, in the same way as for a client bank account, the bank provides a letter confirming that the licenceholder is holding the monies in the account as trustee and the licenceholder has no right of set-off or counterclaim against the money in that account. See *Chapter 5 of Part 3* for the new rules relating to “*relevant funds*” and “*segregated payment account*”. All references to “*e-money float*” have been removed from this Part. Other rules previously applied to Class 6 have been transposed into Class 8.

Amendments affecting Class 8 (money transmission services) only

A number of existing rules have been applied to Class 8 licenceholders for the first time and this has resulted in changes to the rules applying the Chapters to specific classes of licenceholder. *Class 8(1) Operation of a bureau de change*; *Class 8(2)(b) Provision of payment services as agent* and *Class 8(3) Provision of cheque cashing services* have a “lighter touch” regulatory framework than *Class 8(2)(a) Provision of payment services as a principal* and *Class 8(4) Issue of electronic money*. A list of all rules applicable to Class 8 licenceholders is attached at Schedule 1.

Some key rules applicable to **Class 8(2)(a) and 8(4) only** are detailed below.

- Under *rule 2.9 Annual Financial Return*, Class 8(2)(a) and 8(4) licenceholders are required to account for “*relevant funds*” held in a “*segregated payment account*” separately from any operating funds they hold. In addition, sub-paragraphs (1)(d) and (e) of *rule 2.37 Financial Resources Requirements* require that “*relevant funds*” which is defined in the new *rule 3.31 Interpretation*, must not be included in the calculation of financial resources. There is no requirement for any interim financial returns.
- *Rule 2.48 Turnover and financial resources* requires a licenceholder to notify the Commission within 5 business days of its turnover reaching a new band requiring additional share capital and net tangible assets. The licenceholder must confirm that it is in compliance with the higher levels of financial resources within 20 business days.
- *Chapter 5 of Part 3* contains the new “*relevant funds*” requirements for Class 8(2)(a) and 8(4) licenceholders. Under *rule 3.33 Segregation*, licenceholders are required to hold “*relevant funds*” in a “*segregated payment account*” which replicates the situation in the UK and EU. The “*segregated payment account*” is not a client

account but an account in the name of the licenceholder. As with a client bank account, under *rule 3.37 Operation of segregated payment account*, the bank must provide a letter to the licenceholder confirming that the licenceholder is holding the monies in the account as trustee and the licenceholder has no right of set-off or counterclaim against the money in that account. *Rule 3.38 Disclosure* requires the licenceholder to confirm in writing to the payment service user or e-money holder that any funds received do not constitute “a deposit” as defined in the RAO and are not covered by any compensation scheme.

- Sub-paragraph (3) of *rule 5.20 Auditor’s Letter* has been amended to include reference to “relevant funds”.
- *Rule 6.13 Advertisements - General* has been extended to ensure that any advertisement relating to Class 8(2)(a) or 8(4) includes in a prominent position that such activities do not constitute “deposit taking” and are not protected by a compensation scheme.
- Sub-paragraph (3) of *rule 6.63 Client agreement or terms of business* has been extended to require a statement that any sums received do not constitute “a deposit” as defined in the RAO and are not covered by any compensation scheme.
- A new *rule 6.71 Agents* has been inserted to ensure that licenceholders can only provide payment services through acceptable agents as defined in this rule.
- *Rule 8.28 Compliance returns* includes the requirement for an additional, quarterly return for Class 8(2)(a) and 8(4) (see *Schedule 8.2*). This return provides information relating to the movement of “relevant funds”; levels of “restricted funds”; the licenceholder’s annual Isle of Man turnover and details of “segregated payment accounts”.
- See also definitions of new terminology in Schedule 1.1 – Interpretation.
- *Schedule 2.2 Minimum Share Capital Requirement etc.* New minimum capital and minimum net tangible asset (“NTA”) requirements have been included for Classes 8(2)(a) and 8(4). These are linked to annual Isle of Man turnover –

Band	Capital	Net Tangible Assets
Up to and including £1 million	£10,000	£10,000
Over £1 million and up to and including £5 million	£15,000	£15,000
Over £5 million	£25,000	£25,000

It should be noted that the Commission does not propose a requirement for professional indemnity insurance for Class 8 licenceholders. However, other types of insurance may be appropriate such as cyber risks insurance.

Amendments affecting professional officers only

Following discussions with the professional officers, it was agreed that a number of rules should be amended -

- Following the amendments to the RAO and ERegs to include acting as the “enforcer” of a foundation within the meaning of the FAct, subsequent amendments have been made to the Rule Book to include this activity. Currently no professional

officers are authorised to undertake Class 5(6) regulated activities, however, anyone wishing to have their licence extended should contact their relationship manager.

- *Rule 9.11 Client money* has been amended to state that, in the rare event that a professional officer does receive client money, he must return it as soon as possible.
- *Rule 9.13 Controls* has been merged with *rule 9.12 Business governance*. *Rule 9.12(2)* has been deleted. This deletion eliminates an element of duplication.
- *Rule 9.14 Systems and controls for record keeping* has been merged with rule 9.24 as amended (see below). This merger means that all requirements related to record keeping are covered in one place.
- *Rule 9.17 Change of name or address* has been amended to ensure that the rule matches the title.
- *Rule 9.20 Provision of statistical information* has been amended to remove “on a quarterly basis” as it is more likely that the Commission may require ad hoc statistics rather than information on a regular basis (e.g. turnover figures to verify if professional indemnity insurance is adequate – see below).
- *Rule 9.22 Introductions to overseas businesses etc* has been removed as it has been agreed that is not appropriate to professional officers.
- *Rule 9.24 Systems and controls for record keeping* now incorporates the requirements contained in rule 9.14 and has also been amended to refer to “original records relating to his regulated activities”. The reference to record retention by third parties has been removed as it is understood that this would not occur.
- *Rule 9.26 Complaints* the reference to “its” in sub-paragraph (1)(e) has been replaced with “his”.
- *Rule 9.28 Professional indemnity insurance* has been redrafted to clarify the difference in requirements between Class 5(2) regulated activity and the other classes of regulated activity undertaken by professional officers and to separate out the requirements applicable to all. The rule has been amended to require a minimum requirement £500,000 and the reference to three times turnover has been removed.
- *Rule 9.33 Resignation of professional officer* has been clarified to refer to “as a director” and “party” has been replaced with “company”. Sub-paragraph (2) relating to the retention of records has been deleted.
- *Rule 9.34 Resignation of professional officer as a trustee, protector or “enforcer”* has been extended to cover foundations and the reference to “business” has been amended to “regulated activity”. The application sentence at the beginning of the rule has been deleted as it is unnecessary.
- *Rule 9.39 Criminal proceedings and convictions* now includes an offence under the FAct or any other legislation having similar effect in any country or territory outside the Island.

- *Rule 9.41 Fraud or dishonesty* has been amended to Fraud and serious mismanagement and the rule has been clarified to refer to serious mismanagement in any person for whom he undertakes any regulated activity.

Schedule 9.1 Annual compliance return – it is proposed that from 1 January 2012, this return will be submitted electronically. Accordingly, the form has been removed and replaced with the questions that will appear in the electronic return. The other documentation which would normally be submitted as part of the annual compliance return has been added to *rule 9.19 Compliance returns* and it is envisaged that these may be submitted electronically or in paper form. The timing for submission of the return remains the same.

Other Amendments

The following rules have been amended -

- **All Classes of licenceholder** – *rule 1.6* requires all returns and information submitted to the Commission to be in English.
- **Class 1 licenceholders incorporated outside the Island only** – *rule 2.9 Annual financial return* - has been amended to permit Class 1 licenceholders incorporated outside the Island to submit consolidated audited annual financial statements.
- **Class 2 only** – sub-paragraph (2) of *rule 4.9 Periodical statements* has been amended to remove the requirement to distinguish whether investments are held by the licenceholder, its own custodian or an eligible custodian.
- **All Classes of licenceholder incorporated in the Island except Class 8(1), 8(2)(b) or 8(3)** - *rule 5.7 Notification* has been amended to require immediate notification where the auditor has included an emphasis of matter paragraph in relation to the annual audited financial statements.
- **Class 2 only** - *rule 6.29 Knowledge of client* has been amended to clarify that the rule applies to any licenceholder with sub-classes (3) and/or (7) acting in the capacity of a financial adviser.
- **Class 2 only** – sub-paragraph (5) of *rule 6.34 Disclosure and information* has been extended to require licenceholders receiving commission to disclose the amount of commission prior to any deal being arranged (mandatory commission disclosure).
- **Class 3 only** – *rule 6.51 Interests of scheme to be paramount* has been extended to require managers or asset managers of a scheme to carry out due diligence on the suitability of potential assets for the scheme.
- **Class 4 only (except professional officers)**– sub-paragraphs (3) and (4) of *rule 6.66 Resignation of licenceholder* has been amended to remove the potential to hand over records to the company as it is unlikely that the company, which has been struck off, would have a place to store these. In addition, a new sub-paragraph (5) has been inserted to cover foundations.
- **All Classes of licenceholder except Class 8(1), 8(2)(b) or 8(3) and professional officers** - *rule 8.2 Interpretation* has been extended to cover the Collective Investment Schemes Act 2008.

- **All Classes of licenceholder except Class 8(1), 8(2)(b) or 8(3) and professional officers** – sub-paragraph (2) of *rule 8.4 Management controls* has been extended to that the responsible officers of a licenceholder must establish and maintain appropriate internal and operational controls, systems, policies and procedures relating to all aspects of its business to ensure effective systems and controls and depth of resources to adequately deal with the risk profile of all customers especially those connected with a higher risk jurisdiction or where structures are established for customers in those higher risk jurisdictions.
- **All Classes of licenceholder except Class 1, Class 8(1), 8(2)(b) or 8(3) and professional officers** – *Schedule 2.3 Financial Resources Statement* –
 - Part A – Calculation of Net Tangible Assets. Three rows in the table have been clarified as being relevant for interim financial resources statements only.
 - Note 1 has been clarified to state that the Capital and Reserves figure will include the profit or loss for the audited period.
 - Note 4 has been clarified to state that only the amount of loan actually advanced and outstanding may be counted as a qualifying subordinated loan.
 - Part B – Calculation of Liquid Capital. An additional row has been inserted to require that term deposits which will not mature within 3 months (unless the term can be broken) should be deducted. If the term can be broken but there is a penalty, the penalty should be deducted.
 - Note 5 has been clarified to state that intra-group loans must not be netted-off.
 - Note 10 has been clarified to state that the Commission expects licenceholders and their auditors to break down operating expenses appropriately for the regulated activity being undertaken. If items are consolidated, the Commission may request a further detailed breakdown.
- **All Classes of licenceholder except Class 8(1), 8(2)(b) or 8(3) and professional officers** – *Schedule 8.1 Annual compliance return* – it is proposed that from 1 January 2012, this return will be submitted electronically. Accordingly, the form has been removed and replaced with the questions that will appear in the electronic return. The other documentation which would normally be submitted as part of the annual compliance return has been added to *rule 8.28 Compliance returns* and it is envisaged that these may be submitted electronically or in paper form. The timing for submission of the return remains the same.

Amendments relating to the Foundations Act (“FAct”)

The following have been amended to refer to foundations or the FAct –

- rules 2.8; 2.11; 6.66 (this rule requires the records of a dissolved foundation to be kept for 10 years); 6.69; 7.13; 7.20; 9.34; and 9.39;
- the definitions of “company”; “director”; “enforcer”; “group company”; and “professional officer” in Schedule 1.1 - Interpretation; and
- Schedules 8.1 and 9.1.

2.4 Draft amendments to the Financial Services (Fees) Order 2011 (“the Fees Order”)

In line with the changes proposed in the RAO to transfer Class 6 (e-money issuers) into Class 8(4) and to split Class 8(2) (payment services) into sub-classes (a) – as principal and (b) – as agent, the Fees Order will need to be amended from January 2012 to reflect these changes. The fees for Class 8(2)(b) have been included at the same level as Class 8(1) – bureau de change and 8(3) – cheque cashing services. Fees for all Classes other than 8 remain the same.

2.5 Draft amendments to the Collective Investment Schemes (Fees) Order 2011 (“the CIS Fees Order”)

The Commission has taken the opportunity to address an anomaly which has been identified in the CIS Fees Order and to clarify that, although the fees are payable by the scheme, the Commission invoices the appropriate Isle of Man functionary of the scheme. The amending legislation does not alter the level of fees payable by schemes.

Rules applicable to Class 8 licenceholders

Rules applicable to all Class 8 licenceholders including Class 8(1), 8(2)(b) and 8(3):

Rule No	Title
1.2	Interpretation
1.3	Application
1.4	Confirmation of oral notification
1.5	Commencement of regulated activities
1.6	Returns to be submitted in English
2.1	Application
2.2	Annual reporting date
2.12	Application
2.13	Change of annual reporting date
2.14	Accounting records
2.16	Application
2.17	Change of annual reporting date
2.18	Accounting records
2.30	Application
2.31	Solvency
2.32	Failure to comply with obligations
6.1	Application
6.2	Skill care & diligence
6.3	Responsible behaviour in dealings by officers
6.6	Action likely to bring the Island into disrepute
6.7	Integrity and fair dealing
6.74	Application
6.75	Provision of statistical information
7.1	Application
7.2	Change of name or address
7.2A	Registration of business name
7.3A	Re-registration and redomiciliation
7.4	Changes in ownership
7.5	Acquisition of business
7.6	Sale of disposal of business
7.9	New appointments and departures from office
7.11	Disqualification as director etc.
7.12	Service of notice
7.13	Criminal proceedings and convictions
7.14	Surrender of licence
7.15	Cessation of regulated activities

Rules applicable to Class 8(2)(a) and 8(4) licenceholders only:

Rule No	Title
2.3	Notification of inability to comply
2.4	Reporting currency
2.5	Responsibility for returns

2.6	Misleading financial returns
2.7	Electronic reporting
2.8	Annual financial statements
2.9	Annual financial return
2.10	Accounting standards
2.11	Accounts of parent and holding companies, trusts or foundations
2.15	Accounts of subsidiary and associated companies
2.19	Contents of annual financial return
2.33	Financial commitments
2.34	Claims
2.35	Charges
2.36	Application
2.37	Financial resources requirements
2.38	Procedures and controls
2.39	Notification of actual or potential breach
2.40	Contents of annual financial return
2.47	Application
2.48	Turnover and financial resources
3.30	Application
3.31	Interpretation
3.32	Duty to safeguard relevant funds
3.33	Segregation
3.34	Payment accounts and sums received for the execution of payment transactions
3.35	Accounting for and use of relevant funds
3.36	Reconciliation
3.37	Operation of segregated payment account
3.38	Disclosure
5.1	Application
5.2	Appointment of auditors
5.3	Suitability of auditor
5.4	Requirements for auditors
5.5	Engagement letter
5.6	Audit of annual financial statements
5.7	Notification
5.8	Management letter
5.9	Rights of auditor
5.10	Contents of audit reports
5.11	Meaning of “auditor” for the purposes of section 17 of the Act
5.12	Application
5.13	Appointment of auditors
5.14	Management letter
5.19	Application
5.20	Auditor’s letter
5.21	Application
5.22	Auditor’s letter – additional requirements
6.4	Responsible behaviour
6.5	Introductions to overseas branches
6.8	Informed decisions
6.9	Independence
6.10	Gifts and other benefits
6.11	Remuneration
6.12	Conflicts of interest - general
6.13	Advertisements – general
6.14	Reference to licensing
6.15	Display of licence

6.62	Application
6.63	Client agreement or terms of business
6.70	Application
6.71	Agents
6.72	Issue and redemption of e-money
6.73	Prohibition of interest in respect of e-money
7.3	Changes in capital structure
7.7	Acquisition of shares in company
7.7A	Options over capital of a company
7.8	Subsidiaries etc.
7.9A	Appointments in exceptional circumstances
7.9B	References
7.10	Staff disciplinary action
7.16	Bankruptcy, winding up etc.
7.17	Voluntary winding up
7.19	Legal proceedings
8.1	Application
8.2	Interpretation
8.3	Corporate governance
8.4	Management controls
8.5	Compliance with obligations
8.5A	Continuing professional development ("CPD")
8.6	Risk management
8.7	Conflicts of interest policy
8.8	Conflicts of interest register
8.9	Business plan
8.10	Changes to activities, services or products
8.11	Business resumption and contingency plans
8.12	Business continuity
8.13	Delegation of function, outsourcing or inward outsourcing
8.14	Breaches of regulatory requirements
8.15	Fraud or dishonesty
8.16	Investigation of member's conduct by professional body
8.17	Matters to be notified – general
8.18	Compliance officer and MLRO
8.19	Functions of compliance officer
8.20	IOM resident directors
8.21	IOM resident officers
8.22	Absence of IOM resident officers
8.23	Company secretary
8.24	Systems & controls for record keeping
8.25	Clients' records
8.26	Records kept by third parties
8.27	Relations with regulators
8.28	Compliance returns
8.29	Complaints
8.54	Professional Indemnity Insurance (Class 8(4) only)

