BILLET D'ÉTAT

XVII
2000

WEDNESDAY, 26th July, 2000

STATES ADVISORY AND FINANCE COMMITTEE

Annual Report of the Guernsey Financial Services Commission

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BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at the **ROYAL COURT HOUSE, on WEDNESDAY,** the **26th July, 2000,** at 10 a.m..

STATES OF GUERNSEY ADVISORY AND FINANCE COMMITTEE

ANNUAL REPORT OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

The President,
States of Guernsey,
Royal Court House,
St. Peter Port,
Guernsey.

15th June, 2000

Sir,

ANNUAL REPORT OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

I enclose the Annual Report of the Guernsey Financial Services Commission in respect of the year ended 31st December 1999.

Section 6(1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 provides that:

"The Commission shall, as soon as practicable in each year, make a report to the Committee on its activities during the preceding year; and the President of the Committee shall, as soon as practicable, submit that report for consideration by the States.".

Section 18(2)(b) provides that:

"The accounts of the Commission shall be ... laid before the States, in the same manner as the accounts of a committee of the States.".

In accordance with the decision of the States on 27 May 1999 (Billet d'État XI for 26 May 1999) it is the duty of the Advisory and Finance Committee to report to the States on the appointment of external auditors, together with appropriate recommendations, at the same time as annual accounts of States entities are submitted for formal approval.

The Committee, after seeking advice from the States Audit Commission as required by the States Audit Commission (Guernsey) Law, 1997, recommends that the States appoint the firm of BDO Guernsey Limited as auditors of the accounts of the Guernsey Financial Services Commission for the year ending 31 December 2000.

The Advisory and Finance Committee recommends the States:

(1) to note the Report;

(2) to approve the accounts of the Guernsey Financial Services Commission for the year ended 31st December 1999.

(3) to appoint the firm of BDO Guernsey Limited as auditors of the accounts of the Guernsey Financial Services Commission for the year ending 31 December 2000.

I have the honour to request that you be good enough to lay the Report before the States together with appropriate propositions.

I am, Sir,
Your obedient Servant,
L. C. MORGAN,
President,
Advisory and Finance Committee.

GUERNSEY
FINANCIAL
SERVICES
COMMISSION

The Commission's objective is to provide effective, professional supervision and modern regulation of the finance sector to the highest international standards within a diverse and innovative environment.

The Commission has general powers of supervision and development, including responsibility for the prevention of economic crime. It also has statutory powers to enforce compliance with the many laws regulating the conduct of financial business in Guernsey. In exercise of its general functions, the Commission may take into account any matter which it considers appropriate but shall in particular have regard to:-

- *the protection of the public against financial loss due to dishonesty, incompetence or malpractice by persons carrying on finance business; and*

- *the protection and enhancement of the reputation of the Bailiwick as a financial centre.*

Commissioners

Laurie Morgan

President, States Advisory and Finance Committee

President of the Committee, Mr Morgan is ex officio chairman of the Commission. He was, for twenty years, a senior executive of a Guernsey bank, retiring as managing director in 1993. He entered politics in 1988 as a People's Deputy. During recent years he has been president of Guernsey's Social Security Authority and vice-president of the Committee, being elected its president in 1997.

John Hallam FCA

Former Partner, PricewaterhouseCoopers

Formerly a partner with PricewaterhouseCoopers, Mr Hallam left the group in 1999 having been with it for nearly thirty years. Most of this period had been in Guernsey where he was the partner in charge of the office but prior to that he had been with the firm in Jamaica, Canada and Bermuda. He is currently a non-executive director of a number of financial institutions involved in banking, insurance and investment management. He has served as vice-president of the Guernsey Society of Chartered and Certified Accountants, Secretary and Treasurer of the Guernsey International Business Association, a member of the committee of the Guernsey Insurance Company Managers Association and on various other bodies associated with the business and public life of Guernsey.

Nigel Carey LL.B

Advocate, Carey Langlois

Advocate Carey was admitted as a solicitor of the Supreme Court of England and Wales in 1974 and as an advocate of the Royal Court in 1975. He has been a partner in Carey Langlois since 1976 and was chairman of the Guernsey Bar from 1997 to 1999. He is a non-executive director of a number of collective investment fund companies and fund management companies, including a number engaged in venture capital activities.

Mel Carvill FCA, ACII

Chief Executive, Generali Group, Guernsey

Mr Carvill is a past president of the Guernsey Society of Chartered and Certified Accountants and the Insurance Institute of Guernsey, and has served on the working group reporting on pension provision for the self-employed and proprietary directors, the Insurance Law Review Committee, the Pensions Steering Group and the Insurance Sector Policy Advisory Group. He is a Fellow of the Institute of Chartered Accountants in England and Wales, an Associate of the Chartered Insurance Institute and a Chartered Insurer. He is a director of financial services companies incorporated in Belgium, Guernsey, the Middle East, the United Kingdom and the United States of America and is president of the Guernsey Association of Pension Funds.

Leslie Priestley TD, FCIB, FCIM, CIMgt, FRSA

Chairman, CAA Pension Scheme

Mr Priestley has been involved in banking for forty years, holding senior appointments in both Barclays and TSB – finally as chief executive, TSB England and Wales plc and a director of the TSB Group. During his career he was Secretary General, Committee of London Clearing Bankers; member of the Monopolies & Mergers Commission; a director of the Civil Aviation Authority and London Electricity plc; an adviser to Touche Ross & Co.; and a Visiting Fellow at Bangor University. Currently, he is chairman of the CAA Pension Scheme and a director of Prudential Banking plc, Pinnacle Insurance plc and other companies.

Directors

Peter Crook FCIB
Director General
A Fellow of the Chartered Institute of Bankers, Mr Crook joined the Bank of England after a spell as an officer in the British Army. He worked in several key areas of the Bank, including two years as a private secretary to the Governor. He worked in Banking Supervision from 1979, until seconded to the Cayman Islands as Inspector of Banks and Trust Companies in 1986 under IMF auspices. He was appointed Superintendent of Banks in Guernsey on completing this secondment in 1989 and Director General in March 1997.

Steve Butterworth FCA, ATII, CFE
Director of Insurance
A chartered accountant and an Associate of the Institute of Taxation and Certified Fraud Examiner, Mr Butterworth has been connected with the insurance industry since 1973 when he became companies manager of an accounting firm in Grand Cayman and, subsequently, financial controller of an insurance group in the Seychelles from 1977 to 1981. He was appointed Deputy Superintendent of Insurance in the Cayman Islands in 1982, Superintendent of Insurance in Guernsey in 1986 and Director of Insurance in 1997.

Philip Marr MSc (Econ)
Director of Banking
Mr Marr graduated in Economics at the University of Hull in 1968 and joined the Bank of England after a postgraduate degree. He was Economic Adviser to the Government of Bermuda from 1974 to 1977 and entered Banking Supervision on his return to the Bank. He was appointed Adviser to the Bahrain Monetary Agency from 1982 to 1984. He was manager of several groups of banks in Supervision at the Bank. After a secondment to Hambros Bank in 1988-89 he was Manager, On-Site Review Teams. He was appointed Senior Manager, Enforcement in 1995 and joined the Commission in June 1997.

Talmai Morgan MACantab, Barrister
Director of Fiduciary Services and Enforcement
Mr Morgan read Economics and Law at Cambridge University before qualifying as a barrister in 1976. He held a number of commercial and advisory appointments in London before moving to Guernsey in 1988. He worked for Barings for six years, before moving to the Bank of Bermuda in 1994 as managing director of Bermuda Trust (Guernsey) Limited. In January 1999 he joined the Commission as Guernsey's first Director of Fiduciary Services and Enforcement.

Nigel Taylor MSI
Director of Investment Business
Mr Taylor joined the Bank of England in 1958, working in various departments but mainly in Exchange Control from 1966. He visited the Channel Islands and the Isle of Man regularly to advise local institutions on exchange control matters. He was seconded to Bermuda as Controller of Foreign Exchange in 1972 and to Botswana as Adviser in 1982. He returned to the Bank and from 1985 was Manager, Financial Markets and Institutions Division, advising on regulatory issues in connection with unit trusts, pensions, insurance and investment trusts. He was appointed Superintendent of Investment Business in 1988 and Director of Investment Business in 1997.

Peter Moffatt MA (Oxon)
Director of Investment Business Designate
Mr Moffatt joined the Overseas Department of the Bank of England in 1968. International work involved liaison with EC institutions and the Bank for International Settlements. He was a supervisor during the 1970s and later became Secretary of the City Capital Markets Committee. Leaving the Bank in 1987, he became a compliance officer in investment banking with PaineWebber and JP Morgan and latterly in investment management with John Govett and Framlington. He has served on legal and regulatory committees of the Association of Investment Trust Companies, the Association of Unit Trusts and Investment Funds and the Financial Services Authority.

Chairman's Statement

All parts of the finance sector prospered in 1999 whilst, over the year, employment in the sector increased by 6%. This is an impressive record and it appears that 2000 will be equally successful.

One of the Commission's long-standing policies has been for its regulatory and supervisory standards to continue to meet the highest international standards. The development of the Commission's activities in areas such as the regulation of fiduciary and administration businesses, the prevention and detection of economic crime, together with a more visible role in fostering education and training, underline the scale of this policy. The Commission has always applied the highest standards of regulation. This remains its objective and there is every reason to believe it will continue to meet the highest standards.

It is now well documented that the Commission emerged from the 1998 United Kingdom Home Office Review of Financial Regulation in the Crown Dependencies with a vindication of its standards and ambitions. The Review report (colloquially known as the Edwards Report after its author, Mr Andrew Edwards) was an endorsement of both the Commission and the finance sector in the Bailiwick. However, as I stated in last year's Annual Report, we cannot rest on our laurels if we wish to retain our good reputation.

Serious consideration was given to the conclusions of the Review report throughout 1999. Where it has been agreed to take the report's observations and suggestions forward, the Commission has made adjustments to its policies. Legislation, where needed, will be put before the Bailiwick's legislatures during 2000 and 2001.

The Commission also engaged fully in international discussions on matters relating to finance business. For that reason, it welcomed an approach in 1999 by the G-7 Financial Stability Forum for information on financial regulation, international co-operation and anti-money

Chairman's Statement

laundering systems in the Bailiwick. The Commission was pleased to respond to the Forum and is committed to providing all possible assistance to that body. Indeed, the Director of Insurance, in his role as the chairman of the Offshore Group of Insurance Supervisors, made two presentations to the Forum in 1999, in Basel and Singapore respectively.

In May 2000 the Forum vindicated the Commission's policies when it judged Guernsey to be a Group 1 jurisdiction. In all, forty-two financial centres with significant offshore centres were divided into one of three categories, with Group 1 being the best category. This means the Forum considers Guernsey (along with Hong Kong, Luxembourg, Singapore and Switzerland) to have a legal infrastructure, supervisory practices and a level of resources devoted to supervision and co-operation relative to the size of its financial activities. Proof of the Commission's commitment to co-operation can be seen in statistics which have been collated from 1 January 2000. From that date to 19 May, the Commission made 597 contacts with foreign regulatory and law enforcement bodies.

As evidenced in the United Kingdom Home Office Review report, Guernsey also has a long-standing and clear commitment to preventing, detecting, investigating and prosecuting all forms of economic crime, wherever committed. In this regard, the Bailiwick is committed to meeting the Forty Recommendations issued by the Financial Action Task Force on Money Laundering – a body established by the G-7 group of countries. The Commission's rôle in this area has developed substantially over the years and in 1999 it hosted a routine evaluation of the Bailiwick's anti-money laundering systems by the Financial Action Task Force at the invitation of the Offshore Group of Banking Supervisors. The final report of the review team is expected with some degree of confidence.

The Commission intends to maintain Guernsey's reputation and role as a mainstream international finance centre. In this connection, regulatory activity continued unabated in 1999. In particular, the pioneering fiduciary and administration businesses law will further enhance the Bailiwick's international reputation and the future success of the fiduciary sector.

The year saw the appointment of two new Commissioners, Mr Mel Carvill and Mr Leslie Priestley, in place of Mr Harry Taylor and Mr John Parkinson who retired after providing eleven years' invaluable assistance. The wide knowledge and experience of the two new Commissioners enable the Commission to continue to benefit from industry experts in the spheres of banking, insurance and pensions.

Finally, I should like to thank Nigel Taylor, who retired on 31 March 2000, for his valuable contribution to the Commission. His endeavours, guidance and wisdom over the last twelve years enabled both the Commission and the investment business community in the finance sector to prosper. I wish him well in his retirement. In his place I am pleased to welcome Mr Peter Moffatt. With his wide experience in supervision at the Bank of England, investment banking at PaineWebber and JP Morgan and fund management at John Govett and Framlington, I am certain that he will contribute greatly to the future success of the Commission.

Laurie Morgan

Laurie Morgan
Chairman

Director General's Statement

1999 was a year of records in all parts of the finance sector.

In December 1999 deposits held by Guernsey banks reached a record £57 billion. There was a record £23 billion of collective investment funds under management. The number of funds under management was a record 429. The number of captive insurance entities was a record 460. There was similar success in the fiduciary sector.

These figures represent a forceful statement of confidence in the future of Guernsey, both by the financial services businesses based in the Bailiwick and by their clients.

However, in order to ensure that Guernsey's finance sector continues to thrive, the Commission redoubled its efforts during the year to ensure that its standards of regulation kept abreast of international developments. Indeed, this year, for the first time, the Commission's Annual Report contains a section on economic crime. It is now widely expected that financial regulatory bodies should be closely involved with the prevention and detection of economic crime and I and my fellow Directors have always taken this role seriously. The Commission devotes significant resources to this important area. With the enactment of the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999, the issue by the Commission of revised Guidance Notes on the Prevention of Money Laundering, a routine evaluation by the Financial Action Task Force on Money Laundering and the other initiatives described later in this Report, anti-money laundering activity was the most time-consuming single function of the Commission last year. It is also pleasing to record the widespread acceptance, determination and willingness of the sector to meet the challenge of the new legislation. Guernsey has a part to play in the international community and, additionally, long-term prosperity will be achieved by ensuring that only high quality business flows into

Director General's Statement

the Bailiwick.

The year also saw significant strides taken towards the introduction of a fiduciary and administration businesses law. A consultation paper was published in May and received a broad consensus of approval. In June 2000 the States (parliament) of Guernsey approved detailed proposals for regulating the fiduciary sector and draft legislation will be circulated for consultation in the autumn of 2000. It was planned to introduce regulation in this complex area as long ago as 1984 and we can now look forward to the long-awaited introduction of a pioneering law for the regulation of fiduciary services. Regulation of this important area can only enhance Guernsey's international reputation and assist the development of the fiduciary sector. It is also likely that the law will be copied in other jurisdictions.

In other areas too, the Commission took forward the suggestions and observations in the United Kingdom Home Office Review report which were agreed. In particular, the foundations were laid for the issue in 2000 of consultation papers on a deposit protection scheme, a financial services ombudsman scheme and a new company law containing detailed administration and receivership provisions.

The Commission also held discussions with a number of international bodies during the year. It is apparent from both these discussions and the 1998 United Kingdom Review report that financial regulation in Guernsey is of high quality and that the Bailiwick is a highly regarded international finance centre.

1999 also saw the amalgamation of the Finance Training Agency and the Guernsey Training Agency into the Training Agency. During the year the Training Agency had over 500 registered student members, held over 300 training events and more than 3,000 delegates attended the conferences it facilitated. The Agency is now firmly established and its success augurs well for the future of the Bailiwick.

Once again, in 1999 the Commission's staff carried out their roles with the commitment and efficiency which have contributed in no small part to Guernsey's enviably high reputation internationally. I am indeed fortunate to have such dedicated staff.

The Commission's increasing regulatory responsibilities, as a result of recent extensions to regulatory legislation governing insurance and investment activities, together with anticipation of new policies by supranational bodies and international regulatory organisations, resulted in a significant increase in staff resources during the year. The Commission now has fifty-eight personnel (including the staff of the Training Agency) on its payroll. That number will increase marginally by the end of 2000, not least because further staff resources must be recruited in good time before the fiduciary and administration businesses law is enacted. In the light of the increase in staff resources, the Commission moved to its new premises at La Plaiderie Chambers in March. The new offices will provide accommodation for the Commission for the foreseeable future.

2000 will be another busy year, both for the Commission and the finance sector. I and my colleagues look forward to the challenges and opportunities offered in the opening years of the twenty-first century.

Peter Crook

Peter G Crook
Director General

Guernsey banks showed healthy profit growth.

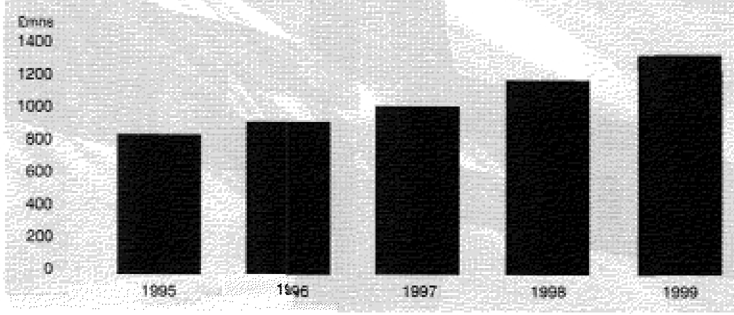
Banking Highlights

- Deposits reached £57.1 billion.
- Total bank assets are now £61.6 billion.
- Lending increased to £5.1 billion.
- Tier 1 capital in Guernsey banks strengthened further to £1.37 billion.
- The Banking Division introduced on-site visits.
- The number of licensed banks increased to seventy-nine.

Banking

Business developments

FIGURE 1 Total Tier 1 capital at the year end



Guernsey banks showed healthy profit growth during the year. Total profits were up some 8% compared with 1998, with over half the banks showing profit increases or the same profit. This was a creditable performance. Although there was strong pressure on the expense base, revenues increased on the back of solid economic growth in the major western economies, together with some resurgence in Asia and the Pacific Basin.

Stock markets remained strong and continued to grow despite previously having reached record levels. With no apparent correction in sight, the conditions were right for strong increases in wealth and high levels of banking, securities and foreign exchange transactions. Electronics, information technology and telecommunications stocks underpinned the major stock markets. With that background, there were good conditions for providing private banking services, including leveraged collateralised lending secured on cash and securities portfolios. The high level of transactions also meant that fees and commission income were on a strong upward trend during the year.

The capital strength of Guernsey subsidiary banks continued to grow during the year with total Tier 1 capital climbing to £1.37 billion from £1.2 billion in 1998 (see figure 1). Deposit levels also grew solidly over the year, increasing by 7.8% to a record £57.1 billion compared with £52.9 billion at the end of 1998 (see table 1 and figures 2 and 3). The total balance sheet size of Guernsey banks continued to increase, with total assets easily passing the £60 billion mark to reach £61.6 billion at the year end (see figure 4). Appendix 12 provides an indication of the importance of the Crown Dependencies' banking sectors and how the Islands have continued to develop these sectors. The weighted average risk asset ratio for Guernsey subsidiary banks was again higher, reaching 20.3% in December (see figures 5 and 6).

TABLE 1 Licences and deposits

End	Banks licensed	Deposits £mns	Annual change %
1990	72	15,476	19.1
1991	72	16,250	5.0
1992	76	27,442	68.9
1993	75	37,482	36.6
1994	73	42,191	12.6
1995	73	46,855	11.1
1996	72	43,324	-7.5
1997	78	49,357	13.9
1998	78	52,922	7.2
1999	79	57,059	7.8

The percentage of deposits in sterling edged downwards slightly in 1999 to 34.4% from 35.3% last year

FIGURE 2 Licences and deposits

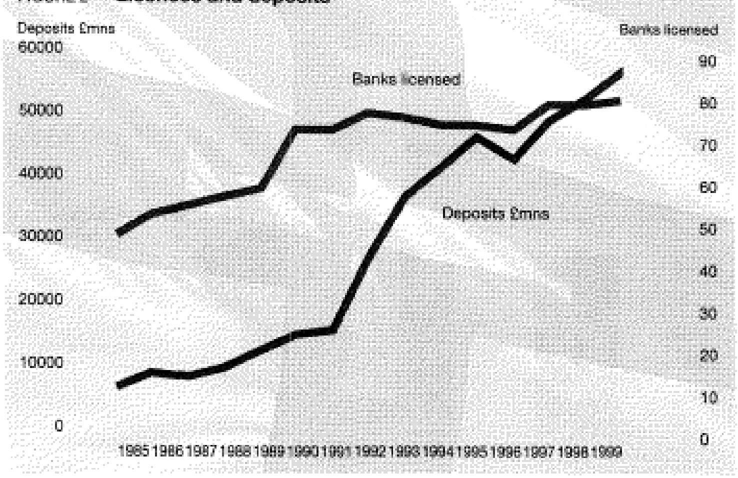
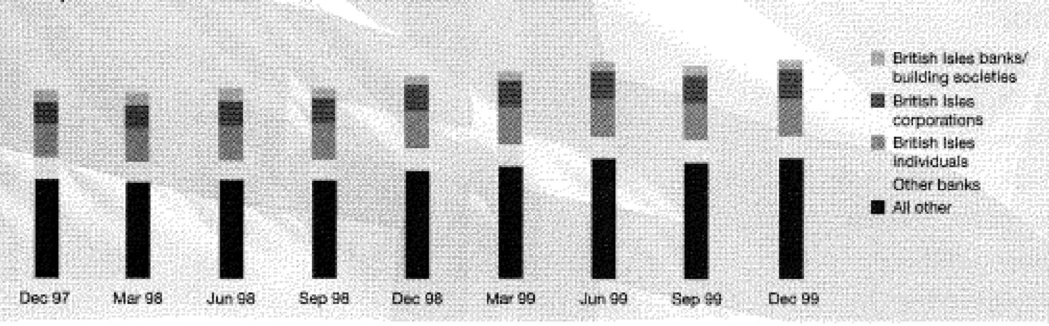


FIGURE 3 **Deposit liabilities**



(see figure 7). This probably reflected intensely competitive conditions in the sterling onshore and offshore personal savings market which is a significant but minority part of Guernsey's deposit base. During the year the local participants in that market place, which has always been highly competitive and interest rate driven, found that they could not always offer competitive or more attractive rates on their major savings products than were being offered by some United Kingdom based banks. It has been argued that some of these United Kingdom based products have been loss leaders and that they are not sustainable over the long term.

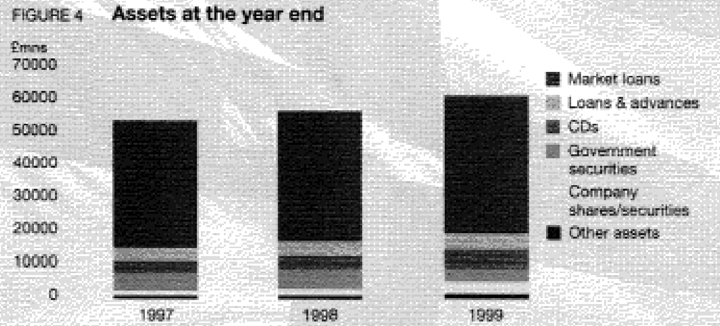
Placements with banks remained the principal choice of asset for Guernsey banks as these assets reached some £47.4 billion during the year (see table 2 and figure 4). Holdings of high quality, low risk investment securities declined to £3.9 billion although this was partly compensated by an increase in holdings of certificates of deposit, up from £4 billion to £5.3 billion. It was also encouraging that the aggregated lending categories increased from £4.3 billion to over £5 billion. Although Guernsey is not a significant commercial lending centre, there was a healthy increase in lending business, primarily to industrial and commercial companies, but also on a cash-backed basis to private clients. Mortgage lending and lending to individuals both edged up during the year (see figure 8).

At the start of the year, banks had to deal with changes in their operating systems to cope with the introduction of the euro and the winding down of its legacy currency components.
The introduction of the euro passed smoothly in Guernsey.

At the end of the year, worldwide concerns about the millennium date changeover proved to be unfounded. The changeover weekend turned out to be something of a non-event.
All banks in Guernsey made the transition to their new systems seamlessly or with insignificant teething troubles. This subject is discussed further on page 57.

The good news for banks was not only that the transition was trouble free, but also the recognition that now this exercise has been put behind them, banks will be able to release information technology resources to

FIGURE 4 **Assets at the year end**



Banking

TABLE 2 **Assets and liabilities of licensed banks**

	end 1997 total £mns	end 1998 total £mns	end 1999 total £mns		end 1997 total £mns	end 1998 total £mns	end 1999 total £mns
Assets				**Liabilities**			
Loans, advances and market loans with:				Tier 1 Capital*	1,039	1,200	1,357
Banks etc	38,778	39,872	42,138	Tier 2 Capital**	77	81	83
British public sector	4	2	1				
				Deposits by:			
Companies, persons, other	4,047	4,289	5,066	Banks etc	11,241	15,938	11,468
				British public sector	36	41	50
CDs	3,556	3,971	5,287	Companies, persons, other	37,162	36,159	44,598
Government securities	5,292	5,968	3,882				
Company shares/securities	1,483	1,949	3,657	Other liabilities	4,650	3,829	4,064
Other assets	1,045	1,197	1,589				
Total Assets	54,205	57,248	61,620	Total Liabilities	54,205	57,248	61,620

*Paid-up share capital and disclosed reserves.
**Undisclosed reserves, revaluation reserves, general provisions, debt/equity instruments and subordinated debt.

address projects which had been put on hold. This will increase the level of automation, particularly in the area of straight-through processing, and enhance systems generally. Clearly, in the year ahead, more resources will be applied to the development and rolling out of electronic banking and internet driven banking products. The Commission sees the development of electronic banking and internet based products and services as essential for Guernsey, a mature banking centre which has a sophisticated private client base around the world.

Supervision and policy

The Banking Division devoted much of the early part of the year to the preparatory work for the introduction of an on-site visit programme late in 1999. Following the initial pilot work in 1998, the decision was taken to focus the programme on client take-on, know-your-customer disciplines and money laundering prevention procedures. This was felt to be the most appropriate focus since it implements ever higher standards of practice and procedures in the prevention and detection of international financial crime. It was also consistent with the increasing compliance requirements of banks (and other financial institutions) under the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999. In addition, by addressing banks' client quality profiles, the Division was able to obtain an immediate insight into a wide range of operational risk issues, particularly in the areas of potential litigation risk and reputational risk.

The programme of on-site visits commenced in the final quarter of the

FIGURE 5 **Weighted average risk asset ratio at the year end**

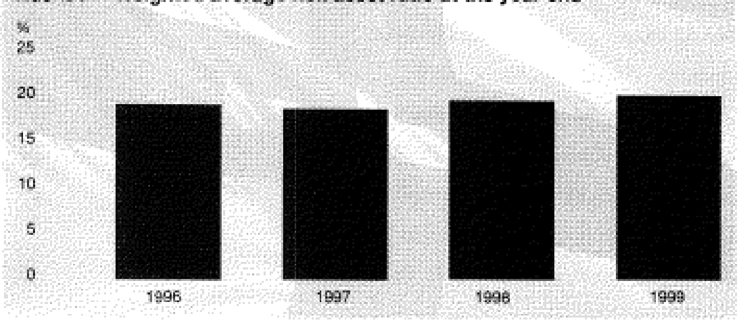
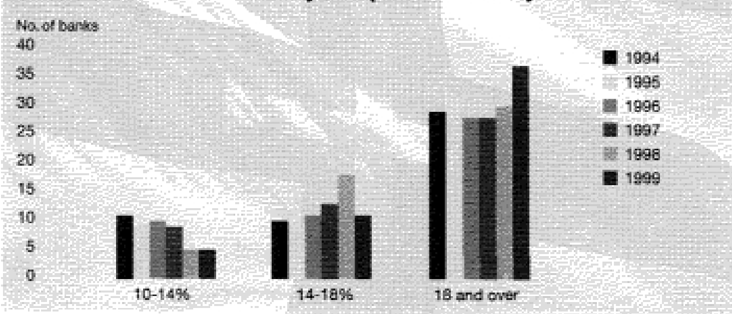


FIGURE 6 Distribution of locally incorporated banks by risk asset ratio



year, with four visits being conducted during the quarter. Initially, smaller and medium-sized banks were reviewed. This allowed the Banking Division to refine its approach and move on to the larger banks in the first quarter of 2000. Considerable effort was expended in developing a comprehensive checklist for the on-site visit programme and this has now been adapted as a model by the other Divisions. The Banking Division's programme will aim to ensure that what is found to be "best practice" will become the minimum standard.

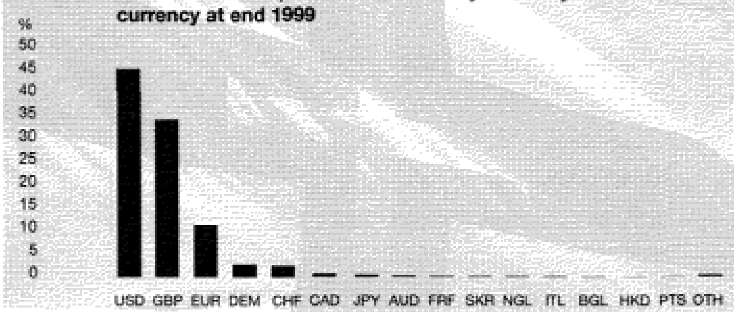
The implementation of the on-site visit programme meant that the Commission was able to fulfil compliance with the Basel Committee's 25 Core Principles for Effective Banking Supervision except in one minor respect. The Division undertook a self-assessment of compliance with the Core Principles following the publication in 1999 of the detailed methodology for compliance. That exercise demonstrated that the Commission substantially met the 25 Core Principles. In addition to the introduction of on-site visits it was also decided by the Division that there was a need to review and implement a range of sector-wide credit standards by issuing a set of loan quality benchmarks. This is not a significant issue as Guernsey is not a major lending centre. The implementation of credit standards is planned for the second half of 2000.

The need to introduce a programme of on-site visits to banks had been mentioned as one of the few banking recommendations in the 1998 United Kingdom Home Office Review report. A committee established by the Commission, the Post Edwards Working Group on Banking, considered the suggestions and observations in the report during 1999.

Of particular significance were the suggestions that Guernsey (along with Jersey) should revisit the possibility of introducing a deposit protection scheme and that a financial services ombudsman scheme should be introduced which would give customers a formal forum through which to channel their complaints.

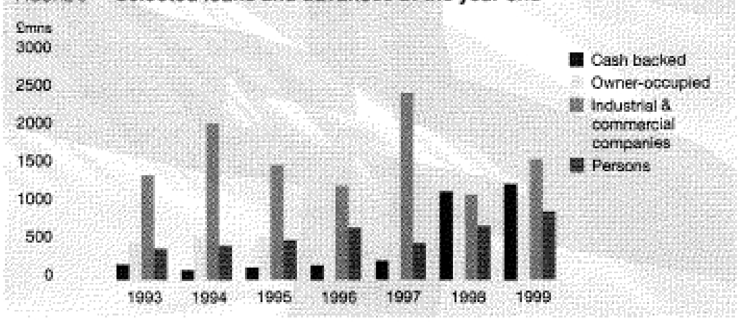
During the year more emphasis was given by the working group to an examination of the need for a deposit protection scheme in Guernsey. Following a survey of all Guernsey banks, the Division concluded that there was a wide spread of small depositors across the whole population of banks and that such depositors were not exclusively clustered in the retail banking specialists (albeit that some small depositors may have opened accounts for technical reasons, such as the placement of monies with a bank as a short-term measure prior to investing in securities). The members of the working group possessed a wide range of views as to the benefits and potential disadvantages that would

FIGURE 7 Breakdown of deposits with Guernsey banks by currency at end 1999



Banking

FIGURE 8 Selected loans and advances at the year end



accrue from the introduction of a deposit protection scheme. The Commission has concluded that, on balance, the Bailiwick would benefit from the introduction of a scheme appropriately tailored to Guernsey banks.

It is hoped that the recommendation to introduce a scheme will be considered with amendments to local company law to widen corporate rescue procedures so that all failed companies, including banks, could go into administration. This facility will address the root cause of the need for deposit protection, namely the possibility of failure of a bank and the recovery of its assets so that small depositors would not be in a position whereby they lost all of their savings. An administration facility in company law would introduce the possibility of a failed bank being sold as a going concern. This would be a significantly beneficial legal facility as the Commission is aware that even small Guernsey banks are attractive to potential buyers because, typically, they have valuable customer bases but do not have a significant loan book with the potential for acquisition of troublesome loans.

Further research on the type of scheme appropriate for Guernsey will be undertaken by the Banking Division throughout 2000.

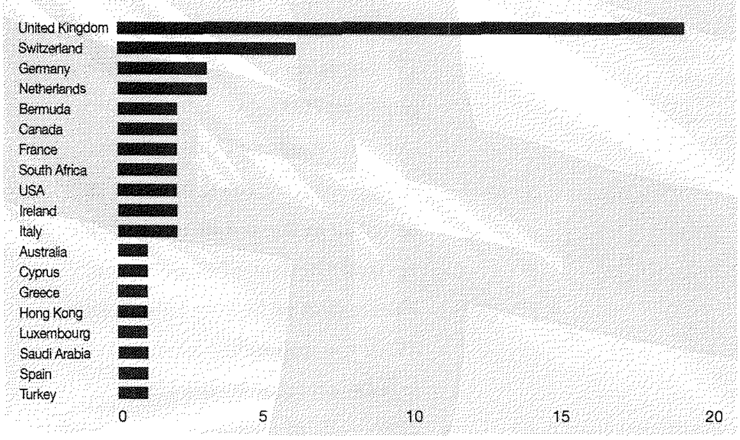
On the need for a financial services ombudsman scheme, the Division would find such a scheme beneficial. Indeed, from time to time, the Division is involved in complaints or disputes about particular products or services. In many cases these are contractual disputes between bank and customer, with a large element of the issue at stake being an initial misunderstanding of the nature of a product or the misunderstanding of instructions given by a customer to its bank. Being drawn into such disputes is not only time-consuming for the Division but, under its legal framework, the Commission is not well placed to act as a mediator since it does not have powers of adjudication. The Commission will therefore be taking forward steps to bring in a financial services ombudsman scheme which will provide a facility beneficial to banking and all other financial services customers. To this end, the Commission will issue a consultation paper in 2000.

The Banking Division also expended considerable effort in assisting in the publication of the revised Guidance Notes on the Prevention of Money Laundering. With the impending change in the legislation (that is, the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999) it was a requirement that Guidance Notes be issued by the Commission. Proposals were circulated to the financial community, its responses collated and, where appropriate, the sector's suggestions incorporated into the revised Guidance Notes. The Guidance Notes are considered further on page 39.

The supervisory programme continued unabated during the year. The Division conducted seventy-seven formal prudential meetings with licensed banks, compared with seventy-six in 1998. These were all conducted on the banks' own premises. In addition, there were 131 general or courtesy visits, compared with 126 in 1998. These typically dealt with changes in strategy, corporate re-structuring, changes in personnel or ownership changes of the ultimate parent of local banks. The Division also received visits from group internal audit teams whom – as always – the Commission may choose to request to meet at the completion of their local audit programme.

Banking

FIGURE 9 **Country of origin of Guernsey licensed banks – subsidiaries at end 1999**



During the year four new banking licences were issued. There were three surrenders.

At the start of the year, the licence of the Guernsey branch of the German operation of the Swiss investment bank, Credit Suisse First Boston AG, surrendered its licence as the winding down of CSFB's operations in Germany meant there was no longer a rôle for a Guernsey bank which operated locally.

In the middle of the year, the merger between the Dutch and Belgian groups, Fortis and Generale Bank, meant that the Guernsey operation of the Belgian bank, which operated locally as Banque Belge (Guernsey) Limited, surrendered its licence as it was merged into MeesPierson (C.I.) Limited.

Later in the year, the Swiss private bank, Bank Julius Baer & Co. Ltd., re-structured its Guernsey operation and converted its local subsidiary into a branch. That clearly had a neutral effect on the number of licences in issue. A new branch of the Swiss operation of another private bank, EFG Private Bank SA, was established earlier in the year. Licences were also issued to Mellon Bank NA for a local subsidiary as an administered bank and Banque Générale du Luxembourg SA for a local subsidiary operation. The latter bank is a substantially capitalised operation which will engage in private banking. The parent bank also owns a majority stake of the wealth management and fiduciary services operation, BGL Reads.

There were several other ownership and name changes which took place during the year. The 1998 change of owners at Guinness Mahon Guernsey Limited was eventually reflected in a name change in 1999 when the bank was renamed Investec Bank (Channel Islands) Limited. There was a change of ownership at Rea Brothers Group plc when it was acquired by the fast-growing United Kingdom based merchant bank Close Brothers Group plc. The Guernsey bank is now called Close Bank Guernsey Limited. In addition, ING Bank (Switzerland) Guernsey Branch changed its name to ING Baring Private Bank (Switzerland) Ltd. Guernsey Branch, in order to emphasise its private banking rôle and to reflect the importance of the Baring group within the ING group.

FIGURE 10 **Country of origin of Guernsey licensed banks – branches at end 1999**

Banking

The acquisition of Republic National Bank of New York and its European operations by the HSBC group proceeded during the year, with a change of ownership in the first month of 2000. Some of the licensees from the Republic stable have now been renamed. The principal operating subsidiary active in the Bailiwick is now known as HSBC Republic Bank (Guernsey) Limited and the branch of the American bank is now called HSBC Bank USA.

A further acquisition during the year (generated by the demutualisation of former building societies in the United Kingdom) meant that the local subsidiary of Birmingham Midshires Building Society was acquired by Halifax plc. However, the local subsidiary continued to trade as Birmingham Midshires (Guernsey) Limited.

Sadly, the year saw the loss of the Midland Bank name, a well known British banking name in the Bailiwick for almost a century. The business continues under the name of HSBC Bank plc.

It is evident that the momentum of global consolidations and further mergers and takeovers will continue throughout 2000 (figures 9 and 10 show the effect of these changes). It is now some months since NatWest Group was acquired by The Royal Bank of Scotland Group plc, and in due course there may be some rationalisation of those operations in Guernsey. It is also likely that there will be further rationalisation among continental European banks. In this connection, the announcement that Deutsche Bank AG was to merge with Dresdner Bank AG raised the prospect of some rationalisation within those banks locally, since both have significant trust and private banking operations in the Bailiwick (and in Jersey). At the time of writing, the plans for that particular merger had been aborted. Nevertheless, it demonstrates the potential dynamism behind efforts to create larger banks in Europe. Indeed, the Fortis group has recently taken steps to reinforce its position as one of the largest European banks by the acquisition of the large minority stake in Banque Générale du Luxembourg SA which it did not already own.

1999 saw Guernsey continue to consolidate its position as a premier centre for international trust and company administration and management.

Fiduciary Services and Enforcement Highlights

- The Commission published its consultation paper for the regulation of fiduciaries and administration businesses.
- The Commission's regulatory proposals commanded a broad consensus of support.
- Significant new trust and company administration business was attracted to the Bailiwick.
- An SEC investigation was prompted by the Commission.
- The Commission undertook a successful Royal Court action.

Fiduciary Services and Enforcement

Introduction

1999 saw strong organic growth in Guernsey's trust sector as Guernsey continued to consolidate its position as a leading centre for international trust and company administration and management. Clients and advisers around the world realised that the United Kingdom Home Office Review report was a positive endorsement of Guernsey and its finance sector, and significant amounts of new trust and company business continued to be attracted to the Bailiwick. The year also saw the publication of the Commission's proposals for the regulation of fiduciaries and a significant number of mergers and acquisitions took place as the fiduiciary sector began the process of restructuring in the light of global changes and new regulatory requirements.

Size of sector

There are over 200 firms of fiduciaries throughout the Bailiwick. These firms range from large employers with hundreds of employees to far smaller operations employing only a handful of people. The ownership of the firms is also diverse – from firms owned by advocates and accountants to firms owned by major international banks to firms which are independently owned. Such diversity is welcome. It is sometimes claimed that the new regulatory proposals will drive the "small man" out of the industry. This is not the intention and will not be the effect as long as the smaller operations can meet the requirement for "four-eyes" and the criteria for being considered as "fit and proper". These concepts are described in Appendices 9 and 10.

The accountancy firm Deloitte & Touche recently undertook a survey of fiduciary services in the Channel Islands and described the fiduciary business sector as "The silent engine room of the Channel Islands' finance industry". The Commission had previously estimated that the total assets under administration by fiduciaries in Guernsey is in excess of £50 billion and the Deloitte & Touche survey supports such an estimate. They estimate total annual recurring fiduciary fee income for Guernsey (including additional indirect income generated from the placement and management of fiduciary assets) to be in the region of £200 million. The total number of staff directly employed in the fiduciary sector is some 1,300, which represents over 20% of the total employed in the finance sector in Guernsey.

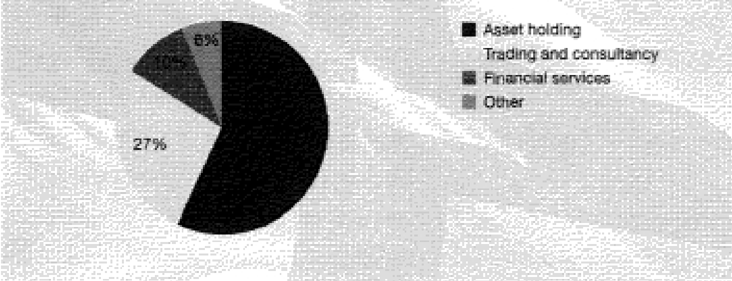
Regulation

In May 1999 the Commission published its consultation paper for the regulation of fiduciaries and administration businesses. The Commission invited comments and suggestions as part of a consultation exercise and this was a great success. Eighty-nine responses were received to the consultation paper from individuals, companies and representative bodies. The Commission found many of the comments and suggestions to be constructive and very helpful in refining its proposals. The Commission was also greatly assisted in its task by the Fiduciary Services Committee, whose members are set out in Appendix 2. As a result of that committee's work and the consultation exercise following the publication of the consultation paper, the Commission is satisfied that its proposals are sensible, proportionate and workable and command a broad consensus of support within the fiduciary sector throughout the Bailiwick.

The core of the proposals is that all those involved in the provision of trust and corporate services (including directorship services) must be "fit and proper". The explanation of this term is set out in Appendix 9. In short, however, it requires that applicants (and, if approved, licensees) meet the criteria of integrity, competence and solvency. A restricted category of personal fiduciary licences will be available to individuals who wish to act as a company director or as a co-trustee or protector of a trust. Companies or partnerships, however, will have to apply for a full fiduciary licence which will permit the licence holder to offer and provide all fiduciary services and, subject to changes to company law, to apply directly for the incorporation of Guernsey companies. The Commission, after consultation with

Fiduciary Services and Enforcement

FIGURE 11 **Analysis of types of Guernsey companies formed in 1999 by intended activity**



the sector, will promulgate codes of conduct (which may be amended from time to time) setting out required standards of best practice for directors, company incorporation agents, company administrators and trustees. The various proposals, including the powers considered necessary to enable the Commission to supervise the industry properly, are now contained in a policy letter which has been approved by the States of Guernsey, and will shortly be considered by the States of Alderney and Chief Pleas in Sark. The Commission anticipates that a law providing for the regulation of fiduciary and administration businesses will be enacted by the end of 2000.

During 1999, the Director of Fiduciary Services and Enforcement met with over 100 firms of fiduciaries and spoke at a large number of conferences and seminars organised by representative bodies of the sector, amongst others. These meetings and events made a useful contribution to the process of consultation on fiduciary regulation and helped to raise awareness and understanding of the proposed regulatory system.

Sector trends

Significant new trust and company administration business was attracted to the Bailiwick in 1999 and the sector, in general, is extremely busy.

A total of 1,410 Guernsey companies was incorporated during 1999, representing an increase of 5.9% over the previous year. There were 15,453 companies on the register at the end of the year. This increase continues the upward trend in the total number of companies incorporated in Guernsey. Although the company register is smaller than in many other finance centres, company incorporation is nevertheless a significant area of work in Guernsey and leads to material related company management and legal business. Table 3 demonstrates the trend in company formations in Guernsey since 1990, while figures 11 and 12 provide information on the types of company formed and the jurisdiction of beneficial ownership.

The Commission considers that there will be increasing polarisation between good and bad financial centres and that business will increasingly gravitate towards the most professional and reputable jurisdictions, such as Guernsey. Due to the underlying strength of demand for trust and corporate services, there is a growing requirement for appropriately

FIGURE 12 **Analysis of jurisdiction of beneficial owners of Guernsey companies formed in 1999 by origin of beneficial owner**

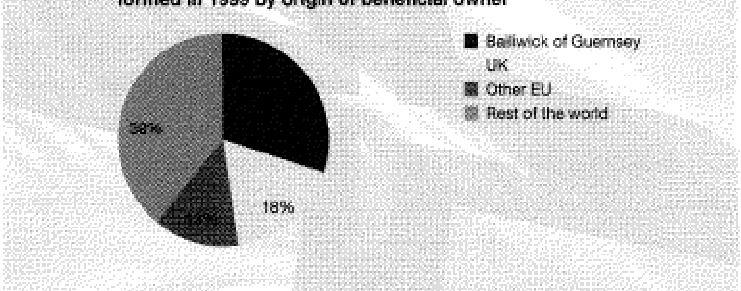


TABLE 3 **Number of Guernsey companies registered**

Year	New companies registered	Number of companies at year end
1990	1,692	13,596
1991	1,364	13,814
1992	1,438	14,020
1993	1,360	14,014
1994	1,363	14,011
1995	1,406	14,232
1996	1,448	14,550
1997	1,586	15,046
1998	1,322	15,215
1999	1,410	15,453

qualified staff in the Bailiwick. A number of mergers or acquisitions took place during the year. A notable acquisition was that by the Royal Bank of Canada group of the Guernsey trust and company administration business of Ernst & Young. The deal involved the acquisition of substantial assets relating to 1,650 clients. Another large acquisition was the takeover of the fiduciary operation of BDO Reads by Banque Générale du Luxembourg SA. A number of other consolidations, mergers or take-overs were also completed or are under discussion.

The year witnessed a significant cultural change in the industry as practitioners prepared themselves for prospective regulation and the introduction of the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999. Global developments were also closely watched and the industry realised the importance of such matters as ever higher due diligence for new clients and of only dealing with high quality business. Practitioners also began to appreciate rather more the importance of proper staff training and development, succession planning and the desirability of professional qualifications. As stated in its consultation paper, the Commission in its evaluation of whether an applicant is "fit and proper" will consider, inter alia, whether the applicant has "staff of adequate number, skills, knowledge, experience and application properly to undertake and fulfil their particular duties and responsibilities".

Most practitioners in the trust and corporate sector are fully aware of the need to invest in good people and systems. They are also aware of the need for ever rising quality standards within the context of developing international regulation and increased litigiousness. At the same time, however, they are conscious of trading in an extremely competitive environment. It is fortunate, therefore, that the sector is flexible and responds well to change. Indeed, the current wave of mergers and acquisitions is a sign of a dynamic and adaptable sector.

Trust law

Guernsey trust law is set out in the Trusts (Guernsey) Law, 1989, as amended. This law has proved to be effective and no problems have arisen out of its operation. Indeed, the United Kingdom Home Office Review report stated that Guernsey has a good legal framework for trusts. The report, however, also made certain suggestions (applicable to Guernsey and elsewhere) for further legislation and the Commission has therefore set up a Trust Law Review Committee whose members are set out in Appendix 2. The Trust Law Review Committee is considering these suggestions, together with other possible amendments to Guernsey trust law, in light of developments in other international trust jurisdictions.

Company law

The Company Law Reform Committee met several times during the year. That committee decided to adopt a more incremental approach to changing company law than had originally been planned. Following the committee's deliberations, the Commission hopes to take forward a law consolidating existing company law (the Companies (Guernsey) Law, 1994; the Companies (Enabling Provisions) (Guernsey) Law, 1996 and Ordinances made thereunder; and the Companies (Amendment)(Guernsey) Law, 1996 and Ordinances made thereunder), and extend it in a few key respects. The proposed additions include provisions for no par value shares, limited duration companies, an increase in the maximum disqualification period for persons acting as directors to fifteen years, the ability for any person with a full fiduciary licence to be able to apply directly for the incorporation of a Guernsey company and detailed administration and receivership procedures. The Commission anticipates circulating the draft new law for consultation in the second half of 2000.

The Floating Charges Etc Committee was established in 1999 and includes representatives of a particularly wide range of bodies. Its members comprise executives from the Commission, the States Board of Industry, the Guernsey Chamber of Commerce, the Guernsey branch of the Institute of Directors, the Committee of Guernsey Clearing Banks and representatives from law firms and the finance sector (see Appendix 2). Currently, Guernsey does not have specific legislation governing floating charges. Accordingly, the Floating Charges Etc Committee was formed to consider this vexed subject, together with related issues such as factoring, forfaiting and invoice discounting. It was decided to take forward a law permitting floating charges to be taken over assets in Guernsey where they are held by companies.

Enforcement

The Commission has continued with its policy of active co-operation with regulatory and law enforcement bodies around the world, including liaison in particular with agencies in Australia, Canada, the United States of America and with the Financial Services Authority, the Financial Fraud Information Network and the National Criminal Intelligence Service in the United Kingdom. One particular case required the attendance of a member of Commission staff in Boston in connection with an investigation by the United States Securities and Exchange Commission ("the SEC"). Indeed, the SEC investigation had been prompted by the Commission's proactive approach to regulatory co-operation.

The Fiduciary Services and Enforcement Division (acting on behalf of the Committee) is responsible for undertaking due diligence checks on the proposed beneficial owners of Guernsey incorporated companies. Checks are made from the Commission's own records and (depending on the nature of the application and the applicants) from various databases to which the Commission has access, including the Shared Intelligence Service (administered by the United Kingdom Financial Services Authority), records at Companies House for England and Wales, the Financial Times Profile media database, and information held by other regulators such as the SEC. As well as considering the identity and desirability of the proposed beneficial owners, the Division considers the company's proposed activities and its proposed name. The Division is also responsible for the consideration of applications by companies which are not banks, collective investment funds and insurers (that is, privately owned companies) pursuant to the Migration of Companies Ordinance, 1997 and the Amalgamation of Companies Ordinance, 1997. In addition, the Division deals with applications relating to the appointment of overseas auditors for Guernsey companies.

In September, the Director General and the senior analyst responsible for day to day enforcement matters attended the International Symposium on Economic Crime at Jesus College, Cambridge, at which the Director General gave a speech on banking secrecy and confidentiality. This proved to be an excellent opportunity to make new contacts, and to reinforce existing ones, in the international fields of regulation and law enforcement. It was also a useful opportunity to give general guidance to overseas representatives on how to seek formal assistance with enquiries and investigations in Guernsey.

The Fiduciary Services and Enforcement Division was involved in the formulation of the revised

Fiduciary Services and Enforcement

Guidance Notes on the Prevention of Money Laundering issued by the Commission pursuant to the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999. Guidance and advice have also been provided regularly to finance sector practitioners in an attempt to promote a uniform interpretation of the requirements of the Guidance Notes. Further guidance and advice on such matters will continue to be provided to the finance sector as the Commission and, indeed, the Bailiwick as a whole, strive to prevent funds of a criminal origin entering the local financial system.

During the year, the Commission successfully sought an order of the Royal Court pursuant to section 67A of the Companies (Guernsey) Law, 1994, as amended. The order sought was a prohibition on an individual (without the leave of the Royal Court) from being a director or other officer of any Guernsey company and from participating in, or being in any way concerned, directly or indirectly, in the management, formation or promotion of any such company. The Commission was aware that the individual either was or had been a director of several thousand companies from many jurisdictions, and was already the subject of a disqualification order made by the High Court in Manchester under the provisions of the United Kingdom Company Directors Disqualification Act 1986. Following litigation in the Royal Court, the individual was disqualified for the maximum period of five years permitted under Guernsey law.

The Commission will seek similar orders against other individuals whenever it is in possession of sufficient evidence to warrant the bringing of proceedings. The provision of so-called "nominee director" services is completely unacceptable and damages the international reputation of the Bailiwick. The forthcoming law for the regulation of fiduciaries and administration businesses will eradicate this harmful practice.

Once again Guernsey's insurance sector has been active and continues to maintain its position as the leading captive location in Europe.

Insurance Highlights

- The growth in protected cell companies continued and, on average, five cells a month were established.
- Forty-four insurance intermediaries were registered under the Insurance Business (Amendment) (Guernsey and Alderney) Law, 1998.
- A significant number of financial services institutions established captives or protected cell companies in 1999.
- By the end of 1999, forty-two domestic insurers were registered with the Commission.

Insurance

Offshore general

Once again Guernsey's insurance sector has been active and continues to maintain its position as the leading captive* location in Europe.

There were eighteen offshore insurers registered during 1999. One company was reactivated, while seventeen companies (all captives) surrendered their licences. This produced a net increase of two captives over the year. One of the new registrations migrated into Guernsey from another jurisdiction, taking advantage of the Migration of Companies Ordinance, 1997. The number of registered offshore insurers at the end of 1999 totalled 364, comprising 285 pure captives, twenty-three broad captives, thirty-six commercial insurers and twenty protected cell companies (with a total of ninety-six cells) (see figure 13 and table 4).

Protected cell companies ("PCCs") have continued to be the main growth area within Guernsey's offshore insurance sector, as well as continuing to create major interest worldwide. Seven PCCs were established during the year, making a total of twenty PCCs in all. Several other jurisdictions have introduced similar legislation or are considering doing so. For example, in December the National Association of Insurance Commissioners in the United States of America approved a model law based on the protected cell company legislation.

The increasing numbers demonstrate the continuing demand for the opportunities provided by PCCs, despite fewer worldwide captive formations and the "soft" insurance markets over the last few years.

The main growth area for Guernsey during 1999 was in the number of cells formed within PCCs, with an increase of fifty-nine cells to ninety-six in total. Figure 14 provides information on the proportion of offshore insurance business accounted for by PCCs and PCC cells.

The PCC legislation permits the incorporation of special purpose vehicles providing legal segregation of the assets attributable to each cell, whether corporately or individually owned. A PCC is one legal entity, may provide an unlimited number of cells, may be converted from an existing company and offers flexibility in the allocation of capital between the core and individual cells. It should be noted

FIGURE 13 **Offshore insurance business at the year end**

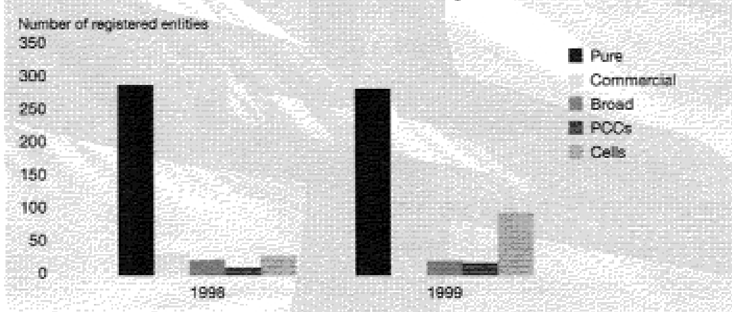


TABLE 4 **Number of offshore companies registered**

	end 1998	end 1999
Offshore		
Pure	290	285
Commercial	35	36
Broad	24	23
PCCs	13	20
Sub-total	362	364
Cells	30	96
Total	392	460

*Captive insurers are companies set up to write some of the insurance business of their parent and/or other group companies and are an important part of the risk management strategies of international and major national corporations. Pure captives only underwrite parental risks whereas broad captives also take on third party business, mainly in the form of reinsurance treaties. Commercial captives, by contrast, exclusively or very largely write third party insurance business, again mainly reinsurance treaties. Protected cell companies can offer a practical alternative to stand-alone captives and allow for the insurance business of different insureds to be written in different cells, each of whose assets are legally separated from the liabilities of the others.

that creditors of an individual cell of a PCC have no recourse to the assets of another cell but will have recourse to the PCC's core assets.

The structure of the PCC has provided flexibility for insurers in the way in which capital and assets can be subscribed and allocated between the "core" and individual "cells".

Many Guernsey PCCs are used for rent-a-captive purposes where the owner of the PCC offers capital financing to clients who, because of their size, would find it impractical to set up their own individual captive insurance arrangements. However, PCCs in Guernsey are also commonly utilised for a wide range of other insurance purposes. These purposes include life assurance (where life companies can legally segregate the assets of life, pension and individual policyholder funds) and insurance by member associations (where an association or organisation whose members share a common business interest are able to access insurance arrangements offering better cover and prices than in the conventional market). In addition, other uses for Guernsey PCCs include insurance for conglomerates (where several cells may be established, each dealing with a particular insurance exposure of the parent, segregated, for example, by geographical location, corporate division or type of risk), reinsurance (where finite reinsurance agreements and securitisation contracts can be given separate cells) and insurance for multinationals (where companies are able to operate their captive insurance, treasury and other functions offshore, in a single entity using the same core capital). Figure 15 illustrates the uses for which Guernsey insurance PCCs have been established.

Recent PCC additions include Hollard International Insurance (PCC) Limited. This company was registered by Hollard Insurance Company Limited, the largest independent insurance company and seventh largest insurance company in South Africa, to provide rent-a-captive facilities to the South African market. United Insurance (Cayman) Limited, which offers rent-a-captive facilities to American clients, has established United Insurance Company PCC Limited to offer similar facilities to United Kingdom and European clients. In addition, Drummonds Insurance PCC Limited was registered by The Royal Bank of Scotland International, to offer traditional rent-a-captive services to clients of both The Royal Bank of Scotland International and Willis Management (Guernsey) Limited. Also, HSBC plc has set up a branch in Guernsey of its Cayman company, HSBC Insurance SPC Limited, offering traditional rent-a-

FIGURE 14 **Offshore insurance business at end 1999**

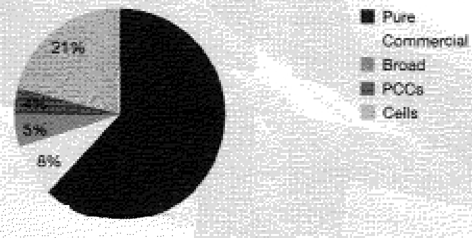
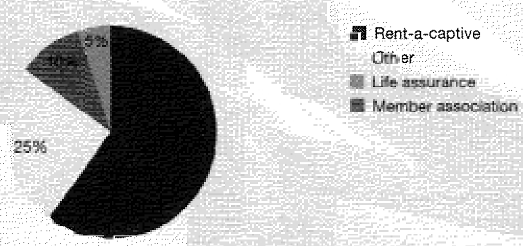
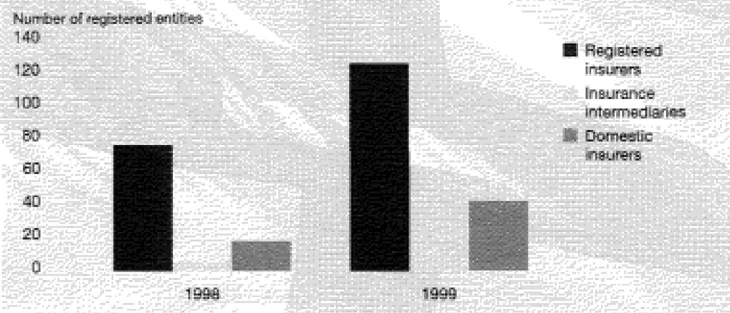


FIGURE 15 **Types of PCC insurance business**



Insurance

FIGURE 16 **Domestic insurance business at the year end**



captive facilities to non-American clients.

Amongst the fifty-nine new cells established, several were registered by major corporate names and many represented a first entry into the insurance market for their owners.

Amongst the non-PCC 1999 registrations, Legal & General plc established BLG Insurance Limited to assist an American subsidiary in order to manage its long-term risks in a cost-effective manner. White Swan Insurance Company Limited, owned by the GT Foundation, was registered to provide cover to its parent in respect of warranty claims. In addition, Swiss Re and the Partners Group established a self-managed captive, Princess Management and Insurance Limited. The company provides protection cover in respect of bonds issued by Princess Private Equity Holdings Limited. Other registrations included Carfax Personal Lines Insurance Limited, owned by Abbey National plc and Provident International Credit & Guarantee Company Limited, owned by Provident Financial plc.

Guernsey continues to attract new business from a wide spread of countries. During 1999, this included Australia, Cayman, South Africa, South America, Switzerland and Western Europe.

There were thirty-one authorised insurance managers at the end of the year, a decrease of two following mergers of certain broking houses.

Offshore life

Offshore life insurers sell specialist life and pensions contracts, mainly to expatriates residing in countries outside Europe. At the end of 1999 there were nineteen such companies registered in Guernsey. They are a small but strong group with geographically diverse ownership from countries such as France, Italy, the Nordic countries, South Africa and the United Kingdom. Life insurance funds under management at the end of 1999 totalled £2.5 billion.

Domestic insurance business

There were forty-two domestic insurers registered as at 31 December 1999, an increase in the year of twenty-four. The increase is primarily due to the effects of the 1998 amendment to the Insurance Business (Guernsey) Law, 1986 (see figure 16). Within the domestic

TABLE 5 **Premium income of Guernsey insurers***

	1998 £mns	1999 £mns
Domestic		
Registered**	22.1e	30.0e
Recognised	175.0e	180.0e
Sub-total	197.1e	210.0e
Offshore	1,616.1	1,829.5e
Total	1,813.2e	2.039.5e

e: estimated

* These figures understate income because certain insurers based in the UK are unable to identify and separate out business written in Guernsey, Lloyd's of London being the most significant omission from the statistics.

**Previously domestic insurers were categorised as registered or exempt. Following the enactment of the Insurance Business (Amendment) (Guernsey and Alderney) Law, 1998 all domestic insurers were recategorised as recognised insurers with an additional requirement for those insurers with a physical presence to be registered.

Insurance

market, the major local company remains Insurance Corporation of the Channel Islands, which is part of the Royal & Sun Alliance group.

The local mutuals also remained successful, with La Fraternelle Mutual Fire Insurance Society being the largest mutual in this market.

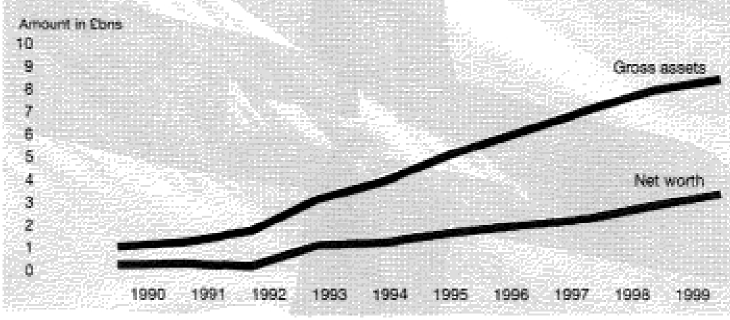
Following the extension to the Insurance Business (Guernsey) Law, 1986 by the Insurance Business (Amendment) (Guernsey and Alderney) Law, 1998, there were forty-nine intermediaries registered at 31 December 1999 compared to five at the end of 1998.

Life and pensions business is written mainly by United Kingdom and Isle of Man based insurers. The category of exempt insurers was withdrawn by the 1998 amendment to the Insurance Business (Guernsey) Law, 1986 (see below) and all insurers with a physical presence in the Bailiwick are required to register with the Commission. An insurer is deemed to have a physical presence if the insurer acts through a resident agent. Those insurers writing Bailiwick risks without a physical presence in the islands, who were previously exempt, are now categorised as recognised insurers.

Premium income, gross assets and net worth

Total premium income received by all Guernsey registered offshore insurers is estimated to have increased to £1.83 billion at December 1999 (see table 5). The gross assets of offshore insurers increased over the year from £8.27 billion to an estimated £8.75 billion while their net worth increased from £3.18 billion to an estimated £3.7 billion (see figure 17). Registered domestic insurers' premiums are estimated to have increased to £22.1 million in 1999.

FIGURE 17 **Gross assets and net worth of offshore insurers**



Supervision and policy

The list of offshore insurers registered at the end of 1999, together with a list of authorised insurance managers, intermediaries and domestic insurers, is provided in Appendix 6.

The Insurance Business (Amendment) (Guernsey and Alderney) Law, 1998 came into force on 1 July 1998. This law, which further extends the Insurance Business (Guernsey) Law, 1986, enables the Commission to supervise the market conduct of persons advising on and/or selling insurance products in the islands of Guernsey and Alderney. It also introduced minimum standards of conduct for insurance intermediaries and domestic insurers in order to safeguard the interests of the insured. The Insurance Business (Guernsey and Alderney) Law, 1986, as amended, was further extended to Sark during 1999.

The Commission considers that managed offshore insurance operations (that is, captives, managed reinsurers and managed offshore life insurers) are the ideal growth vehicle for Guernsey because of the minimal use of human resources. Any entity requiring its own staff will be considered if the proposals provide for sufficient economic and other benefits.

The Insurance Division continues to be actively involved in several projects to diversify and improve the insurance sector. Evidence of this has come in the form of the Migration of Companies Ordinance, 1997, the Protected Cell Companies Ordinance, 1997 and the Protected Cell Companies (Amendment) Ordinance, 1998. In addition, in 1999 the Division formed the Finance Sector Working Party on Securitisation as a means of

Insurance

consulting with the finance sector in Guernsey and developing its policy on securitisations. The members of the working party are listed in Appendix 2. The working party is considering all types of securitisations, including the securitisation of insurance risks and the use of PCCs. The first meeting was held in October 1999 and further meetings will be held following developments in the reviews of various laws, including the Insurance Law (particularly concerning solvency requirements), trust law, company law and the introduction of a law governing floating charges.

The Insurance Law is currently subject to a full review. The Insurance Law Review Committee, which was set up in 1994, met again in 1999 in order to finalise its recommendations in respect of the review. A number of other sector representatives have been invited to join the Insurance Law Review Committee to consider new areas of development and to incorporate changes recommended by the United Kingdom Home Office Review report. The work of the committee is expected to be completed by the end of 2000.

The Insurance Sector Policy Advisory Group, previously called the Insurance Think Tank, which was established in 1998, met again in 1999. The Advisory Group, comprised of insurance sector professionals (see Appendix 2), is reviewing Guernsey's insurance legislation and considering ways in which the Bailiwick can develop as an insurance centre, taking into account the services and products which may be required of a dynamic and successful centre in the medium and long term.

A Pensions Steering Group was formed in 1997 to consider whether supervision of pensions in Guernsey is appropriate and, if so, what form any supervision should take. The Group is examining personal pensions and pensions schemes in both the offshore and domestic market. Work in this area is ongoing.

Previously, the Insurance Division had made on-site inspections on an ad hoc basis but, towards the end of 1999, the Division established a systematic on-site visit programme for authorised insurance managers and large self-managed insurers. The first on-site inspection was carried out in December. It encompassed a review of a management company, a selection of the captives under management and the manager's anti-money laundering procedures. The programme will be developed further in 2000 for on-site inspections of insurance intermediaries, offshore life companies and domestic insurers.

Aided by the return of buoyant conditions in the international investment markets, 1999 was an outstanding year for investment business in Guernsey.

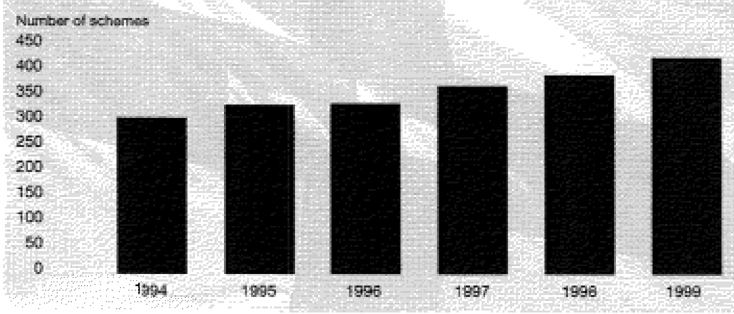
Investment Highlights

- Assets under management in Guernsey authorised funds rose by 46% to a record £22.9 billion.
- There was net new investment in open-ended schemes of £1.8 billion in 1999, an annual increase of over 400%.
- Numbers of authorised and approved funds, funds listed on international stock exchanges and non-Guernsey schemes serviced from Guernsey all reached new highs.
- The number of licensed institutions was up 28% to 355 at the year end.
- Legislation was extended to permit protected cell companies to be used for closed-ended collective investment funds.

Investment Business

Business developments

FIGURE 18 **Total funds authorised and approved at the year end**



Buoyant conditions returned to the international investment markets in 1999, which were encouraged by the prospect of a prolonged period of low inflation in the United States of America and Europe and the return of confidence in the Asian markets.

This, together with a continuing strong flow of new business, was reflected in an increase over the year of £7.25 billion (46.2%) in the total value of assets under management in Guernsey authorised and approved collective investment funds which reached an all-time high of £22.9 billion at 31 December 1999. Figures 18 and 19 indicate the trend over time in assets under management and the number of funds managed in Guernsey.

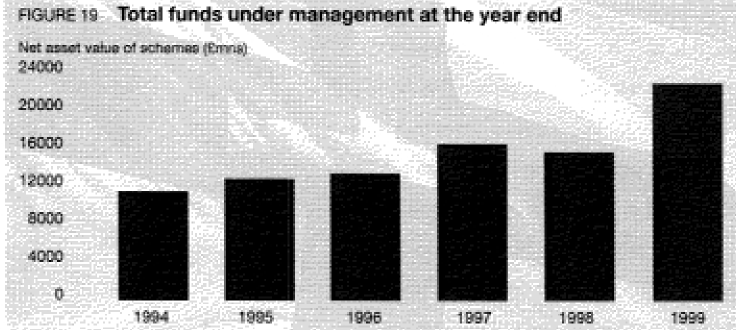
Class B schemes, once preferred for niche markets, have been aimed increasingly at retail investors. Strategies for new funds include conventional global equity investment, Islamic investment, technology investment and a range of private funds with diverse investment objectives. Schemes are being composed with target markets in particular geographical areas and the Investment Business Division has been in correspondence with a particularly wide range of overseas regulators in connection with applications for schemes to be marketed in other jurisdictions. Both new and existing Class B schemes continue to be employed as the underlying investment vehicle for pensions and savings schemes. Two closed-ended funds were converted into Class B schemes during the year and one scheme migrated into the Bailiwick, whilst two existing Class B schemes were converted into Class A schemes.

The closed-ended sector continued to thrive during 1999, particularly as a vehicle for venture capital funds. Limited partnerships were a favoured structure, with many funds now consisting of multiple limited partnerships, either investing in parallel or with different investment strategies. Technology, media, property and debt funds all featured amongst these strategies. The strongest trend was, however, towards European equities, focusing on small businesses, venture or mezzanine investment, buyouts and recovery funding. This trend has led to a surge in euro-denominated funds in this sector. Table 6 shows the strength of this area of Guernsey's business, showing a 14.4% increase in the number of schemes and a 57.8% increase in net assets over the year.

Figures 20 to 23 provide a broad breakdown of the types of investment by open and closed-ended funds and their reporting currencies.

Tables 6 to 8 illustrate the excellent progress made in all parts of the fund sector. With some thirty-nine applications in the pipeline at 31 December 1999, the prospects for 2000 look equally encouraging.

FIGURE 19 **Total funds under management at the year end**



Investment Business

TABLE 6 **Closed-ended funds**	end 1998	end 1999	% change
Number of funds	202	231	+14.4
Value of assets (£mns)	5,244	8,274	+57.8
Number of registered holders ('000s)	13.1	16.9	+29.0
Stock exchange listed	55	60	+9.1

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

New business authorised/approved during the year reflected the continuing confidence of international fund managers in Guernsey as a leading jurisdiction for the establishment of their products (see table 9). During the year, twenty-one sponsors not previously represented in the Bailiwick launched new products and at 31 December 1999 Guernsey funds were sponsored by institutions from thirty-nine countries, an increase of two over 1998 (see figures 24 and 25).

The PCC has become the preferred structure for new umbrella and multi-class open-ended schemes. At the end of 1999 there were twenty-two such schemes out of a total of 108 with multiple classes. The PCC structure is seen as the ideal structure for private client vehicles, where each cell represents the investments of a small number of high net worth individuals or institutions. Where previous investment strategies have required the creation of intermediate holding companies to hold class assets, this need is largely negated by a PCC.

The advent of the euro also brought about the re-structuring of many schemes where classes were denominated in the legacy currencies. The opportunity was taken by a wide range of funds – particularly currency and money-market funds – to amalgamate legacy currency classes into one euro-denominated class. Such consolidation has left the total number of classes little changed over the year, despite the addition of new sub-funds to a large number of umbrella and multi-class funds.

Diversification by existing umbrella and multi-class schemes generally was as inventive as ever, with particular emphasis on new Far East, technology, property and specialist classes employing sophisticated stock-picking and market modelling strategies.

The Non-Guernsey Schemes Rules permit Guernsey financial institutions to offer administration, management or custody services to open-ended schemes domiciled in other jurisdictions. The number of non-Guernsey schemes serviced by Guernsey licensees during the year

FIGURE 20 **Open-ended schemes: geographical distribution of investments**

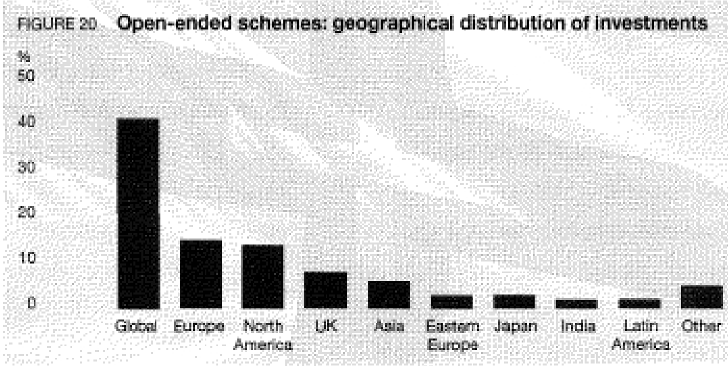


FIGURE 21 **Closed-ended schemes: geographical distribution of investments**

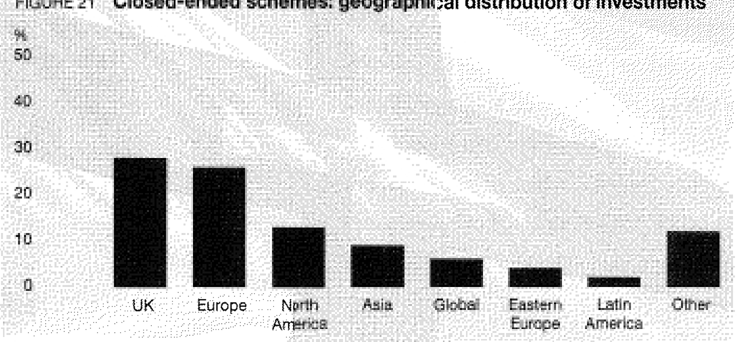


TABLE 7 **Open-ended funds**

	end 1998	end 1999	% change
Number of funds	191	198	+3.7
Number of investment pools	529	505	–1.7
Value of assets (£mns)	10,450	14,671	+40.4
Net new investment over year (£mns)	348	1,766	+407.5
Number of registered holders ('000s)	117.4	134.4	+14.5
Stock exchange listed	54	60	+11.1

Guernsey authorised open-ended funds are funds in which shares/units are offered for sale throughout their life and which investors are entitled to redeem on demand subject to any applicable notice period. A list of authorised schemes appears at Appendix 5.

rose by 12% to 131 and their value by 54.4% to a record £7 billion. This sector represents a growing source of business for Guernsey and a recognition of the Bailiwick as a centre of excellence for administration services.

Developments in investment business outside the fund products sector, for example discretionary fund management, stockbroking and investment advisory services, were also positive, with some eight new licences issued during the year to institutions proposing to carry on business in these areas.

Supervision and policy

The combination of the buoyant investment business climate and demands from external agencies referred to elsewhere in this Report meant that, in turn, supervisory resources were fully stretched in 1999.

The number of institutions licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 ("the POI Law") increased from 278 at 31 December 1998 to 355 at 31 December 1999, while the number of collective investments funds under supervision also reached a new high of 429 at the year end (compared with 393 at 31 December 1998), increases of 28 % and 9 % respectively (see figures 18 and 26).

A further measure to increase the competitiveness of Guernsey as a leading fund centre was taken in October, when the Commission made the Protected Cell Companies (Prescribed Company) Regulations, 1999. This extended the permitted use of the PCC structure, which had previously been reserved for open-ended collective investment schemes and insurers, to include closed-ended collective investment funds. This initiative was taken in response to requests from senior figures in the United Kingdom venture capital industry and their professional advisers and is expected to result in yet more quality closed-ended fund business choosing Guernsey as its preferred domicile.

Against this background of a proactive response to the investment

FIGURE 22 **Open and closed-ended funds: breakdown of largest reporting currencies**

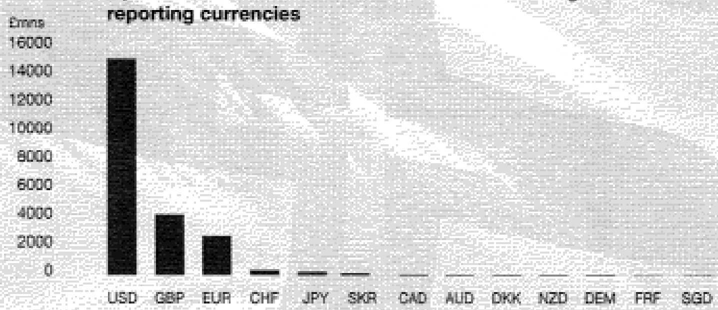
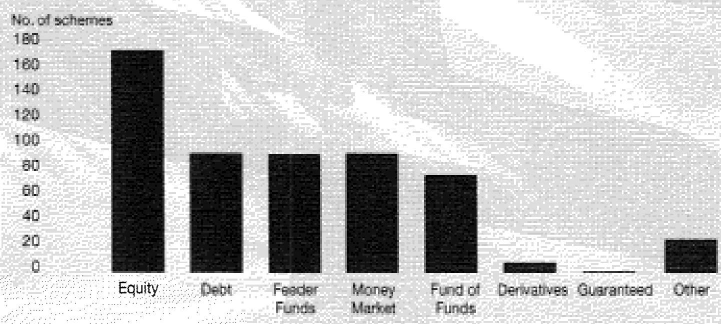


FIGURE 23 **Open-Ended Schemes: analysis by type of investment pool**



business sector, it is particularly disappointing to record that only modest progress was made towards completing the review of Guernsey's designated territory status first announced by Her Majesty's Treasury ("HMT") in 1993. In consequence, Guernsey authorised Class A collective investment schemes, which are eligible to be marketed to the general public in the United Kingdom by virtue of Guernsey's designated territory status, are forced to operate under outdated "Class A Rules" made when the status was granted in 1988. This not only carries a reputational risk to Guernsey, which wishes to remain at the vanguard of current regulatory best practice, but also places the Guernsey fund sector at a competitive disadvantage both to its United Kingdom counterparts and, more broadly, when seeking to market its products internationally. The Commission will continue to press HMT for a firm timetable for completion of the review and for early agreement to the revised "Class A Rules", a draft of which was submitted to HMT in April 1997.

TABLE 8 **Non-Guernsey schemes**

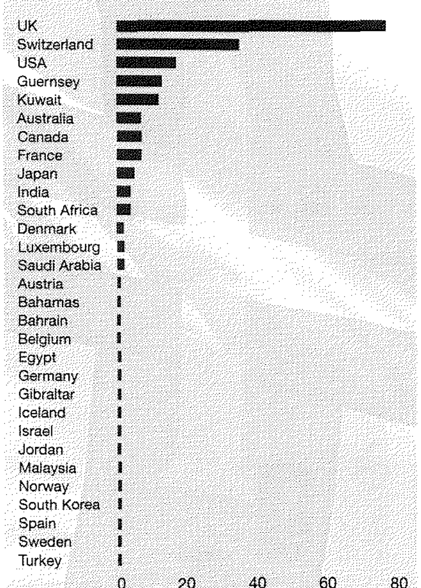
	end 1998	end 1999	% change
Number of funds	117	131	+12.0
Value of assets (£mns)	4,563	7,044	+54.4
Stock exchange listed	15	22	+46.7

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

In response to requests from the fund sector and comments in the report arising from the United Kingdom Review of Financial Regulation in the Crown Dependencies, the Commission issued a Guidance Note in December on "Outsourcing of administration functions in respect of authorised collective investment schemes". This Guidance Note is replicated in Appendix 7. In the Commission's view, properly controlled outsourcing of back-office tasks is an important element towards utilising the Bailiwick's human resources to best effect.

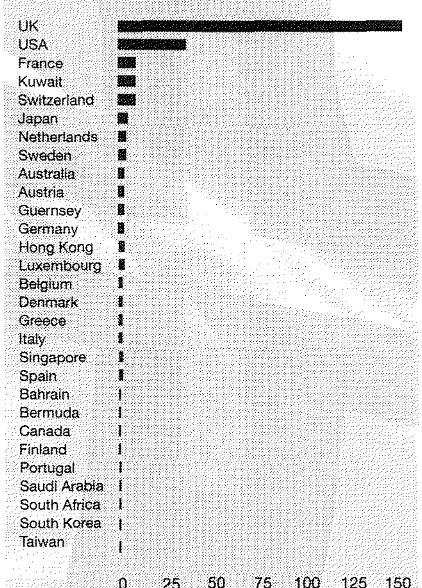
The Investment Business Division continued to work closely with the Guernsey Fund Managers Association ("the GFMA") on matters of mutual interest, reflecting the Division's philosophy that both the regulated and the regulator have an overriding common interest in protecting and enhancing the reputation of Guernsey's financial institutions and hence Guernsey as a jurisdiction. In May and June, the Deputy Director and a senior analyst ran day-long compliance management workshops, sponsored by the GFMA, at the Training Agency. These two workshops were attended

FIGURE 24 **Nationality of sponsors/joint sponsors of Guernsey open-ended funds as at 31 December 1999**



Note: Some funds have more than one sponsor.

FIGURE 25 **Nationality of sponsors/joint sponsors of Guernsey closed-ended funds as at 31 December 1999**



Note: Some funds have more than one sponsor.

TABLE 9 **New collective investment fund business**

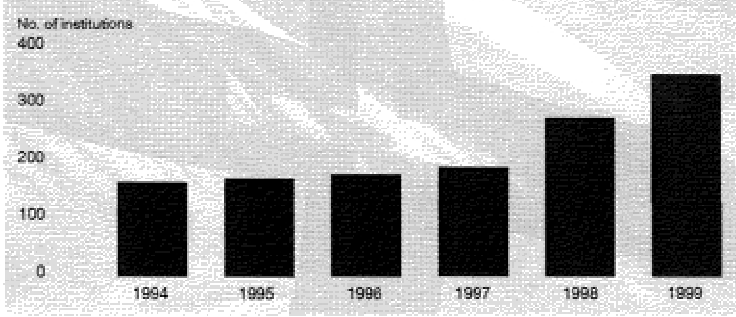
	1998	1999
Open-ended funds – authorised	30	30
Open-ended funds – new classes approved	27	34
Closed-ended funds – approved	29	29

by a total of forty-one participants representing twenty-seven institutions. As in previous years, the Division was also pleased to be invited to address a GFMA open evening in April, attended by some seventy-two members and guests, on compliance and current issues of interest; these opportunities for informal dialogue with, and questions from, the sector and its advisers are welcomed.

Compliance visits remained an important, albeit resource-consuming, element of the continuing supervision of licensees. During the year, visits were made to five designated managers and four designated custodians of collective investment schemes and to five other licensees under the POI Law. Of these visits, nine were routine, one was a follow-up visit to ensure that previously identified weaknesses had been rectified, and four reflected special circumstances which had come to the Commission's attention. It was necessary to report on matters of strategic importance to the board of directors as regards nine of the fourteen institutions visited, and subsequent corrective action to the satisfaction of the Commission has been taken or is being followed up. This schedule of on-site visits was extended in the spring of 2000 when the Investment Business Division commenced a systematic programme of visits designed to investigate the anti-money laundering procedures of designated persons and other licensees.

During the year, the Division continued to monitor licensees' progress towards testing their systems for the millennium changeover. It is pleasing to report that, in the event, no major problems occurred during the transition to 2000.

FIGURE 26 **Number of institutions licensed under the POI Law**

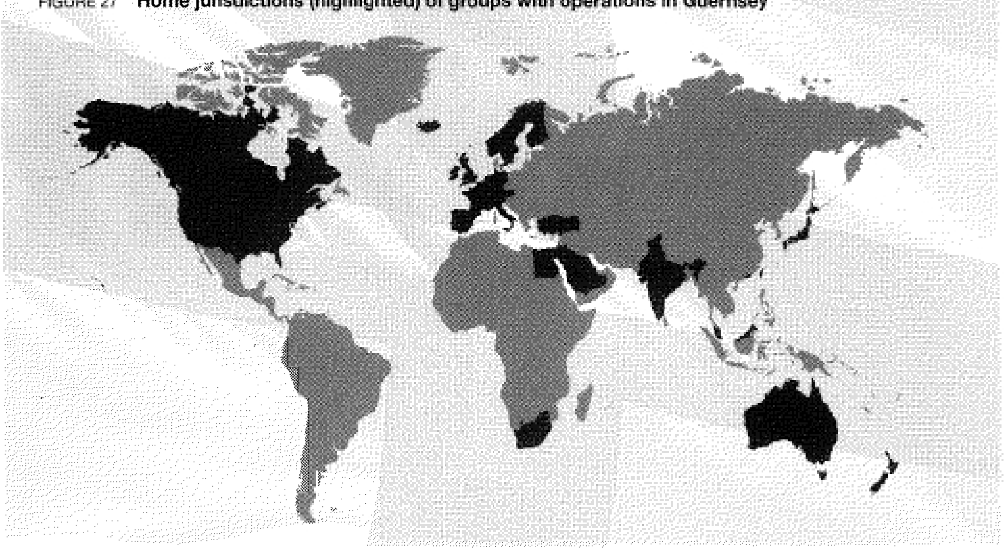


The Director of Insurance continued to represent Guernsey on the Executive Committee of the IAIS and as chairman of OGIS.

International Developments Highlights

- Visits were made to banks in other jurisdictions.
- Bilateral meetings were held with supervisors from Gibraltar, the Isle of Man, Jersey, the Netherlands, Switzerland, the United Kingdom and the United States of America.
- Commission staff attended courses worldwide.
- The Commission continued to participate actively in the main international regulatory organisations.
- The Commission was active in the field of insurance fraud avoidance.

FIGURE 27 **Home jurisdictions (highlighted) of groups with operations in Guernsey**



International Developments

Banking

In 1999 the Banking Division attended several international meetings and events on behalf of the Commission.

In February the Director and Deputy Director held meetings with the Jersey Financial Services Commission. A range of matters of common interest were discussed, including coverage of three banking groups with operations in both jurisdictions. An on-site visit was also made to a branch of a Guernsey bank operating in Jersey.

The Director and the Deputy Director attended the Offshore Group of Banking Supervisors Conference held in Malta from 31 May to 2 June. As usual, this proved to be a useful forum to exchange information on current reviews and initiatives and to engage in bilateral exchanges with the home supervisors of some Bailiwick banks. Some discussion also took place on the various international initiatives affecting offshore centres globally. Details of the Offshore Group of Banking Supervisors are contained in Appendix 11.

In June the Director attended the inaugural meeting of the Financial Stability Institute in Basel which discussed the new Capital Accord proposals of the Basel Committee on Banking Supervision. These new proposals are intended to overhaul and replace the 1988 Capital Accord which has undergone a series of amendments over the intervening period.

The Deputy Director and an analyst from the Division attended meetings in the Isle of Man in July. These meetings included bilateral discussions with the Isle of Man Financial Supervision Commission and visits to banks who provide outsourcing services to Guernsey banks.

In September the Deputy Director attended the Toronto International Leadership Centre for Financial Sector Supervision banking course. This Centre is sponsored by the World Bank, the Government of Canada, Schulich School of Business – York University, the International Monetary Fund, the Bank for International Settlements and the International Organization of Securities Commissions. The course focused on world renowned banking supervisors passing on first hand knowledge through case studies of banking crises they had experienced. It was attended by banking supervisors from twenty different nations.

Also in September, the Deputy Director attended the Joint Year 2000 Council European Regional Meeting in Rome. This was attended by supervisors from across Europe and focused on prospective computer issues and how supervisors should react to them.

In October the Division's senior analyst met with South African supervisors as part of a college of regulators meeting at the Financial Services Authority in London, in order to discuss South African banks operating in the British Isles.

In November an analyst attended a conference in London organised by the Financial Services Authority to promote the new Basel Capital Accord proposals. In that month the Director and Deputy Director also visited the Swiss Federal Banking Commission in Bern and the head offices of some Swiss banks in Zurich. The Bern meeting was a bilateral one which discussed general supervisory issues and the supervision of the several Swiss banking groups with branches or subsidiaries in Guernsey. This proved to be a useful meeting and both Commissions learned more of the detail of the other's method of banking supervision. The Zurich meetings were focused on the roles played by Guernsey banks in their wider banking groups.

Finally, in December, the Director and Deputy Director held their annual meetings in London with the Financial Services Authority and the Bank of England. The bilateral meetings with the Financial Services Authority, as usual, considered supervisory issues of common interest, including banks operating in both jurisdictions. The Bank of England meeting discussed statistical data flows which the Commission voluntarily provides to the Bank from aggregate banking statistics. (The aggregate of these statistics, together with those of Jersey and the Isle of Man, is shown in Appendix 12.)

In addition to these visits by Banking Division staff, the following international supervisors made visits to the Banking Division and/or banks operating from Guernsey:- De Nederlandsche Bank NV, the Federal German Supervisory Office, the Federal Reserve (Washington DC), the

Financial Services Authority (United Kingdom), the Gibraltar Financial Services Commission, the Jersey Financial Services Commission and the Office of the Comptroller of the Currency (United States of America). Where banks were visited by overseas regulators, this was with the prior agreement of the Commission and with the requirement that a member of the Banking Division be in attendance.

Fiduciary services and enforcement

The regulation of fiduciaries and administration businesses anticipated in the Bailiwick parallels developments in other jurisdictions. Jersey is proposing to introduce such regulation in its Financial Services (Extension) (Jersey) Law, 2000 and the Isle of Man is also introducing a law to regulate its corporate service providers.

The Commission has been liaising closely with the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission in relation to the prospective regulation and associated matters. Similar regulation to that proposed in the Bailiwick and elsewhere has been effectively extant in Gibraltar for some years. In the United Kingdom, there is a general exemption for trustees under the Financial Services Act 1986, and only those corporate trustees which are required to be members of the Investment Management Regulatory Organisation ("IMRO") are regulated in the conduct of trustee business. The Financial Services Authority, however, has announced that it will be revising the current IMRO rules for trustees and the consultation process is expected to begin shortly. The Financial Services Authority regards trustee activities as one of the areas to be considered. This is consistent with a recommendation in the United Kingdom Home Office Review report that the United Kingdom authorities should also extend the regulatory boundary to cover providers of trust services.

Insurance

The Director of Insurance continued to represent Guernsey on the Executive Committee of the International Association of Insurance Supervisors ("the IAIS") and as chairman of the Offshore Group of Insurance Supervisors ("OGIS"). Further information on the IAIS and OGIS can be found in Appendix 11.

The Director of Insurance is chairman of the Insurance Fraud Sub-Committee of the IAIS and is actively participating in several other technical committees, including those on reinsurance and accounting.

The Director of Insurance is also on the faculty of the International Association of Certified Fraud Examiners and on the Insurance Advisory Group of the Toronto International Leadership Centre for Financial Sector Supervision.

During the year the Director of Insurance or his staff gave presentations or participated in discussions with various sector associations and regulatory agencies.

The Director of Insurance gave presentations at two insurance supervisory training seminars in Singapore and Tokyo.

The Director of Insurance also presented a paper on insurance fraud avoidance to the Insurance Solvency Committee of the OECD. He also attended two meetings and gave presentations to the Offshore Finance Centres Working Group of the G-7 Financial Stability Forum. He spoke at the conference for the Pacific Registrars of Offshore Banking and Banking Services in Vanuatu and to the following organisations:-

Financial Services Authority (United Kingdom);
Association of British Insurers;
Life Insurance Association (United Kingdom);
Lloyd's of London; and
National Association of Insurance Commissioners (United States of America).

In order to further the objective of the development of the insurance sector in Guernsey, the Commission was present at six risk management conferences, namely AIRMIC in Nottingham (United Kingdom), SARIMA in South Africa, FERMA in Berlin, RIMS in the United States of America, CICA in the United States of America and the Miami Risk Strategy Conference. In addition, the Director of Insurance spoke at several conferences in the United Kingdom on risk financing for captives, international insurer solvency and PCCs. He also spoke to several private groups in Guernsey and the United Kingdom.

During 1999 the Insurance Division also instigated and supported a lecture to the private insurance sector on the International Underwriting Association.

Investment business

The Investment Business Division continued to develop its relationships with overseas supervisors, both as part of its due diligence procedures and to provide assistance on request, reflecting the Commission's commitment to international regulatory co-operation. Contact with international counterparts is a daily occurrence.

The Commission is a member of the International Organization of Securities Commissions ("IOSCO") and the Enlarged Contact Group on the Supervision of Collective Investment Funds ("ECG") (see Appendix 11), and maintained its support for these organisations during the year. In May, the Director General attended the Annual Conference of IOSCO in Lisbon. He also represented the Commission at a meeting of the European Regional Committee held in Krakow in October under the auspices of the Polish Securities and Exchange Commission. A member of the Investment Business Division attended a one week training seminar in Montreal on "Implementing the objectives and principles of securities regulation" organised by IOSCO and sponsored by the World Bank. The Commission also contributed to a study by IOSCO's SRO Consultative Committee on standards of training and competence in the securities industry and a questionnaire on stock manipulation.

In September, the Director of Investment Business attended the annual meeting of the ECG held in Rio de Janeiro under the chairmanship of the Comissão de Valores Mobiliários of Brazil, at which twenty-three regulatory agencies were represented. Topics discussed included legal issues, conflicts of interest, disclosure, the scope of supervision, derivatives, international co-operation and the 2000 computer issue.

During the year, the Division received visits of officials from the Financial Services Authority and the Securities and Futures Authority in the United Kingdom and the Hong Kong Securities and Futures Commission. In turn, the Director and Deputy Director also visited the Financial Services Authority in London.

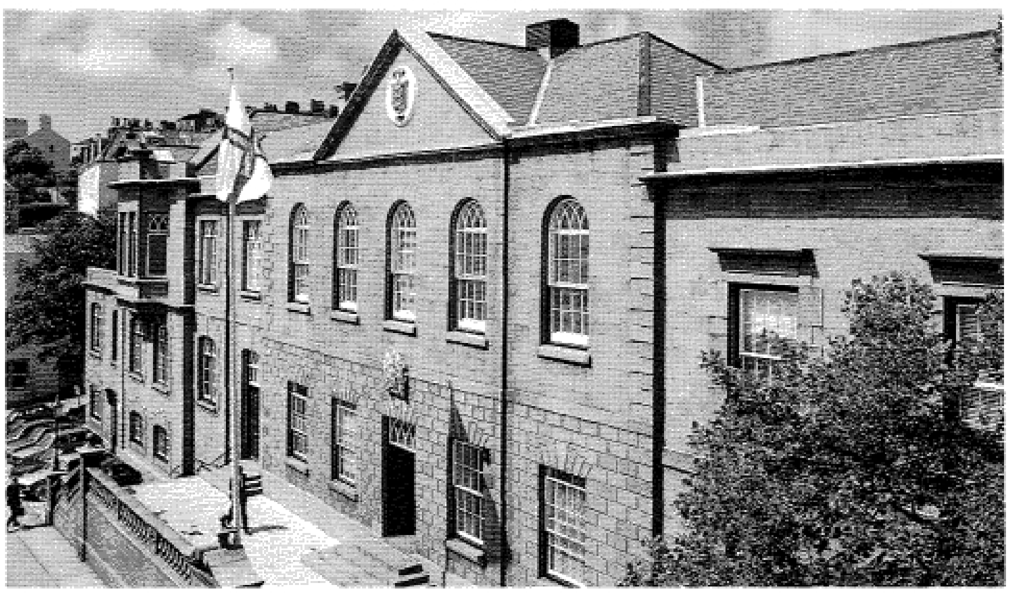
In addition to these meetings to discuss specific current regulatory issues, members of the Division accepted invitations to week long training programmes sponsored by the United States Securities and Exchange Commission in Washington DC and by the Financial Services Authority in London. These programmes were attended by participants from forty-eight and sixty-six regulatory bodies respectively, further widening the Division's circle of contacts in overseas agencies.

The Investment Business Division also has a duty to develop investment business and keep abreast of current trends and issues affecting the investment sector. To this end, during 1999 the Director and his colleagues attended conferences in Bermuda and London covering Channel Islands funds, the globalisation of collective investment funds, e-commerce, the changing face of European fund regulation, the marketing and distribution of funds in Europe, funds of funds, and alternative and private investment vehicles and strategies.

The Criminal Justice Law, colloquially known as the "All Crimes Legislation", brings Guernsey's anti-money laundering system into alignment with the best in the world.

Prevention of Economic Crime Highlights

- The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999 was enacted.
- The Commission issued revised Guidance Notes on the Prevention of Money Laundering.
- The Commission introduced anti-money laundering on-site visits.
- Guernsey advised FATF of its commitment to meeting the Twenty-Five Criteria for defining non-co-operative territories.
- The Director General joined the United Nations Offshore Forum Advisory Panel.
- The Bailiwick Financial Crime Committee was established.



Prevention of Economic Crime

All Crimes legislation

On 1 January 2000 the Criminal Justice (Proceeds of Crime)(Bailiwick of Guernsey) Law, 1999 ("the Criminal Justice Law") came into force along with the corresponding underlying regulations, the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Regulations, 1999 ("the Regulations"). The Criminal Justice Law, colloquially known as the "All Crimes Legislation", brings Guernsey's anti-money laundering systems into alignment with the best in the world.

From a money laundering standpoint, the Criminal Justice Law has the effect of making it a criminal offence for anyone to assist another to retain the benefit from any criminal conduct. The Criminal Justice Law and Regulations also introduce a statutory defence against being prosecuted under these provisions if the suspicious belief or matter had been previously disclosed to the police or customs in Guernsey and compel individuals and financial services businesses to adopt the practice of suspicious transaction reporting.

Prior to the introduction of the Criminal Justice Law, the Bailiwick had effective systems to combat the laundering of proceeds of drug trafficking and terrorist activities. The Criminal Justice Law merely adds all other crimes to those already caught, which will include, for example, the proceeds of theft, false accounting, insider dealing and tax evasion, to name but a few.

The Criminal Justice Law defines criminal conduct as any conduct (other than drug trafficking which is covered by separate legislation):-

(a) which constitutes a criminal offence under the laws of the Bailiwick of Guernsey which may be tried on indictment; or
(b) which would constitute such an offence if it were to take place in the Bailiwick of Guernsey.

It creates five offences. These are concealing or transferring the proceeds of criminal conduct; assisting another person to retain the benefit of criminal conduct; acquisition, possession or use of proceeds of criminal conduct; tipping off; and prejudicing an investigation.

A person who is found guilty of an offence is liable to a maximum of fourteen years' imprisonment.

The Regulations are made in pursuance of section 54(1)(c) of the Criminal Justice Law and prescribe for the purposes of the Criminal Justice Law (inter alia):-

(a) the identification procedures, record-keeping procedures, internal reporting procedures and training procedures to be established and maintained by financial services businesses; and
(b) guidance which the Court shall take into account in determining whether any person has complied with a duty or requirement imposed by or in pursuance of the Regulations, being guidance which, in the opinion of the Court, is relevant to the duty or requirement in question and which has been issued or approved by the Commission.

With reference to the latter, the Commission issued revised Guidance Notes on the Prevention of Money Laundering in October, some months before the Criminal Justice Law came into effect. The revision of the Guidance Notes was led by the Banking Division with assistance from the Commission's other Divisions and the Joint Money Laundering Steering Group (see Appendix 2). The Guidance Notes are available in CD-ROM and ring binder format and a copy is available upon request. The Guidance Notes have been issued to assist financial services businesses to comply with the requirements of the anti-money laundering laws in force in the Bailiwick. The Guernsey Courts may take account of these Guidance Notes in determining whether a person has complied with a duty or requirement imposed by or in pursuance of the Regulations.

Finally, it should be noted that financial services businesses covered by the Criminal Justice Law include:-

(a) any person or body carrying on or providing services in relation to the business of banking, bureaux de change, cheque cashers, insurance, investment, asset management or administration, trusteeship, company or trust formation and administration, the establishment of business enterprises or any matter ancillary to such business.

(b) any person providing services of the type referred to in paragraph (a) in the course of carrying on the profession of a lawyer unless such services are incidental to the provision of legal advice and services.

(c) any person providing services of the type referred to in paragraph (a) in the course of carrying on the profession of an accountant unless such services are incidental to the provision of accountancy advice or services.

On-site visits

As mentioned elsewhere in this Report, the Banking, Insurance and Investment Business Divisions now conduct on-site visits dedicated to investigating the anti-money laundering systems of financial services businesses in Guernsey. The Banking Division devised a detailed checklist for this programme of visits in order to fulfil the 25 Core Principles of the Basel Committee on Banking Supervision and, additionally, to investigate how financial services businesses comply with the Guidance Notes on the Prevention of Money Laundering in the context of the Forty Recommendations of the Financial Action Task Force on Money Laundering ("FATF"). As stated in the Guidance Notes, the Commission will conduct a programme of on-site visits to monitor compliance by all financial services businesses with the Guidance Notes.

Financial Action Task Force on Money Laundering

In July 1999 the Commission hosted a routine evaluation visit by representatives of FATF on behalf of the Offshore Group of Banking Supervisors ("the OGBS"). The OGBS had invited FATF to conduct an impartial review of the anti-money laundering systems of the OGBS membership, which includes Guernsey.

The review was a wide-ranging analysis of Guernsey's systems for the prevention, detection, investigation and prosecution of money laundering via-à-vis the Forty Recommendations issued by FATF in 1996 (as extended from time to time by the issue of interpretative notes).

The review involved all five Divisions of the Commission, the Committee, the Law Officers' Chambers and the police and customs Joint Financial Investigation Unit. Comprehensive reports were provided by all Guernsey authorities in response to two detailed questionnaires and the review team visited the Bailiwick for two days in July. The FATF team met not only with the authorities but also with representatives of the Guernsey International Business Association and with the senior executives of two Guernsey banks.

Guernsey is moving towards complete compliance with the Forty Recommendations and anticipates recognition of that fact after the next review visit. In this regard, two laws, the proposed Drug Trafficking (Bailiwick of Guernsey) Law, 2000 and the proposed Criminal Justice (International Co-operation) (Bailiwick of Guernsey) Law, 2000 will enable Guernsey to ratify the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Legislation which enables Guernsey to ratify both these Conventions is essential to demonstrate compliance with the Forty Recommendations.

In early 2000 FATF issued Twenty-Five Criteria for defining non-co-operative countries or territories. With the support of the Commission, the Committee has confirmed to FATF Guernsey's commitment to meeting the Criteria.

United Nations initiative

The United Nations has a long-standing interest in the deterrence of economic crime. Indeed, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances did much to concentrate international opinion on how to deal with the proceeds of economic crime.

In 1998 the United Nations Office for Drug Control and Crime Prevention issued a document entitled

Prevention of Economic Crime

"Financial Havens, Banking Secrecy and Money Laundering". Following the publication of that document, the United Nations Offshore Forum was established with the objective of enlisting the support of all jurisdictions to deny criminals access to the global financial market for the purpose of laundering the proceeds of crime.

The Director General of the Commission was invited to join the United Nations Offshore Forum Advisory Panel and attended two meetings of the Advisory Panel in Vienna during 1999. In due course, the Offshore Forum will establish teaching programmes, provide technical assistance on the prevention and detection of economic crime and set minimum standards of financial regulation and law enforcement.

The Bailiwick Financial Crime Committee

In late 1999 The Bailiwick Financial Crime Committee was established in order to facilitate closer co-ordination at a strategic level between the Law Officers' Chambers, the Commission and the police and customs Joint Financial Investigation Unit with regard to the prevention and detection of economic crime. The Commission is represented by executives in the Banking, Director General's and Fiduciary Services and Enforcement Divisions. The Bailiwick Financial Crime Committee has a wide-ranging remit and its discussions to date have centred on the structure of, and links between, the anti-money laundering authorities in Guernsey, closer co-operation between the authorities and possible future legislation.

As part of the Committee's activity, in conjunction with law firms in Brussels and New York, the Director General's Division commenced a comparison of Guernsey's anti-money laundering legislation with that in the European Union and New York. To date, although there are differences of approach between European Union, Guernsey and New York legislation, this comparison indicated that Guernsey's anti-money laundering law and policies are as good as, or better than, many OECD jurisdictions. Further research will be conducted in 2000 and, if appropriate, legislative proposals will be put to the Bailiwick legislatures in due course. The Director General's Division is also reviewing other changes to economic crime legislation which may be desirable.

Education

The Commission continued its role in education concerning the prevention and detection of economic crime. In particular, the Director General gave a speech on banking secrecy and confidentiality at the International Symposium on Economic Crime in Cambridge. The Symposium was also attended by a member of the Commission's enforcement staff. In addition, support was provided to the Training Agency's courses on the Guidance Notes on the Prevention of Money Laundering and a Commission executive also gave a presentation to the Guernsey Association of Compliance Officers. As stated on page 36, the Director of Insurance is particularly active in relation to insurance fraud avoidance.

The Agency has an admirable track record of facilitating high quality training events.

Education and Training Highlights

- The merger of the FTA and GTA was effective from 1 June 1999.
- The Training Agency boasts over 500 registered students who made over 3,000 study visits to the Nelson Place Study Centre.
- It is anticipated twenty-six students will graduate in 2000 from the corporate governance/Grad ICSA and personnel management/Grad IPD programmes.
- Over 3,000 delegates attended the Training Agency's conferences.
- The Agency launched the prestigious Institute of Directors Company Direction Programme for Guernsey.
- A comprehensive training programme was held on the All Crimes Legislation and the revised Guidance Notes on the Prevention of Money Laundering.
- The Investors In People initiative was introduced in the Bailiwick.

Training Agency

The new Agency

During 1999 the activities of the Finance Training Agency ("the FTA"), which was established by the Commission, were merged with those of the Guernsey Training Agency ("the GTA"), a similar body to the FTA, but charged with the role of developing training and education in the private non-finance sector in Guernsey.

Both the FTA and the GTA operated from the Nelson Place Study Centre premises, sharing offices and other resources. The merger of the two bodies into the Training Agency ("the Agency") reflected the numerous efficiencies to be achieved by operating as one body and that the training and education facilitated by both bodies were increasingly of a generic nature and, therefore, equally applicable to the finance and non-finance sectors.

The Agency will continue to be owned by a charitable trust. The protectors of the trust are the Commission and the President of the Committee.

The trustees are:-

Peter Crook – Guernsey Financial Services Commission
Stephen Jones – Guernsey International Business Association
Peter Morgan – Representative of the States Board of Industry
Deputy John Roper – States Education Council

The Agency is funded on an equal basis by the States of Guernsey and the Commission.

The board at 31 March 2000 was comprised as follows:-

Adv. Christopher Bound – Collas Day
Keith Corbin (Executive Chairman) – Guernsey International Business Association
Madeleine Craft – States Education Council
Conseiller Peter Ferbrache – States Board of Industry
Robin Fuller – Rothschild Asset Management (C.I.) Limited
Dudley Jehan – NP Holdings Limited
David Leafe – Royal Bank of Canada (Channel Islands) Limited
Nigel Lewis – States Board of Industry
Peter Marchant – NatWest Offshore Limited
Martyn Mann – Polar Instruments Limited
Ian Morris – Bacon & Woodrow
Mary Perkins – Specsavers Optical Group Limited

The composition of the board of directors of the Agency reflects a restructuring during the year to ensure representation by the public, finance, and private non-finance sectors.

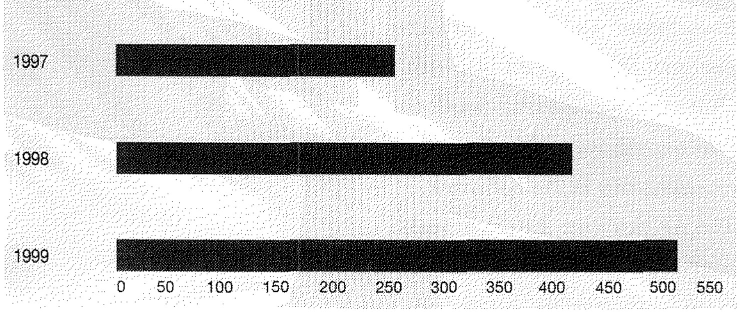
It is expected that advisory groups will be established to act as channels of communication between the Agency and those sectors' representatives who stood down from the board of directors of the FTA as a result of the merger. The Agency wishes to express its gratitude to those former directors for their endeavours in steering the strategic direction of the Finance Training Agency until the merger.

General development

The activities of the Agency increased significantly in 1999. It also anticipates continued growth in demand for its services in 2000 as Guernsey employers continue to support a culture of training and education as an investment in their businesses.

The Agency boasts over 500 registered students who made over 3000 study visits to the Nelson Place Study Centre in 1999. In excess of 300 training events took place during the

FIGURE 28 **Registered number of students**



year, drawing over 3,000 delegates who attended a wide range of programmes. Eleven award bearing courses, which were previously unavailable in the Bailiwick, were facilitated and the Agency supported over 200 students on these courses. Figures 28 to 32 and table 10 demonstrate the Agency's progress in a number of areas since 1997.

The library continued to expand during 1999. An updated collection of study materials was provided by the Guernsey Chartered Insurance Institute to support their professional programmes. The Agency was also grateful to receive a bursary to mark the millennium from the Guernsey International Legal Association, as well as a generous bursary from Deutsche Bank International Limited. Equally welcome were study texts provided by the local branch of the Institute of Personnel and Development for the Agency's students on the postgraduate programme on personnel development.

Examinations

The Agency facilitated examinations in support of the Chartered Institute of Bankers and the Securities Institute. In addition, students undertaking postgraduate programmes with the Universities of Bournemouth and Portsmouth were able to sit their examinations in the Bailiwick.
The Agency met the strict quality control requirements placed upon them by the various institutions and it was assisted in its task by acquiring the expertise of two experienced invigilators. Examination costs are recovered from the relevant examining bodies.

Award bearing courses

The Agency continued to facilitate higher education in Guernsey during the year.

The Universities of Bournemouth and Portsmouth maintained their postgraduate programmes in the fields of corporate governance/Grad ICSA and personnel management/Grad IPD respectively. It is expected that twenty-six students will graduate from these two programmes in 2000. The success of these two programmes reflects the achievements of the students in meeting the challenges posed by these professional and academic awards. The contribution by employers, both in permitting study time and financial support, should also not be underestimated. The Agency would like to place on record its gratitude to the Institute of Chartered Secretaries and Administrators, the Institute of Personnel and Development, the Civil Service Board and the lecturers at both universities for their continued support and

FIGURE 29 Number of training events

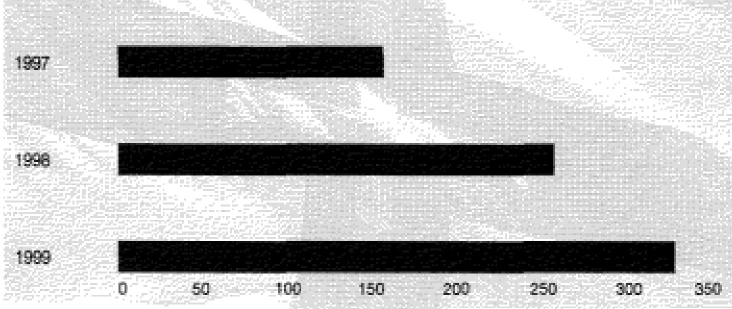
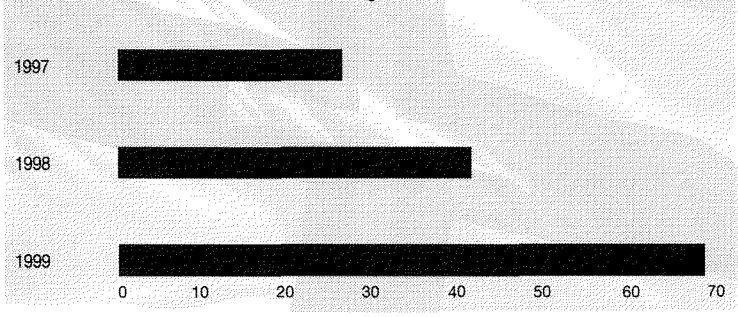


FIGURE 30 Number of examination days



Training Agency

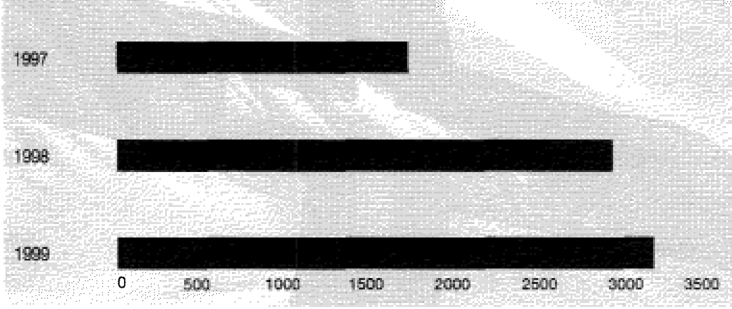
endeavours in ensuring the success of students and the delivery of two first class programmes.

The programmes are run on a biannual basis and negotiations are currently being undertaken to determine the viability of commencing further courses in the autumn of 2000.

Links with the Securities Institute and the Guernsey Fund Managers Association were strengthened during the year as the Agency facilitated tuition for the Investment Advice Certificate and the Securities Institute Diploma. During 1999 the Agency supported 150 students in this sector and is pleased to report it sponsored a place for a lecturer at the College of Further Education to embark on the Securities Institute Diploma programme. Tuition for the private client investment and advice module was provided by a leading City of London financial training company. The Agency is pleased to report its students achieved a 50% pass rate (compared with the United Kingdom average pass rate of 34%), with three obtaining a credit pass.

Strong links have been forged with the Chartered Institute of Marketing. Lecturers accredited by the Institute were commissioned from outside the Bailiwick to deliver the Institute's courses in Guernsey, with ten students undertaking Certificate and Advanced Certificate programmes. It is hoped that the Agency will soon be able to facilitate the postgraduate Diploma in Marketing in conjunction with the Jersey Business School.

FIGURE 31 **Recorded number of study sessions**



Other award bearing courses included the success of five individuals who completed the Certificate in Training Practice. Its key objective is to engender a training and development culture within the Bailiwick's businesses and this award forms part of the Institute of Personnel and Development suite of programmes aimed primarily at meeting that objective.

During the year, staff at the Agency worked closely with the local branch of the Institute of Directors ("IOD") in launching the prestigious Company Direction Programme. This programme leads to the award of Chartered Director (C.Dir). Sixteen delegates, representing all economic sectors, will embark on the programme, which will address such issues as the role of the company director and the board, strategic business direction and other key areas for directors. Tuition takes place over fifteen days and is provided by a team of IOD consultants from the United Kingdom. Delegates are expected to complete the taught elements of the programme by the autumn of 2000.

In addition, Central Law Training, in conjunction with the Society of Trust and Estate Practitioners ("STEP"), launched the International Foundation Certificate and Diploma in Offshore Trust Management. The Agency is pleased to have worked with all relevant bodies in facilitating the course. Guernsey will follow the same delivery system as the rest of the world and a team of lecturers from Central Law Training in the United Kingdom will deliver the programme in the Bailiwick. Both the Foundation and Diploma courses will commence in 2000. A bursary for study texts and other learning support materials is to be granted by the Guernsey branch of STEP.

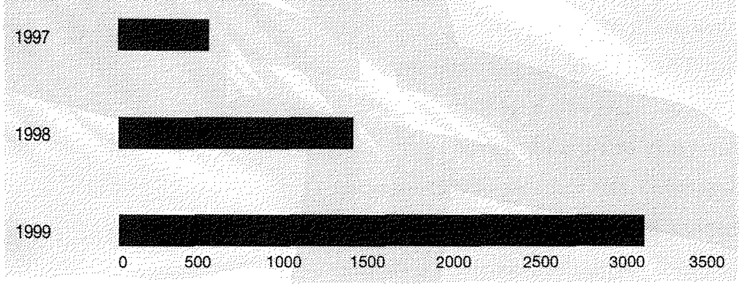
Conferences

The Agency held a successful management challenge conference in May with over 130 delegates in attendance. A key speaker, Dr David Freemantle, returned to the Bailiwick in the autumn to deliver two further workshops on customer service, attracting a further 130 delegates. In the forthcoming year it is planned to build on the success of these initiatives by staging a Leadership Challenge Conference with a team of eminent speakers.

A new legal awareness series with Collas Day took place during the autumn. Discussions with the firm resulted in a programme comprising trust litigation, Guernsey company law and employment and pensions. The response to the series was overwhelming, with 200 delegates attending the conferences and hearing presentations from a team of nine lawyers. Other bodies and institutes, including STEP and the Institute of Personnel and Development, added their imprimatur to the series. The Agency aims to incorporate continuing professional development accreditation for all its courses, wherever possible, in the forthcoming year. During 1999 the Agency was granted approval as a continuing professional development accredited centre for the Law Society.

It is hoped the Agency will facilitate a conference on securitisation business in 2000 which will be addressed by an international panel of experts.

FIGURE 32 **Number of delegates attending programmes set up by the Training Agency**



Short courses

Almost sixty short courses were facilitated, attracting over 500 delegates. For the first time the short course soft skills (non-professional) programme was linked to a competence framework. In this connection, the Agency adopted a framework which was developed over many years by an international consortium of managers.

A significant initiative in 1999 was to arrange training for large numbers of staff from the finance sector in the interpretation and application of the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Regulations, 1999 and the revised Guidance Notes on the Prevention of Money Laundering. Over 200 delegates attended courses aimed at senior managers, money laundering reporting officers and administrative staff.

A seminar was held in conjunction with the Life Insurance Association, focusing on aspects of the regulatory environment, taxation, law and insurance in Guernsey. It is expected that the Insurance Division of the Commission, in conjunction with the Life Insurance Association, will build on this initiative to form a Guernsey insurance module which will serve as an addition to the Chartered Insurance Institute's Financial Planning Certificate.

Other initiatives

Investors In People ("IIP") is of major strategic importance within the Bailiwick. IIP sets a level of good practice for improving an organisation's performance through its people. The States Board of Industry holds the licence for IIP and the Agency acts as project manager on its behalf.

The IIP standard provides a framework by specifying the principles which tie training and development activity directly to business objectives. Second, it ensures that resources committed to training and development are put to the most effective use and, most importantly, provides a benchmark of good practice in training and development against which any organisation can measure progress towards improved business performance.

It is pleasing to report that in 1999 seven companies, representing all economic sectors, began working towards the IIP standard and a further fifteen organisations are expected to

TABLE 10 **Development of the Training Agency**

	1997	1998	1999
Registered number of students	254	415	511
Recorded number of sessions	1693	2875	3113
Number of training events	154	253	323
Number of delegates attending programmes	528	1362	3048
Number of examination days	26	41	68

make a commitment to meet the standard in the forthcoming year. Following a review by IIP (United Kingdom), a revised standard has been introduced and the Guernsey project is the first in the world working towards it.

In conjunction with the local branch of the Institute of Directors, the Agency sponsors the Excellence in Training Award and is responsible for establishing the criteria for the award.

Information Technology in Society Working Group

On behalf of the Information Technology in Society Work Group, the Agency established and chairs the Information Technology Training Strategy Group. A research project focusing on information technology training needs within the Bailiwick is currently being undertaken by KPMG and is funded by the States of Guernsey. The conclusion may have far reaching implications in preparing Bailiwick businesses to develop their level of information technology competence.

Summary

The Agency is now firmly established and it is expected the newly formed board of directors will provide strategic direction in the years ahead. Both training managers at the Agency continue to work closely with all of the professional associations represented in Guernsey and sit on numerous working groups involved in training and development. Existing and newly created channels of communication between the various sectors and the Agency will be enhanced, ensuring the current and future training needs of the Bailiwick are identified and addressed.

The Agency has an admirable track record of facilitating high quality training events and educational programmes at a reasonable cost and has made considerable progress in achieving its strategic objective of creating a highly trained work force. On a final note, it is pleasing to report it completed the year within budget.

The Annual Report of the Agency is available on request from the Training Agency, Nelson Place, Smith Street, St Peter Port, Guernsey.

The Commission wishes to play a comprehensive and constructive rôle in all international fora which involve financial services business.

Director General's Division Highlights

- The Division led the Commission's responses to the evaluations by FATF, the Financial Stability Forum and the OECD.
- The Division co-ordinated a programme of enhancement to the Commission's anti-money laundering systems.
- The Director General remained active on international and Bailiwick committees.
- The Division continued to co-ordinate the Commission's response to the United Kingdom Home Office Review report.
- Improved technology systems were established throughout the Commission.

Director General's Division

The Director General's Division provides core resources to the four other Divisions and the Training Agency.

The Director General is the chief executive of the Commission and has overall responsibility. Although day-to-day responsibility for banking supervision, the supervision of insurance businesses, the supervision of fiduciaries and administration businesses, enforcement and the regulation of investment business lies with the other Divisions, the Director General's Division remains directly involved with a number of matters. These include certain policy and legislation matters, international affairs, accounting and internal control functions, staff matters (including health and safety issues), the infrastructure and operations.

The operations section of the Division deals with finance, information and communications technology, premises and the general administration of the Commission. Financial responsibilities cover the accounts, budgets and internal control procedures. The section is also responsible for maintaining the accounts and assisting in the financial management of the Training Agency. In addition, the staff of the Agency are employed by the Commission. Consequently, in 1999 the Director General and his team maintained close contact with the Agency and the Director General attends the board meetings of that body as an observer.

During 1999 major improvements were made to the Commission's information technology systems, so that all staff now benefit from using a common computer system platform. These improvements included changes to ensure that the computer system would not be affected by the potential 2000 computer issue. The Commission's core database system is also in the process of being developed to provide increased functionality. This is the first phase of a strategy aimed at increasing the Commission's use of information and communications technology.

The Division is also involved with the development of e-commerce within the Bailiwick. During the year it worked closely with several consultative groups taking forward initiatives in this area.

The Commission moved into new premises at La Plaiderie Chambers in March 1999. The operations section worked with the developers, who carried out a total refurbishment of the former Hôtel de France, in order to provide premises to house the Commission for the foreseeable future.

Due to the increasing demands being made on operational and staff functions, it was decided in 1999 that the two roles should be split. This was achieved in August and staff management is now the responsibility of the Assistant to the Director General (Personnel).

In order to provide for improved staff information, and as a measure to streamline personnel procedures, a number of new processes were introduced during the year. A large proportion of staff records have also been computerised. Primarily to cater for the 2000 computer issue, this computerisation included a completely new payroll system. The benefits of these new systems are already being felt.

The practice of providing information to each member of staff electronically through their computer also became common practice last year. This ensures that individuals have information, such as anti-money laundering guidance, the staff handbook and other operational procedures, immediately to hand. Notwithstanding the increased computerisation of the Commission, priority is given to ensuring that all confidential information is maintained securely.

The Division's policy and international affairs section also had a busy year.

Generally, the section deals with international matters in tandem with the other Divisions or on their behalf. In addition, the section provides a core staff resource which is utilised by the other Divisions for projects and committee work. This process also assists the free flow of information between the Divisions at all levels.

The Director General spoke at several meetings of various finance sector bodies in the Bailiwick during the year and at several conferences outside the Bailiwick. He made presentations on regulatory matters in February and March to gatherings of practitioners at conferences in London and Jersey respectively. In addition, in

Director General's Division

March the Director General participated in conferences in Geneva and Zurich hosted by the Swiss Chamber of Commerce on the effects of the United Kingdom Home Office Review. September saw the annual Cambridge International Symposium on Economic Crime at which the Director General made a speech on banking secrecy and confidentiality.

With regard to committees and working parties established by the Commission, the Director General chairs the Company Law Reform Committee and the Floating Charges Etc Committee and one of his assistants acts as secretary and executive officer to those two committees.

The Director General is also closely involved with the Commission's activity in connection with the anti-money laundering standards which apply to the finance sector. In this connection, he acts as alternate chairman of The Bailiwick Financial Crime Committee and the policy and international affairs section co-ordinated the Commission's involvement with the review by the Financial Action Task Force on Money Laundering during 1999. Indeed, the section liaised closely throughout the year with the other Guernsey authorities regarding the Commission's international obligations to deter money laundering activity.

The Director General and his assistant on policy and international affairs also retained their involvement with the EMU Working Party. The Working Party was established in 1997 by the Committee and it covers all aspects of the potential implications of European Economic and Monetary Union for the Bailiwick. The Director General is a member of the Working Party and his assistant acts as its secretary and executive officer. Activities during the year included the issue of statements in the media on the potential implications of the euro to Guernsey and taking forward a series of short television programmes on the effects to date of the single European currency.

In addition, the Director General is active on international committees through his membership of the United Nations Offshore Forum Advisory Panel and the Working Group on Cross-Border Banking Supervision established by the Basel Committee on Banking Supervision. During the year the Director General also participated in two conferences held by the International Organization of Securities Commissions in Poland and Portugal and his Division dealt with that Commission's requests for information in such areas as market manipulation.

Much of 1999 was devoted to international matters. The Director General and his team continued to co-ordinate the Commission's consideration of the United Kingdom Home Office Review report and the actions that will be taken in light of that consideration. In turn, the Director General met several times with the Joint Advisory Group which, in addition to the Director General, comprises the president of the Committee, HM Procureur, the States Supervisor and the Administrator of the States Income Tax Authority. The Group's role includes oversight of the consideration of the conclusions of the Home Office Review report.

As usual, the Director General's Division co-ordinated all matters of cross-Divisional interest during the year, not only those relating to the United Kingdom Home Office Review report. This co-ordination involves all areas of the Commission's activity, including the publication of the Annual Report.

The Division led the Commission's response to the evaluation visit made by the Financial Action Task Force on Money Laundering and the responses to the questionnaires issued by that body. In addition, the Division responded to a detailed survey issued by the G-7 Financial Stability Forum on the Bailiwick's financial regulation, systems for the prevention of economic crime and co-operation with foreign regulatory and law enforcement bodies. The Commission was one of sixty-seven onshore and offshore supervisory bodies requested to provide information to the Forum. As mentioned on pages 4 and 5, the Forum has judged Guernsey to be a Group 1 jurisdiction on a par with Hong Kong, Luxembourg, Singapore and Switzerland. Indeed, in order to demonstrate further the Commission's commitment to co-operation with foreign regulatory and law enforcement bodies the Director General's Division co-ordinated the maintenance of statistics on contacts

Director General's Division

with such bodies. On average, the Commission makes six contacts with foreign regulatory and law enforcement agencies each day.

1999 also saw continuing activity with regard to the initiatives on tax competition by the OECD and the Commission played a full part in drafting the jurisdiction report which was provided by the Committee to that body and other reports in answer to questionnaires issued by the OECD. A number of meetings were held during the year with the OECD, including one held in Paris attended by the Director General, HM Procureur and the States Supervisor. The Commission also contributed to the Committee's consideration of the EU Code of Conduct Group on corporate taxation. The Commission, along with the other authorities in the Bailiwick, wishes to play a comprehensive and constructive rôle in all international fora which involve financial services business.

The Division also co-ordinates information requested by the Committee in pursuance of its responsibilities in connection with the finance sector in Guernsey. As a matter of routine, in 1999 this included the half-yearly meetings between the Commission and the Committee and contributions to the Committee's economics and statistics review and budget report. The Committee also routinely asks the Commission – amongst other bodies – for comments or advice on particular matters such as legislative developments abroad and international agreements and conventions. These exchanges continued throughout 1999.

Other States Committees also seek the Commission's comments from time to time (and vice versa), including the States Housing Authority which routinely seeks the Commission's advice on essential housing applications which apply to the finance sector. In 1999 the Director General's Division was particularly pleased to meet with the Island Development Committee concerning future office needs of the finance sector and to respond to the invitation by the States Population and Migration Committee on its consultation document "Population and Housing Policies".

Structure of the Commission

In April 1986, the States of Guernsey ("the States"), the island's parliament, resolved to establish a Commission as a statutory body. The following year, the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 ("the Law") was passed and on 1 February 1988, the Guernsey Financial Services Commission came into being.

The status of the Commission is dealt with in sections 1 and 4 of the Law. It is not a committee of the States nor a servant or agent of the States and its staff are not civil servants. Neither is it a company for the purposes of the Companies (Guernsey) Law, 1994. It is a body corporate with perpetual succession and a common seal, capable of suing and being sued in its corporate name.

The Law established the Commission with both general and statutory functions. The general functions include taking "such steps as the Commission considers necessary or expedient for the development and effective supervision of finance business in the Bailiwick" and the statutory functions include those under the laws set out in Appendix 1 of this Report.

Schedule 1 to the Law provides that the Commission shall consist of the president for the time being of the States Advisory and Finance Committee and four ordinary members elected by the States from persons nominated by the Committee and appearing to the Committee to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. Paragraph 2 of the Schedule provides that the chairman shall appoint a member of the Committee to act as his alternate.

Following a suggestion in the United Kingdom Home Office Review report that it may be appropriate for regulatory organisations to be entirely separate from all political bodies, in 1999 the Committee agreed that the chairman of the Commission need not be the president of the Committee. This change will require an amendment to the Law. The opportunity was therefore taken to review the whole of the Law and it is anticipated that a range of amendments will be presented to the States in a policy letter before the end of 2000.

Commissioners and Staff

The Commission was pleased to welcome Mr Mel Carvill and Mr Leslie Priestley as new Commissioners in 1999. They have wide experience in their respective fields and have enabled the Commission to continue to benefit from the expert views of practitioners across a wide range of disciplines. They took the place of Mr Harry Taylor and Mr John Parkinson who retired, each of them having acted as Commissioners since the Commission's inception.

Mr Nigel Taylor, the Director of Investment Business, retired on 31 March 2000. He had been with the Commission since April 1988, shortly after the Protection of Investors (Bailiwick of Guernsey) Law, 1987 was enacted. The Commission wishes to record its gratitude to Mr Taylor for his success in introducing the régime of investment business regulation and enhancing the reputation and success of both the Commission and the investment business sector over the last twelve years.

Mr Peter Moffatt was appointed as Director of Investment Business with effect from July 2000. With his wide experience, Mr Moffatt will be an asset to the Commission.

A number of appointments and promotions were made during the year. These included the appointment in December of Mr Stephen Trevor as Assistant to the Director, Fiduciary Services. This followed the appointment of Mr Talmai Morgan as Director of Fiduciary Services and Enforcement in 1998 (with effect from January 1999) and reflects the Commission's commitment to recruit staff resources to supervise the fiduciary sector under the fiduciary and administration businesses law. In addition, Mr Kevin Bown was promoted to Assistant to the Director, Enforcement. This promotion and the appointment of additional personnel to enforcement activity demonstrates the development and increasing importance of enforcement functions as part of the Commission's rôle. In response to the recent and forecast growth in staff numbers and the enactment of an increasing body of employment, health and safety legislation, Mr Jerz Jurkiewicz was promoted to Assistant to the Director General (Personnel). With the amalgamation of the Finance Training Agency and the Guernsey Training Agency into one body, the Training Agency, Mrs Fiona Naftel joined the Commission's staff as a training manager alongside Mrs Jane Walden. An organogram of the Commission's staff structure can be found on pages 54 and 55.

At 31 March 2000, the Commission comprised forty-four full-time staff, six part-time staff and eight staff seconded to the Training Agency. At that date, the Commission also employed two consultants, one in the Insurance Division and the other as chairman of the Training Agency.

Since its formation in 1988, the Commission's staff level has increased in anticipation of its international obligations and the requirements of the finance industry. From relatively few personnel at the latter end of the 1980s, fifty members of staff worked directly for the Commission at 31 March 2000. Including the Training Agency (for whom the Commission provides seconded staff), the overall number of staff is fifty-eight. At the beginning of 1999, the existing Divisions, namely the Banking, Insurance, Investment Business and Director General's Divisions, were joined by a new Division, the Fiduciary Services and Enforcement Division.

This new Division comprises five persons, two dealing with fiduciary services and two dedicated to enforcement, confidential enquiries and the Commission's duties in relation to company formations. One member of staff supports both the fiduciary services and enforcement functions. The Division will probably need to recruit two more staff during 2000 in advance of the proposed fiduciary and administration businesses law.

The number of analysts within the Banking Division increased by three during 1999, bringing the total number of staff within the Division to eight. This reflects a deepening in the Division's supervisory function and, in particular, the commencement of a rolling programme of on-site visits to banks in order to satisfy international supervisory standards, on top of the established prudential meeting programme and statistical collection and monitoring commitments.

Increasing demands on the staff of

Commission Organogram

as at 31 March 2000

- **P G Crook** — *Director General*
  - **P J Marr** — *Director of Banking*
    - **C M Le Marchant** — *Deputy Director of Banking*
      - **Mrs A M Branch** — *Senior Analyst*
        - **C M Knight**, **M A Ozanne**, **I G N Payne**, **S J Ferry** — *Analysts*
          - **Miss B A Penney** — *Secretary*
  - **N E Taylor** — *Director of Investment Business*
    - **C J Rosumek** — *Deputy Director of Investment Business*
      - **J Monaghan**, **Miss L A Appleton**, **Mrs J E C Robilliard** — *Senior Analysts*
        - **Mrs J M Bird**, **Mrs S L Ellis**, **Miss F White**, **Miss H E Knight**, **M P Tostevin**, **T Lee**, **M Le Page** — *Analysts*
          - **Miss C A Jehan** — *Secretary*
  - **S W Butterworth** — *Director of Insurance*
    - **Ms D Colton** — *Assistant to the Director of Insurance*
      - **A Robert**, **Miss T J Anderson** — *Senior Analysts*
        - **Miss S J Holland**, **Mrs V Gould**, **J Burrows**, **I Choudhury**, **J W Gallienne** — *Analysts*
          - **Mrs N J Degnen**, **Miss R E Warr** — *Secretaries*
      - **A Ayton** *(c)* — *Consultant*
    - **D Johnstone** — *Adviser to the Director of Insurance*
  - **Mrs J M Porter** — *Secretary*
  - **T P Morgan** — *Director of Fiduciary Services and Enforcement*
    - **S Trevor** — *Assistant to the Director, Fiduciary Services*
      - **Mrs L R Jordan** — *Secretary*
    - **K J Bown** — *Assistant to the Director, Enforcement*
      - **J A Barclay** — *Analyst*
        - **Mrs L R Jordan** — *Secretary*

(s) *Seconded staff*
(c) *Consultant*

Commission Organogram
as at 31 March 2000

K Corbin *(c)*
Executive Chairman
Training Agency

D G Archer
Assistant to the Director General (Operations)

J Jurkiewicz
Assistant to the Director General (Personnel)

R A L Walker
Assistant to the Director General (Policy and International Affairs)

Mrs J A Campling
Premises Supervisor

Mrs F J Walden *(s)*
Mrs F M Naftel *(s)*
Training Managers

Mrs C Matthews
Accounts Assistant

Mrs P J Hughes
Receptionist
Miss C Power
Office Assistant
Mrs M Martel
Filing Assistant

Mrs P Machon *(s)*
Miss J Morgan *(s)*
Professional Assistants
Mrs C Rea *(s)*
Centre Manager
Mrs D J Champion *(s)*
Mrs S Cokeley *(s)*
Administrative Assistants
R J Nash *(s)*
Caretaker

Ms J L Stewart
Secretary

Miss B L de Garis
Secretary

Commissioners and Staff

the Insurance and Investment Business Divisions, in both compliance and new business, has also required restructuring and recruitment.

The Insurance Division now comprises two teams under the control of two senior analysts who report to the Assistant to the Director. Further support is provided by an Adviser to the Director. In total, the Insurance Division numbers twelve staff and a consultant.

The Investment Business Division has also been strengthened, currently having seven analysts and three senior analysts who report to the Deputy Director of Investment Business. The Division contains thirteen personnel.

As stated above, in order to accommodate the increase in staff numbers and other demands, it was decided to augment the Director General's Division with a personnel officer who also provides support in other areas. This appointment brought the number of staff in the Director General's Division to twelve.

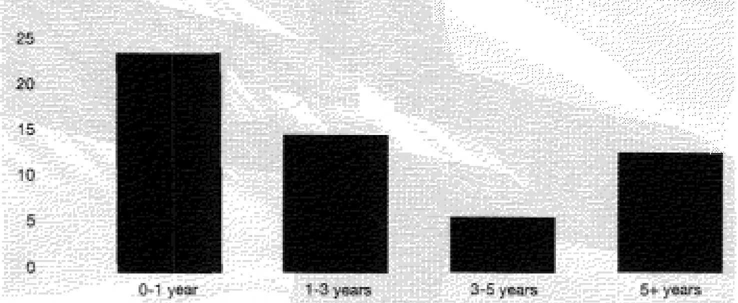
The increase in staff numbers, together with other demands on, and the need for, improved office accommodation, necessitated the Commission moving to its new premises at La Plaiderie Chambers in March 1999.

In order to provide for its regulatory functions, the Commission's staff comprises individuals who, whilst having wide levels of experience, have also achieved professional and high academic qualifications. In addition, the Commission considers that its staff must continue training in their respective fields of operation. Training programmes range from secretarial and administrative courses to professional qualifications and specialist courses. During 1999 these specialist courses covered areas such as banking supervision; securitisations; e-commerce and the practicalities of regulating e-finance; the legal documentation of derivatives; computer software courses; and the potential effects of the 2000 computer issue. In order to keep abreast of developments, Commission staff also attended conferences over the year on an equally wide range of matters.

This approach to training by the Commission is not limited to its own staff. The Finance Training Agency, one of the two predecessor bodies of the Training Agency, was established by the Commission in order to facilitate training courses for all parts of the finance sector. The Training Agency remains dedicated to this objective. In addition, as noted on pages 32, 36, 37 and 41, the Commission's executives outside the Agency ran or participated in a number of conferences, courses, presentations and workshops in 1999, both in Guernsey and abroad.

The Commission has gained considerable benefit from the experience (within and outside the Commission) of its members of staff, and from the development of contacts throughout the Bailiwick finance sector and with regulators and law enforcement officers around the world. A breakdown of the length of service of staff in the Commission and the Training Agency is provided in figure 33.

FIGURE 33 **Length of service at 31 March 2000**



The 2000 Computer Issue

Throughout the year financial services businesses worked aggressively to update and test the ability of their computer systems to process the century/millennium date change. The Commission took this problem seriously and closely monitored the progress of financial services businesses, ensuring that their systems were "millennium compliant". As a result of all of this hard work in the finance sector and the Bailiwick in general, the Commission did not identify any business critical problems within Guernsey financial services businesses.

In 1998 and 1999 staff at the Commission attended a number of international meetings on the 2000 computer issue and were fully aware of the problems which needed to be addressed. A series of questionnaires were completed by financial services businesses and the responses analysed and monitored at the Commission. All financial services businesses were expected to contact the Commission immediately if they discovered a problem over the century date change. Certain larger institutions were also required to confirm that they had encountered no problems and were operating normally. Internally, the Commission had established a contingency plan to deal with any potential problems.

It is generally agreed that the preparations for 2000 compliance not only absorbed a great deal of resources but also that it proved to have a positive aspect in that it made financial services businesses ensure that their business recovery procedures are relevant and up-to-date. It has also meant that information technology systems throughout the Bailiwick have been upgraded to a high standard, with the result that operating platforms are stronger than they were before the exercise began.

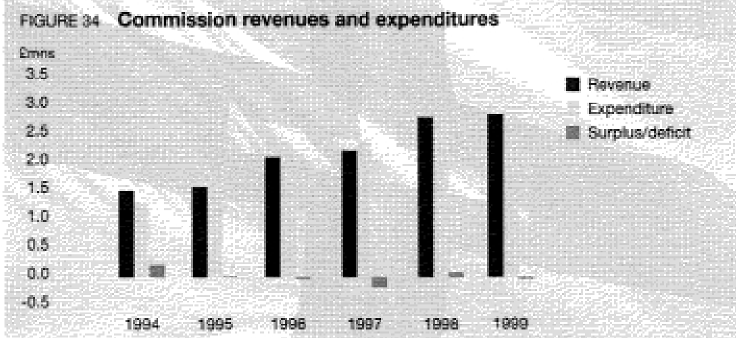
States Committees

The practice was continued of the Commission meeting with the Committee half-yearly. These meetings afford an opportunity for the Committee to review the need, if any, to exercise its powers under section 7 of the Law to give the Commission, after such consultation, written guidance or directions.

Meetings with the Finance Industry Policy Advisory Panel also continued to be held. These meetings, in which representatives of the Committee meet with representatives of the Guernsey International Business Association, are also attended by the Commission (usually represented by the Director General). The meetings between the Guernsey International Business Association and the Commission also continued on a less frequent basis and additionally included HM Procureur and the States Supervisor.

The Commission gave its views throughout the year to the Housing Authority on applications for essential licences by individuals and institutions in the finance sector. In giving its views and such information as might be helpful to the Authority, the Commission's executives necessarily work within the policy laid down by the Authority. In order to do this in a systematic way the Commission normally requires an applicant to provide information on matters such as staff, training and qualifications, reasons for the proposed appointment, contribution to the economy and particularly the reasons why a fifteen year licence may have been requested as opposed to a licence for three or five years. Routinely, the Commission comments on the actual and prospective economic benefit contributed by the applicant institution and on the applicant's commitment to training. The Commission attaches great importance to training as it takes the view that the Bailiwick must develop as much as possible from within.

FIGURE 34 **Commission revenues and expenditures**



Income and Expenditure of the Commission

Income and expenditure policy

The Commission aims over the medium and long term to match its expenditure to income and to operate on a nil profit basis. Inevitably, on a year to year basis there are surpluses and deficits.

As indicated by figure 34, surpluses and deficits have been kept to a minimum since 1994. Prior to that date, surpluses were used to build up reserves against large expenses and unforeseen costs. The Commission is also mindful that it imposes financial resources requirements on the institutions it supervises and regulates and that it is equally prudent for the Commission to retain an appropriate financial reserve.

Fees

The Commission's main source of income is fees.

On 1 January 1998 the Financial Services Commission (Fees) Regulations, 1997 came into effect establishing a new fee structure. This structure has since been amended and/or extended by the Protected Cell Companies (Fees for Insurers) Regulations, 1998 which came into operation on 1 April 1998; the Financial Services Commission (Fees) (Amendment) Regulations, 1998 which came into effect on 7 July 1998; the Financial Services Commission (Fees) Regulations, 1998 which came into operation on 1 January 1999; the Migration of Companies (Fees) (Amendment) Regulations, 1999 which came into force on 1 April 1999; the Financial Services Commission (Fees) (Amendment) Regulations, 1999 which came into operation on 1 January 2000; and the Protected Cell Companies Fees (Fees for Insurers) (Amendment) Regulations, 1999 which came into force on 1 January 2000. The principal requirements under the regulations are for the following fees to be paid to the Commission:-

Licensing of banks

1. (1) A person applying to the Commission under section 5 of the Banking Supervision (Bailiwick of Guernsey) Law, 1994 for a banking licence shall pay to the Commission at the time of making that application a fee of £10,500.
   (2) A licensed institution shall pay to the Commission:-
   (a) on or before the last day of the month in which it is first so licensed a fee of £875 multiplied by the number of complete months between the date on which it is first so licensed and the end of the calendar year in which that date falls; and thereafter,
   (b) on or before 31 January each year, a fee of £10,500.

Registration of insurers

2. (1) Subject to section 2A. below and the Protected Cell Companies (Fees for Insurers) Regulations, 1998, as amended (see section 4 below):-
   (a) a body applying to the Commission under section 10 of the Insurance Business (Guernsey) Law, 1986 to be registered as an insurer in respect of insurance business other than solely domestic business shall pay to the Commission when making that application a fee of £2,200; and
   (b) a body so registered under section 11 of the Insurance Business (Guernsey) Law, 1986 shall pay to the Commission when depositing its annual return and accounts in accordance with section 25 of the Insurance Business (Guernsey) Law, 1986, or in accordance with any condition imposed under section 13 of the Insurance Business

(Guernsey) Law, 1986 a fee of £2,200.

(2) Subject to section 2A. below and the Protected Cell Companies (Fees for Insurers) Regulations, 1998, as amended (see section 4 below):-

(a) a body applying to the Commission under section 10 of the Insurance Business (Guernsey) Law, 1986 to be registered as an insurer in respect of insurance business which is solely domestic business shall pay to the Commission when making that application a fee of £1,350; and

(b) a body so registered under section 11 of the Insurance Business (Guernsey) Law, 1986 shall pay to the Commission when depositing its annual return and accounts in accordance with section 25 of the Insurance Business (Guernsey) Law, 1986, or in accordance with any condition imposed under section 13 of the Insurance Business (Guernsey) Law, 1986 a fee of £1,350, provided that in the case of such an insurer which had gross premium income of less than £12,000 in its most recent complete financial year paragraphs (a) and (b) of this sub-section 2.(2) apply with the substitution of "£200" for "£1,350".

Registration of mutual, provident or friendly societies

2A. A mutual, provident or friendly society shall pay to the Commission:-

(a) when applying under section 10 of the Insurance Business (Guernsey) Law, 1986 to be registered as an insurer, and

(b) when depositing its annual return and accounts in accordance with section 25 of the Insurance Business (Guernsey) Law, 1986, or in accordance with any condition imposed under section 13 of the Insurance Business (Guernsey) Law, 1986 a fee of £1,350, provided that if the Commission has certified that it does not consider the society to be a commercial insurer and has not withdrawn that certification this sub-section 2A. applies with the substitution of "£200" for "£1,350".

Registration of insurance intermediaries

2B. (1) A person applying to the Commission under section 49B(3) of the Insurance Business (Guernsey) Law, 1986 to be registered as an insurance intermediary, other than a person applying for a temporary registration under section 49B(6) of the Insurance Business (Guernsey) Law, 1986, shall pay to the Commission when making that application:-

(a) if the person has only one insurance representative, a fee of £280;

(b) in any other case, a fee of £1,000, except where the person has two or more insurance representatives engaged in arranging contracts of insurance in, or providing advice on, only one sub-class of general insurance business, in which case the fee shall be £500.

(2) A registered insurance intermediary, other than a person granted a temporary registration under section 49B(6) of the Insurance Business (Guernsey) Law, 1986, shall pay to the Commission when depositing any annual return in accordance with conditions imposed under section 49B(4) of the Insurance Business (Guernsey) Law, 1986:-

(a) if the intermediary has only one insurance representative, a fee of £280;

(b) in any other case, a fee of £1,000 except where the person has two or more insurance representatives engaged in arranging contracts of insurance in, or providing advice on, only one sub-class of general insurance business, in which case the fee shall be £500.

Authorisation of industrial and commercial insurance consultants

2C. (1) A person applying to the Commission under section 42 of the Insurance Business (Guernsey) Law, 1986 to be authorised to act in Guernsey as an industrial and commercial insurance consultant, other than a person who satisfies the Commission that he does not normally carry on that business in or from within Guernsey, shall pay to the Commission when making that application a fee of £1,000.
(2) An authorised industrial and commercial insurance consultant shall pay to the Commission when submitting an annual business plan required by the Commission a fee of £1,000.

Authorisation of insurance managers

3. (1) A person applying to the Commission under section 42 of the Insurance Business (Guernsey) Law, 1986 to be authorised to act in Guernsey as an insurance manager shall pay to the Commission at the time of making that application a fee of £2,000 if the application is for an unrestricted authorisation, or a fee of £1,000 if the application is for a restricted authorisation as mentioned in section 44 of that Law.
(2) An authorised insurance manager shall pay to the Commission, at the same time as furnishing information to the Commission pursuant to section 48(1)(a) of the Insurance Business (Guernsey) Law, 1986, a fee of £2,000 if the manager has an unrestricted authorisation, or a fee of £1,000 if the manager has a restricted authorisation as mentioned in section 44 of that Law.

Protected cell companies

4. (1) For the purposes of section 10 of the Insurance Business (Guernsey) Law, 1986 an application by a protected cell company to be registered as an insurer shall be accompanied by a fee of £2,800.
(2) For the purposes of section 63A(2)(c) of the Insurance Business (Guernsey) Law, 1986, a protected cell company registered as an insurer under section 11 of the Insurance Business (Guernsey) Law, 1986, shall pay to the Commission at the same time as it deposits its annual return and accounts as required by section 25(1) of that Law, a fee equal to the sum of the following amounts:-
    (a) £2,200; and
    (b) 0.25% of the gross premium income attributable to each cell of the protected cell company, subject to:-
        (i) a maximum, in respect of each cell, of £2,200; and
        (ii) a minimum, in respect of each cell, of £500 provided that, if there is no gross premium income attributable to any cell of the company in the financial period in respect of which the annual return and accounts have been prepared, then no fee shall be payable

pursuant to paragraph (b).
(3) The Commission may in its absolute discretion waive any fee, or part of a fee, payable pursuant to the Protected Cell Companies (Fees for Insurers) Regulations, 1998, as amended.
(4) The fees payable under the Protected Cell Companies (Fees for Insurers) Regulations, 1998, as amended, are in substitution for, and not in addition to, the fees payable under the Financial Services Commission (Fees) Regulations, 1997, as amended.

Licensing of controlled investment business

5. (1) A person applying to the Commission under section 3 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 for a licence to carry on controlled investment business in or from within the Bailiwick shall pay to the Commission at the time of making that application a fee of £1,000.
(2) A person who is licensed under section 4 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 to carry on controlled investment business shall pay to the Commission:-
(a) on or before the last day of the month in which the licence is first issued, a fee of £83 multiplied by the number of complete months between the date on which the licence is issued and the end of the calendar year in which that date falls; and thereafter,
(b) on or before 31 January in each year:-
(i) in the case of a designated manager or designated trustee or custodian, a fee of £2,000,
(ii) in all other cases, a fee of £1,000.
(3) paragraph (2) above does not apply in the case of a person who is licensed to carry on the restricted activity of operating an investment exchange, who shall instead pay to the Commission, on or before 31 January in each year, a fee of £25,000 under the Financial Services Commission (Fees) Regulations, 1998.

Authorisation of collective investment schemes

6. (1) A person applying to the Commission under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 for a declaration that a collective investment scheme is an authorised collective investment scheme shall pay to the Commission at the time of making that application a fee of £2,000.
(2) The designated manager of a collective investment scheme authorised under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 shall pay to the Commission on or before the last day of the month in which that scheme is first declared to be an authorised collective investment scheme:-
(a) (i) a fee of £166 multiplied by the number of complete months between the date on which the scheme is first declared to be an authorised collective investment scheme and the end of the calendar year in which that date falls; and in addition,
(ii) in the case of an umbrella or multi-class scheme, a fee of £10 for each class or sub-fund multiplied by the number of complete months between the date on which the scheme is first so declared and the end of the calendar year in which that date falls; and thereafter,
(b) on or before 31 January in each year, a fee of £2,000 together with, in the case of an umbrella or multi-class scheme, a fee of £120 for each approved class or sub-fund.
(3) The designated manager of an authorised collective investment scheme shall pay to the Commission, whenever the Commission is notified in accordance with any Rules for the

time being in force of a proposed alteration which would have the effect of adding a class or sub-fund to the scheme, a fee of £400 for each additional class or sub-fund.

Designated territory investment business notification

7. The fee payable to the Commission by a person giving notice in accordance with section 29(1)(c)(iv) of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 of the date from which it intends to promote a collective investment scheme in or from within the Bailiwick is:-
   (a) if the designated country or territory in or from within which, and under the law of which, it is permitted to promote that scheme is anywhere other than the Bailiwick of Jersey, £1,000 in respect of each collective investment scheme in connection with which the notice is given;
   (b) if that designated country or territory is the Bailiwick of Jersey, nil.

Non-Guernsey collective investment scheme notification

8. The fee payable to the Commission by a person giving notice, in accordance with rule 2 of the Licensees (Conduct of Business and Notification) (Non-Guernsey Schemes) Rules 1994, of any proposal to carry on the restricted activities of management, administration or custody in connection with a non-Guernsey scheme, other than a scheme for the time being excluded from section 7 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 by virtue of section 29(2) of that Law and the Investor Protection (Designated Countries and Territories) Regulations, 1989 and 1992, is £1,000 per scheme.

Migrating companies

9. Under section 14(1)(e) of the Migration of Companies, Ordinance, 1997 a fee of £1,500 must accompany an application to the Commission for the consent of the Commission for the removal of a Guernsey company from the Register of Companies for the purpose of becoming incorporated under the law of another district, territory or place.

The above is not an authoritative statement of the fees payable and if necessary the Fees Regulations themselves should be consulted.

As well as covering the costs of supervision provided by the Commission's resources, the fees also provide for a significant proportion of the costs of the Training Agency.

The States of Guernsey also helps fund the operation of the Training Agency and provides its premises rent-free.

Financial Statements
Income and Expenditure Account

for the year ended 31 December 1999

	Note	1999 £	1998 £
Income	2		
Fees receivable		**2,469,874**	2,406,976
Income derived from the States of Guernsey :			
– Interest on deposits with States Treasury		**73,408**	92,080
– Administration of Control of Borrowing Legislation		**100,000**	100,000
– Development grant		**200,000**	200,000
Other income, including bank interest		**6,190**	7,759
		2,849,472	2,806,815
Expenses			
Salaries, pension contributions, staff recruitment and training		**1,529,402**	1,275,105
Legal and professional fees		**127,643**	429,688
Premises and equipment, including depreciation	4/8/9(ii)	**575,936**	375,955
Insurance		**6,930**	6,930
Ordinary members' fees		**20,000**	20,000
Auditors' remuneration		**3,967**	4,000
Development expenses		**373,197**	336,678
Other operating expenses		**127,869**	111,659
Net expenses of the Training Agency Limited	9(i)	**118,514**	153,483
		2,883,458	2,713,498
(Deficit)/surplus of income over expenditure	2	**(33,986)**	93,317
Balance brought forward		**1,056,917**	963,600
BALANCE CARRIED FORWARD		**£1,022,931**	£1,056,917

Statement of Total Recognised Gains and Losses

There were no recognised gains or losses other than the deficit of income over expenditure for the financial year.

The notes on pages 66 to 69 form an integral part of these financial statements.

Balance Sheet

31 December 1999

	Note	1999 £	1999 £	1998 £	1998 £
Fixed Assets					
Tangible assets	4/9(ii)		**314,941**		187,682
Current Assets					
Debtors	5	**271,767**		165,086	
Balances with States Treasury		**583,981**		865,572	
Cash at bank and in hand		**156,867**		39,982	
		1,012,615		1,070,640	
Creditors – Amounts falling due within one year	6	**(304,625)**		(201,405)	
Net Current Assets			**707,990**		869,235
Total Assets Less Current Liabilities			**£1,022,931**		£1,056,917
Represented by:-					
Income and Expenditure Account			**£1,022,931**		£1,056,917

The notes on pages 66 to 69 form an integral part of these financial statements.

The financial statements on pages 64 to 69 were approved by the Commissioners and signed on their behalf on 7 March 2000 by:

Chairman
L C Morgan

Vice-Chairman
J E Hallam

Notes to the Financial Statements

31 December 1999

1. Accounting policies

(a) **Convention**

These financial statements have been prepared in accordance with the historical cost convention. The principal accounting policies which the Commissioners have adopted within that convention are set out below.

(b) **Fees receivable**

Fees receivable are accounted for on the date on which they become due to the Commission.

(c) **Interest**

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

(d) **Tangible fixed assets and depreciation**

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

Leasehold improvements	– over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment and fittings	– 25% straight line
Computer equipment	– 33⅓% straight line

(e) **Foreign currency translation**

Assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions during the year have been translated at the rates of exchange ruling at the date of the transaction.

2. Income and deficit of income over expenditure

Income and deficit of income over expenditure derive wholly from continuing activities.

3. Taxation

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

Notes to the Financial Statements
31 December 1999

4. Tangible assets

	Leasehold Improvements	Office Equipment and Fittings	Computer Equipment	Total
Cost				
At 1 January 1999	169,713	327,654	359,824	857,191
Additions	20,692	141,795	117,032	279,519
Disposals	(104,713)	-	-	(104,713)
At 31 December 1999	85,692	469,449	476,856	1,031,997
Depreciation				
At 1 January 1999	137,655	237,925	293,929	669,509
Charge for the year	20,474	74,349	57,437	152,260
On disposals	(104,713)	-	-	(104,713)
At 31 December 1999	53,416	312,274	351,366	717,056
Net book value				
At 31 December 1998	£ 32,058	£ 89,729	£ 65,895	£ 187,682
At 31 December 1999	£ 32,276	£ 157,175	£ 125,490	£ 314,941

5. Debtors

	1999	1998
Fees receivable	**15,300**	24,876
Prepayments	**68,558**	44,400
Other debtors	**4,478**	49,561
Amount due from the Training Agency Limited (note 9)	**183,431**	46,249
	£271,767	£165,086

Notes to the Financial Statements

31 December 1999

6. Creditors – amounts falling due within one year

	1999	1998
General expense creditors	**194,402**	163,555
Accruals	**38,513**	24,200
Fees received in advance	**71,710**	13,650
	£304,625	£201,405

7. Superannuation

The employees of the Commission are members of the States of Guernsey Public Servants' Pension Scheme. This is a defined benefits scheme funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the expected service lives of those employees.

	1999	1998
Charge for the year	**£77,891**	£67,683

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts for the States of Guernsey.

8. Financial commitments

The Commission leases property on short leaseholds. The rentals payable under these leases in the next year are as follows:-

Date of termination of leases:	
– within one year	16,800
– after five years	194,780
	£211,580

During the year the Commission vacated its principal leasehold premises at Valley House and moved into new leasehold office accommodation at La Plaiderie Chambers. As a result of timing differences between the inception of the new lease and the surrender of various parts of the old leased premises, there was a duplication of rental and related premises costs for a short period and the profit and loss charge for the year is therefore abnormally high. The lease on La Plaiderie Chambers expires on 25 March 2020 and the rentals payable in 2000 under the terms of this lease amount to £189,176 and are included above under the narrative of "after five years".

Notes to the Financial Statements

31 December 1999

9. Training Agency Limited

i) The Finance Training Agency Limited was incorporated on 7 June 1996 and is owned by a charitable trust (Finance Training Agency Trust) established by the Guernsey International Business Association. The Commission is the Protector of the Trust. The Finance Training Agency merged with the Guernsey Training Agency during 1999 and on 24 December 1999 the merged entity changed its name to the Training Agency Limited.

The Training Agency Limited arranges training for the finance industry and for other industry sectors. The Agency's staff are employed by the Commission and permanently seconded to the Agency. The Commission currently provides funding to the Agency in order to meet 50% of its net operating expenditure (including notional rent charged by the Board of Administration and the depreciation charge suffered by the Commission on the provision of fixed assets, as set out below), the balance of the funding requirement being provided by the States of Guernsey via the Board of Industry.

ii) Included in the tangible fixed assets set out in note 4 are the following assets which relate exclusively to the Training Agency Limited and which are situated at its premises in Smith Street. The depreciation charged on these assets in the year of £50,028 is included in the Commission's income and expenditure account. The Agency's Smith Street premises are provided by the States of Guernsey.

	Leasehold Improvements	Office Equipment and Fittings	Computer Equipment	Total
Cost	51,579	86,223	69,846	207,648
Accumulated depreciation	(50,081)	(59,475)	(51,930)	(161,486)
Net book value at 31 December 1998	£12,686	£44,382	£20,980	£78,048
At 31 December 1999	£1,498	£26,748	£17,916	£46,162

Auditors' Report

To the Chairman and Ordinary Members of the Guernsey Financial Services Commission

We have audited the financial statements on pages 64 to 69 which have been prepared in accordance with the accounting policies set out on page 66.

Respective responsibilities of the Commissioners and auditors

The Commissioners are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Commission and of the income and expenditure of the Commission for that period. In preparing those financial statements the Commissioners are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue its operations.

The Commissioners are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission and to enable them to ensure that the financial statements have been properly prepared. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commissioners in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Commission's affairs as at 31 December 1999 and of its income and expenditure for the year then ended.

BDO Guernsey Limited
Chartered Accountants
Commerce House
Guernsey

7 March 2000

Status and Functions of the Commission

The Law established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the development and effective supervision of finance business in the Bailiwick" and the statutory functions* include those under the following:-

The Protection of Depositors, Companies and Prevention of Fraud (Bailiwick of Guernsey) Law, 1969 as amended

The Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended

The Insurance Business (Guernsey) Law, 1986 as amended

The Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended

Section 3 of the Road Traffic (Compulsory Third Party Insurance) (Guernsey) Laws, 1936 to 1989

Section 1 of the Surf-Riding Long Boards (Compulsory Third-Party Insurance) Law, 1969

Section 1 of the Vessels and Speed Boats (Compulsory Third-Party Insurance, Mooring Charges and Removal of Boats) (Guernsey) Law, 1972

Section 22 of the Law provides that no member, officer or servant of the Commission is personally liable in any civil proceedings in respect of anything done or omitted to be done in the discharge or purported discharge of any function (statutory or general) of the Commission under the Law unless the thing is done or omitted to be done in bad faith. Similarly:-

The Financial Services Commission (Limitation of Liability) Ordinance, 1990

The Protection of Investors (Limitation of Liability) Ordinance, 1990, and

The Insurance Business (Limitation of Liability Ordinance, 1990

made by the States in exercise of powers under section 23 of the Law together with section 55 of the Banking Supervision (Bailiwick of Guernsey) Law, 1994 provide variously that no liability shall be incurred by the States, the Committee or the Commission in respect of anything done or omitted to be done in the discharge of the Commission's various statutory functions unless the thing is done or omitted to be done in bad faith.

*The statutory functions do not include administration of the Control of Borrowing Ordinances, responsibility for which remains with the Committee. Individual officials of the Commission act for the Committee in matters requiring consent under the Ordinances. Under a similar arrangement, Commission officials act for the Committee in matters requiring action by the Commission under certain sections of the Companies (Guernsey) Law, 1994.

Committees and Working Parties

The following committees and working parties have assisted the Commission with its work in the period since 1 January 1999. Outside members only are listed.

Class A Rules Working Party

Jeff Burton	Barings (Guernsey) Limited
Adv. Nigel Carey	Carey Langlois
David Farrimond	KPMG
Chris Hill	Guernsey International Fund Managers Limited
Bruce Riley	Investec Guinness Flight Fund Managers (Guernsey) Limited

Company Law Reform Committee

Adv. Peter Harwood (until June 1999)	Guernsey Branch of the Institute of Directors
Adv. Ian Kirk (from June 1999)	Guernsey Branch of the Institute of Directors
John Loveless	SG Hambros Trust Company (Guernsey) Limited
Adv. William Simpson	Guernsey Bar
Adv. Diana Thompson	Consultant
Mark Thompson	Guernsey Society of Chartered and Certified Accountants
Adv. Nik van Leuven	Guernsey Bar
Professor Peter Willoughby See page 73	Expert in the company law of other jurisdictions

Development Steering Group

Paul Backhouse	MeesPierson (C.I.) Limited
Bob Baker	Baker Press Services
Robin Fuller	Rothschild Asset Management (C.I.) Limited
Jean-François Gelot	Optimum Risk Research (International) Limited
Tammy Menteshvili	Channel Islands Stock Exchange, LBG
Richard Tee	Polygon Insurance Company Limited

Fiduciary Services Committee

Adv. Raymond Ashton	Carey Langlois
Jonathan Brannam	Sark Association of Corporate Administrators
Keith Corbin	Guernsey Association of Trustees
Susie Farnon	Guernsey Society of Chartered and Certified Accountants
Adv. Peter Harwood	Ozannes
Jonathan Hooley	KPMG
John Loveless	SG Hambros Trust Company (Guernsey) Limited
Patrick Murrin	Harbour Trustees Limited

Finance Sector Working Party on Securitisation

Malcolm Cutts-Watson	Guernsey Insurance Company Managers Association
Adv. John Dyke	Ozannes
Adv. Graham Hall	Carey Langlois
Jonathan Hooley	KPMG
Adv. Ian Kirk	Collas Day
Adv. Roger Le Tissier	Ogier & Le Masurier
Tammy Menteshvili	Channel Islands Stock Exchange, LBG
Mark Pratt	Guernsey Fund Managers Association
Peter Rose	Association of Guernsey Banks

Floating Charges Etc Committee

Adv. Peter Atkinson	Collas Day
David Cherry	Chamber of Commerce
Adv. Peter Harwood	Ozannes
Dudley Jehan	NP Holdings Limited
Nigel Lewis	States Board of Industry
Peter Marchant	NatWest Offshore Limited

Committees and Working Parties continued

Guernsey Insurance Forum

Peter Butler	British Insurance Brokers Association
Michael Clarke	Life Insurance Association
Tom Cleal	Guernsey Friendly Societies Council
John Copeland	Guernsey Insurance Company Managers Association
Paul Cutter	Association of Guernsey Insurers
Steven Jones	Channel Islands Actuarial Society
Alex Lindsay	Association of Guernsey Insurance Brokers
Pat Merriman	Guernsey Association of Pension Funds
Glyn Smith	Association of British Insurers
Gordon Snell	Insurance Institute of Guernsey
John Wills	Guernsey Association of Mutual Insurance Societies
Gordon Winstanley	Loss Adjusters in Guernsey

Insurance Law Review Committee

Rodney Benjamin	Bacon & Woodrow Insurance Managers (Guernsey) Limited
Mel Carvill (until February 1999)	Generali Group, Guernsey
Adv. Peter Harwood	Ozannes
Ron Hendry	Kleinwort Benson (Guernsey) Limited
Barry Jenkinson	Ernst & Young
Michael Savage	Channel Islands Insurance Consultants Limited
Barry Seymour	Aon Insurance Managers (Guernsey) Limited
Peter Walpole	Insurance Corporation of the Channel Islands

Insurance Sector Policy Advisory Group

Robert Alford	Robert Alford Management Consultants Limited
Mel Carvill (until February 1999)	Generali Group, Guernsey
Malcolm Cutts-Watson	Willis Corroon Management (Guernsey) Limited
Ian Daish	Bacon & Woodrow Insurance Managers (Guernsey) Limited
Barry Jenkinson	Ernst & Young
Charles Scott	Bachmann Insurance Managers Limited
Barry Seymour	Aon Insurance Managers (Guernsey) Limited
Adv. Nik van Leuven	Ozannes

Joint Money Laundering Steering Group

Paul Backhouse	International Bankers' Association
Keith Corbin	Guernsey International Business Association and Guernsey Association of Trustees
Mark de Garis	Financial Investigation Unit
Nick McCathie	Guernsey Fund Managers Association
Adv. David Moore	Guernsey Bar
Andy Offen	Guernsey Society of Chartered and Certified Accountants
Peter Symes	Investment Bankers' Association and Committee of Guernsey Clearing Banks

Pensions Steering Group

Rodney Benjamin	Channel Islands Actuarial Society
Paul Buckle	Collas Day
Mel Carvill (until February 1999)	Generali Group, Guernsey
Mike Dewsnap	Channel Financial Services (Guernsey) Limited
Richard Green	States Income Tax Authority
Hilary Mitcheson	States Income Tax Authority

Post-Edwards Banking Sector Working Group

Richard Crowder	Schroders (C.I.) Limited
Stephen Jones	Woolwich Guernsey Limited
Peter Marchant	NatWest Offshore Limited
Peter Niven	Lloyds TSB Bank (Guernsey) Limited
Richard Olliver	SG Hambros Bank & Trust (Guernsey) Limited
Ronald van Beek	Rabobank Guernsey Limited
Ken Wallbridge	Credit Suisse (Guernsey) Limited

Trust Law Review Committee

Adv. David Allison	Rothschild Trust Guernsey Limited
Adv. Ian Kirk	Collas Day
Professor Paul Matthews	University of London

The Director General and his colleagues take this opportunity of acknowledging the contribution made by the outside members of these groups and of thanking them for their support and assistance. Tragically, Professor Peter Willoughby passed away early in 2000. Professor Willoughby was a founder member and mainstay of the Company Law Reform Committee and was often asked by the Commission for advice on company and trust matters outside of that Committee. His presence – not just as an expert practitioner, but also as a friend – will be missed by the Commission.

The Banking Supervision (Bailiwick of Guernsey) Law, 1994

List of institutions holding a banking licence at 31 December 1999

Adam & Company International Limited
Alliance & Leicester PLC
Ansbacher (Guernsey) Limited
ANZ Bank (Guernsey) Limited
Baden-Württembergische Bank AG
Banca Monte dei Paschi (Channel Islands) Limited
Banco Santander Central Hispano (Guernsey) Limited
BankBoston (Guernsey) Limited
Bank Hofmann (Guernsey) Limited
Bank Julius Baer & Co. Ltd – Guernsey Branch
Bank of Bermuda (Guernsey) Limited
Bank of Butterfield International (Guernsey) Limited
Bank of Cyprus (Channel Islands) Limited
Bank Sarasin (Guernsey) Limited
Barclays Bank PLC
Barclays Finance Company (Guernsey) Limited
Barclays Private Bank & Trust Limited
Barings (Guernsey) Limited
BGL Private Bank (Channel Islands) Limited
Birmingham Midshires (Guernsey) Limited
Bristol & West International Limited
BSI AG
BSI (Channel Islands) Limited
C & G Channel Islands Limited
Canadian Imperial Bank of Commerce (Switzerland) Limited – Guernsey Branch
Cheshire Guernsey Limited
CIBC Bank and Trust Company (Channel Islands) Limited
Clariden Bank (Guernsey) Limited
The Co-operative Bank p.l.c.
Coutts (Guernsey) Limited
Credit Suisse First Boston Guernsey Branch
Credit Suisse Guernsey Branch
Credit Suisse (Guernsey) Limited
D.A.H. Hambros Bank (Channel Islands) Limited
Deutsche Bank (C.I.) Limited
Deutsche Bank International Limited
EFG Private Bank (Channel Islands) Limited
EFG Private Bank SA (Guernsey Branch)
Ergobank International (C.I.) Limited
Fiduciary Trust Company International
First Active Bank Channel Islands Limited
Girobank PLC
Hamburgische Landesbank (Guernsey) Limited
HSBC Bank International Limited
HSBC Bank plc
ING Baring Private Bank (Switzerland) Ltd. Guernsey Branch
Investec Bank (Channel Islands) Limited
Kleinwort Benson (Guernsey) Limited
Leopold Joseph & Sons (Guernsey) Limited
Lloyds TSB Bank (Guernsey) Limited
Lloyds TSB Offshore Private Banking (Guernsey) Limited
Lloyds TSB Treasury (Guernsey) Limited
MeesPierson (C.I.) Limited
Mellon Bank (Channel Islands) Limited
National Bank of Greece SA – Guernsey Branch
NatWest Offshore Limited
Northern Rock (Guernsey) Limited
Paribas Guernsey Limited
Paribas (Suisse) SA
Portman Channel Islands Limited
Rabobank Guernsey Limited
RBSI Custody Bank Limited, Guernsey Branch
Rea Brothers (Guernsey) Limited
Republic National Bank of New York (Cayman) Limited, Guernsey Branch
Republic National Bank of New York – Guernsey Branch
Republic National Bank of New York (Guernsey) Limited
Republic National Bank of New York (Suisse) SA, Guernsey Branch
N M Rothschild & Sons (C.I.) Limited
Rothschild Bank Switzerland (C.I.) Limited
Royal Bank of Canada (Channel Islands) Limited
The Royal Bank of Scotland International Ltd – Guernsey Branch
Sabanci Bank (Guernsey) Limited
Saudi International Bank (Guernsey) Limited
Schroders (C.I.) Limited
SG Hambros Bank & Trust (Guernsey) Limited
Skipton Guernsey Limited
Union Discount Company Limited
Woolwich Guernsey Limited
Yorkshire Guernsey Limited

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Institutions licensed for controlled investment business at 31 December 1999

Principal managers

Aberdeen Guernsey Limited
Absolute Alpha Investment Management (Guernsey) Limited
AIIM Funds Management Limited
ANZ Management Company (Guernsey) Limited
Apollo Investment Management Limited
Arab Bank Fund Managers (Guernsey) Limited
Ashmore Management Company Limited
Atlas Capital Management Limited
Bank Hofmann Fund Management (Guernsey) Limited
Baring Asset Management (CI) Limited
Belinvest Management (Guernsey) Limited
BFIT Investment Services Limited
BGL Reads Fund Management Limited
Brewin Dolphin Fund Managers (CI) Limited
Castle Management (Guernsey) Limited
Clariden Investment Management (Guernsey) Limited
Collins Stewart Asset Management Limited
Compass Managers Limited
Concord Misr Investments (Guernsey) Limited
Consulta (Channel Islands) Limited
Copernicus Asset Management Limited
CPC Trans Management Limited
Credit Suisse Asset Management (Guernsey) Limited
Dantrust Management (Guernsey) Limited
Dawnay Day, Butlers Investment Management (Guernsey) Limited
Delphi Asset Management (Guernsey) Limited
ED & F Man Investment Products (Guernsey) Limited
Ely Place Fund Managers (Channel Islands) Limited
Equinox Finance Management (Guernsey) Limited
FM Asset Management (Guernsey) Limited
Foord & Meintjes (Guernsey) Limited
FP Consult (Guernsey) Limited
GL Fund Management (Guernsey) Limited
GYS Investment Management Limited
Hanseatic Asset Management LBG
Hauteville Fund Managers (Guernsey) Limited
Hermitage Capital Management Limited
HRS Asset Management Limited
IBJ AMI (Guernsey) Limited
Kanz Fund Management Services (Guernsey) Limited
KIC Fund Managers (Guernsey) Limited
KME Fund Managers Limited
Landsbanki Capital International Limited
Lazard Fund Managers (CI) Limited
London & Oxford Capital Markets (Guernsey) Limited
Long-Invest Capital Limited
M3 Capital Management (Guernsey) Limited
M & G (Guernsey) Limited
Merchbanc Management (Guernsey) Limited
Merrill Lynch International Capital Management (Guernsey) Limited
Metallgesellschaft (Guernsey) Limited
Metro Global Fund Managers (Guernsey) Limited
Morley Fund Management (Channel Islands) Limited
NatWest Investment Management Channel Islands Limited
Nemrod Management Limited
NSM (Guernsey) Limited
Paragon Asset Management Limited
Port Fund Managers (Guernsey) Limited
Private Fund Managers (Guernsey) Limited
Prospect Street International Fund Management Company Limited
Prudential Fund Managers (Guernsey) Limited
Sarasin Funds Management (Guernsey) Limited
Saudi International (Guernsey) Limited
Schroder Investment Management (Guernsey) Limited
SMK International Limited
Sogeval Management Limited
Soros Fund Management Limited
Staines Fund Managers (Guernsey) Limited
Stamford Associates (Guernsey) Limited
Strategic Management Limited
T.A.L. Asset Management (Guernsey) Limited
Theta Investment Trust Limited
TSG Investment Management (Guernsey) Limited
UBK Asset Management (Guernsey) Limited
Unigestion Asset Management (Guernsey) Limited
U.S. Global Investors (Guernsey) Limited
UTI International Limited
Wafra International Investment Management Limited
Woolwich Asset Management Guernsey Limited
Yamaichi Capital Management (Guernsey) Limited

Designated managers

Anson Fund Managers Limited
BISYS Fund Services (Guernsey) Limited
Bridgewater Administration Limited
Butterfield Fund Managers (Guernsey) Limited
CIBC Fund Managers (Guernsey) Limited
Close Fund Services Limited
Credit Suisse Fund Administration Limited
Dresdner RCM Global Investors (Guernsey) Limited
Guernsey International Fund Managers Limited
Helvetia Fund Administration Limited
HSBC Fund Administration (Guernsey) Limited
Investec Guinness Flight Fund Managers (Guernsey) Limited
Kleinwort Benson (Guernsey) Fund Services Limited
Lloyds TSB Bank Fund Managers (Guernsey) Limited
Management International (Guernsey) Limited
Old Mutual Fund Managers (Guernsey) Limited

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Designated managers continued
Republic Management (Guernsey) Limited
Rothschild Asset Management (C.I.) Limited
Royal Bank of Canada Offshore Fund Managers Limited
Walbrook Fund Managers Limited

Designated trustees/custodians
Bank Hofmann (Guernsey) Limited
Bank of Bermuda (Guernsey) Limited
Bank of Butterfield International (Guernsey) Limited
Barings (Guernsey) Limited
CIBC Bank and Trust Company (Channel Islands) Limited
Close Bank Guernsey Limited
Coutts (Guernsey) Limited
Credit Suisse (Guernsey) Limited
HSBC Bank Plc
HSBC Republic Bank (Guernsey) Limited
Investec Bank (Channel Islands) Limited
Kleinwort Benson (Guernsey) Limited
LTSS (Guernsey) Limited
NM Rothschild & Sons (C.I.) Limited
Royal Bank of Canada (Channel Islands) Limited
SG Hambros Bank & Trust (Guernsey) Limited
The Royal Bank of Scotland Trust Company (Guernsey) Limited

Licensed investment exchange
Channel Islands Stock Exchange, LBG

Other licensees
Abacus Fund Managers (Guernsey) Limited
ABC Property Fund Management (Guernsey) Limited
ABN-AMRO Development Capital (Guernsey) Limited
Access Capital Partners (Guernsey) Limited
Adam & Company International Limited
Adelphi Management Limited
Advalorem Asset Management Limited
AIIM Asset Management Limited
Alchemy Partners (Guernsey) Limited
Alchemy Partners G.P. (Guernsey) Limited
Alchemy Partners G.P. (Guernsey) L.P.
Allied Dunbar Financial Advisers Limited
ALQ Limited
Ansbacher (Guernsey) Limited
Ansbacher Investment Management (C.I.) Limited
Apax Europe IV GP Co. Limited
Apax Europe IV GP LP
A.P. Financial Investment Services Limited
Atlantis Fund Management (Guernsey) Limited
Asset Risk Consultants Limited
Baden-Württembergische Bank AG
Bachmann Asset Management Limited
Balchan Management Limited
Banca Monte dei Paschi (Channel Islands) Limited
Banco Santander (Guernsey) Limited
BankBoston (Guernsey) Limited
The Bank of N.T. Butterfield & Son (Guernsey) Limited
Bank of Montreal Trust Company (C.I.) Limited
BAPEF Advisers L.P.
Barclays Bank PLC
Barclays Global Investors Guernsey Limited
Barclays Private Bank & Trust Company Limited
Baring Asia (GP) Limited
Baring European Fund (GP) L.P.
Baring European Fund Managers Limited
Baring Latin America Fund Managers Limited
Baring Latin America Fund (GP) L.P.
Baring Mexico (GP) Limited
Baring Mexico Managers Limited
Baring Mexico Managers L.P.
Baring Private Equity Partners (Asia) Limited
Baring Private Equity Partners (Central Europe) Limited
Baring Vostok Capital Partners Limited
Baring Vostok Fund (GP) Limited Partnership
Baring Vostok Fund Managers Limited
Barton Management Limited
BC III General Partner Limited
BCEA Advisers Limited
BCEF (GP) Limited
BCEF General Partner L.P.
BCL Investments Limited
BCL Trust Company (Guernsey) Limited
Beta Corporate Services Limited
BGL Private Bank (Channel Islands) Limited
BGL Reads Asset Management Limited
BHD General Partner Limited
Black Geoghegan & Till
Bordeaux Services Limited
BPEP Management Limited
Brewin Dolphin Securities Limited
B&S Investments Limited
BSI (Channel Islands) Limited
BS Partners Limited
Caldwell Associates Limited
Canadian Imperial Bank of Commerce Trust Company (CI) Limited
Cannon Trust Company Limited
Castalia Partners Limited
CEP General Partner L.P.
CETI Advisers Limited
CETI Managers Limited
Channel Financial Services (Guernsey) Limited
Charles Stanley and Company Limited
CIBC Management Services (Guernsey) Limited

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Other licensees continued

CIE Management II Limited
CIS Unit Managers Limited
Clariden Bank (Guernsey) Limited
Clariden Trust (Guernsey) Limited
Clarke Middleton Associates Limited
Close Asset Management Guernsey Limited
Coller Investment Management Limited
Collins Stewart (CI) Limited
Collins Stewart Fund Management Limited
Colocar International Limited
Comgest Asset Management Limited
Credit Lyonnais Securities Asia (Guernsey) Limited
Credit Suisse First Boston Guernsey Branch
Credit Suisse Guernsey Branch
Credit Suisse Trust Limited
CS RVA Management Limited
CS SCF Management Limited
Cygnus Ventures II Managers Limited
Cygnus Venture Partners (Guernsey) Limited
D.A.H. Hambros Bank (Channel Islands) Limited
De Putron Fund Management (Guernsey) Limited
Deutsche Bank (C.I.) Limited
Deutsche Bank International Limited
Deutsche International Trust Corporation (C.I.) Limited
Deutsche Investment Funds Limited
Dixcart Trust Corporation Limited
Duke Street Capital Management Services (Guernsey) Limited
Dune Partners (Guernsey) Limited
Eagle Star Life Assurance Company Limited
EEP Managers Limited
EFG Private Bank (Channel Islands) Limited
Electra European Fund (GP) Limited
Ely International Asset Management Limited
EQT Scandinavia Limited
ESD Managers Limited
EuroSmallCaps Management Services Limited
Excel Capital Partners III General Partner Limited
Exeter Investments (Guernsey) Limited
Federal Trust Company Limited
Finexco International Limited
First Arrow Global Fund Trustees Limited
First Arrow Managed Fund Trustees Limited
GCI Partners Limited
Generali Portfolio Management Limited
Genesis Asset Managers Limited
Genesis Fund Managers Limited
GEP Fund Managers Limited
Global Capital Management Limited
GLS (GP) Limited
Greig Middleton International Limited
Guinness Flight Trustees S.A.R.L.
Havelet Asset Management Limited
Havelet Fund Services Limited
HCF (Guernsey) Limited
Helix Management Limited
Heritage Trust Limited
HFT (Guernsey) Limited
HLSP Investment Management II Limited
HSBC Bank USA, Guernsey Branch
HSBC Republic Trust Company (Guernsey) Limited
Indosuez Administration Services Limited
International Bottler Management Limited
International Private Equity Services Limited
Invesco International (Guernsey) Limited
Investec Guinness Flight Personal Portfolio Management (Guernsey) Limited
Investec Investment Management (Channel Islands) Limited
I.P. Real Estate Asset Management (Guernsey) Limited
Island Consultants Limited
James Capel (Channel Islands) Limited
Bank Julius Baer (Guernsey) Limited
Bank Julius Baer & Co Ltd – Guernsey Branch
Julius Baer Trust Company (Channel Islands) Limited
Kappa IT Ventures (GP) Limited
LAF Sponsor Limited
Lake Services Limited
Larem Trustees Limited
L.C.F. Edmond de Rothschild (C.I.) Limited
Legis Corporate Services Limited
Leopold Joseph & Sons (Guernsey) Limited
Lines Overseas Management (Guernsey) Limited
Liontrust International (Guernsey) Limited
Lloyds TSB Bank (Guernsey) Limited
Lloyds TSB Independent Financial Advisers Limited
Lloyds TSB Offshore Private Banking (Guernsey) Limited
The Louvre Trust Company Limited
Managing General Partner GEP L.P.
Manor Park (Guernsey) Limited
Marsh Financial Services Limited
Marsh Management Services Guernsey Limited
Matheson Investment International Limited
MeesPierson (C.I.) Limited
MeesPierson Investment Management (C.I.) Limited
MeesPierson Management (Guernsey) Limited
Merlin Group Securities Limited
Middle East Capital Group Limited
Midland Bank Trustee (Guernsey) Limited
Millennium Asset Management Limited
Milroy & Associates Limited
Montier Asset Management Limited
Moore Stephens

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Other licensees continued

NatWest Offshore Limited
Newton International Investment Management Limited
Newton Investment Management (Guernsey) Limited
Next Century Partners Limited
Nordic Equity Management Limited
Nordic Mezzanine GP Limited
Nordic Venture Partners Limited
Offshore Investment Consultants (Guernsey) Limited
Orion Capital Advisors (Guernsey) Limited
Overseas Asset Management Limited
Pantheon Ventures (Guernsey) Limited
Paribas Guernsey Limited
Parkway Administration (Guernsey) Limited
Partners Group Private Equity Administration Limited
Pearl Unit Trusts Limited
Peregrine Management Limited
PESD Management Limited
Pictet Asset Management UK Limited
Plaza Film Finance Limited
Polytechnos (GP) Limited
Princess Management & Insurance Limited
Privilege Portfolio International Limited
Prospect Asset Management (Channel Islands) Limited
Quilter & Co Limited
R & H Fund Services (Guernsey) Limited
Rabobank Guernsey Limited
RBSI Custody Bank Limited
Riverdale Asset Management Limited
Rossborough Financial Planning Limited
Rothschild Bank Switzerland (C.I.) Limited
Rothschild Corporate Fiduciary Services Limited
Rothschild Venture (Guernsey) Limited
Royal & Sun Alliance Trust (Channel Islands) Limited
Royal Bank of Canada Investment Management (Guernsey) Limited
Royal Bank of Scotland International Limited
Ruffer (Channel Islands) Limited
Saffery Champness Management International Limited
Schroder Asseily (Guernsey) Limited
Schroders (C.I.) Limited
Schroder Executor and Trustee Company (C.I.) Limited
Schroder Venture Managers (Guernsey) Limited
SC Invest Holding (Guernsey) Limited
Scotney Financial Services Limited
Select Industries Management Company Limited
764 Capital Management Limited
SG Hambros Trust Company (Guernsey) Limited
Sixela Investments Limited
The Slovenian Fund Management Company (Guernsey) Limited
Stenham Gestinor Asset Management Inc
Stenham Gestinor Trustee Limited
Strategix Capital (General Partner) Limited
Templeton Investment Management Limited
Thornhill Guernsey Limited
Threadneedle Portfolio Services Limited
3k Capital (GP) Limited
Trust Management (Alderney) Limited
The UBK European Property Company Limited
Unicapital Investments Management (Guernsey) Limited
Union Discount Company C.I. Limited
Union Fund Management (Guernsey) Limited
Voltaire Distribution Limited
Wilfred T. Fry (C.I.) Limited
Zenith Secretarial Services Limited
Zurich Investment Management (C.I.) Limited

The Licensees (Financial Resources, Notification, Conduct of Business and Compliance) Rules 1998 apply to all the above. In addition, the Collective Investment Schemes (Designated Persons) Rules 1988 apply to designated managers and designated trustees/custodians of authorised collective investment schemes and the Investment Exchange (Notification) Rules 1998 apply to licensed investment exchanges.

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Collective investment schemes authorised at 31 December 1999

Class A Schemes

Dresdner RCM British Fund Limited
Dresdner RCM Continental European Fund Limited
Dresdner RCM Emerging Markets Fund Limited
Dresdner RCM Far East Fund Limited
Dresdner RCM Gilt Fund Limited
Dresdner RCM International Accumulation Bond Fund Limited
Dresdner RCM International Income Bond Fund Limited
Dresdner RCM Japanese Fund Limited
Dresdner RCM North American Fund Limited
Dresdner RCM Strategic Investment Fund Limited
The Elite Personal Portfolio Service
EquiSar (C.I.) Fund
Five Arrows Currency Fund Limited
Five Arrows International Bond Funds Limited
Five Arrows International Reserves Limited
GlobalSar Dollar Fund
GlobalSar Sterling Fund
Guinness Flight Global Strategy Fund Limited
Guinness Flight International Accumulation Fund Limited
Lazard Select Investment Trust Limited
Lloyds TSB Money Fund Limited
M & G Island Global Fund
M & G Island Gold Fund
M & G Island UK Fund
The Old Mutual International Portfolio
Prudential Global Growth Fund Limited
Prudential Money Funds Limited
Prudential USD Bond Fund
Royal Bank of Canada Global Funds
Royal Bank of Canada International Currencies Fund Limited
Schroder India Fund
Schroder Offshore Cash Fund
Schroder Taiwan Fund

The Collective Investment Schemes Rules 1988 and The Collective Investment Schemes (Compensation of Investors) Rules 1988 apply to the above.

Class B Schemes

AB International Fund Limited
Aberdeen PCC Limited
Absolute Alpha Fund PCC Limited
Advisers Fund
Al-Awsat Fund
Al-Kharejiyah Global Strategy Fund Limited
ARIS Fund PCC Limited
Ashmore East European Local Currency Debt Portfolio
Ashmore Emerging Markets Liquid Investment Portfolio
Ashmore Local Currency Debt Portfolio
Ashmore Russian Debt Portfolio
Apollo Californian Fund Limited
Apollo European Fund Limited
Apollo Hedge Fund Limited
Apollo Japan Fund Limited
Apollo Protector Fund Limited
Apollo Tiger Fund Limited
Appleton International Portfolio Fund
Asset Holder PCC Limited
Asset Holder PCC No 2 Limited
Atlas Arbitrage Holdings Limited
Atlas Credit Holdings Limited
Atlas Diversified Holdings Limited
Bachmann Global Investment Fund Limited
The Bangkok Fund
Bank Hofmann Bond Funds
Bank Hofmann – Dollarrent
Bank Hofmann – Emerging Market Rent
Bank Hofmann – Eurorent
Bank Hofmann Stock Funds
Bank Hofmann – Swissrent
Baring Chrysalis Fund Limited
Baring Peacock Fund Limited
Bea Frontier Note Limited
Belinvest Fund
Belvedere Fund Limited
Central and Eastern European Fund Limited
CIBC Private Clients Fund Limited
CIBC TAL Professional Investor Funds PCC Limited
Clariden Dynafloor Investments Limited
Clariden Global Investments Limited
Clariden International Investments PCC Limited
Clariden Investments Limited
Compass Hedging Strategies Fund PCC Limited
Compass Offshore Strategic Investments Fund PCC Limited
Consulta Alternative Strategy Fund Limited
Consulta Canadian Energy Fund Limited
Consulta Emerging Markets Debt Fund Limited
Consulta International Limited
Consulta Smaller Companies Fund Limited
Consulta Technology Fund Limited
Credit Suisse Investment Management Global Performance Funds
The CUCIM Trust
Dantrust Limited
Dantrust II Limited
The Dejima Fund Limited
Deloitte & Touche PCC No. 1 Limited
Delphi Global Limited
Discovery Values Fund
Diversified Asset Fund
Dynamic Growth Fund
The Egyptian Growth Investment Company Limited
Ely Place Sovereign Growth Fund
Elysian Fund
The Euro Spain Fund Limited
Falcon High Income Fund

The Protection of Investors (Bailiwick of Guernsey) Law, 1987

Class B Schemes continued

Finsbury London Town Residential Property Fund
First Mercantile Emerging Russia Fund Limited
Fitzwilliam Active Management PCC Limited
Fitzwilliam International PCC Limited
Five Arrows Global Opportunities Funds
Five Arrows International Investment Funds
Five Arrows International Managed Portfolio
Five Arrows International Portfolio
Foord & Meintjes International Equity Trust
FP Umbrella Fund Limited
Genesis Condor Fund Limited
GL Funds
GL Target Funds
Global Managed Fund Limited
Global Technology Growth Fund Limited
Guernsey Global Fund
Guinness Flight Worldwide Umbrella Fund Limited
Gulf Overseas Investment Fund Limited
Hansa Fund PCC Limited
Hauteville Global & Balanced Fund
Hempshere Equity Fund (EUR) Limited
Hempshere Equity Fund (USD) Limited
Hemisphere Global Hedge Fund Limited
The Hermitage Fund
Horizon Fund
HRS Holdings Limited
IBJ-I Europe Fund
India Access Limited
India Debt Fund Limited
The India I.T. Fund Limited
India Public Sector Fund Limited
Jaivco
Kanz Bank Islamic Investment Fund PCC Limited
KMEFIC Al-Manarah Fund
KMEFIC European Real Estate Liquidity Fund Limited
KMEFIC Real Estate Liquidity Fund
Labrow Global Funds
Landsbanki PCC (Guernsey) Limited
Latin America Capital Partners Limited
Liontrust Guernsey Fund Limited
London & Oxford Value Fund
Long-Invest Fund PCC Limited
M3 Capital Mutual Fund PCC Limited
Man Alternative Strategy Investments Limited
Man-Drapeau Response Limited
Man-Fidex Global Investments Limited
Man-Vector Global Investments Limited
Merchbanc International Funds
Merrill Lynch Series Trust known as "The India Fund"
Metro Global Private Fund Limited
Mint Relative Value Fund Limited
Monument Growth Fund
MRV Investments Limited
Multi-Manager Investment Programmes PCC Limited
Mynah Investments Limited
Nemrod Leveraged Holdings Limited
The New Europe Trust
Offshore Portfolios PCC Limited
Optimal Tracker Fund PCC Limited
Paragon Capital Appreciation Fund Limited
The Patrimony Fund Limited
The Portugal Growth Fund Limited
Prospect Street International Fund PCC Limited
Prudential World Value Fund
Quantum India Partners LDC
Raintree Global Fund Limited
Republic Portfolio Selection Fund
Republic Strategies Fund
Republic Uni-Folio
Royal Bank of Canada Strategic Ratchet Fund
Russian Opportunities Fund Limited
Saudi International High Yield Bond Fund
Schroder Brazil Fund
Schroder Eastern European Fund
Schroder Emerging Markets Fund
Schroder Latin American Fund Limited
Schroder Offshore Sterling Bond Fund
Select Global Strategies Limited
Sogeval Fund Limited
Speer Capital Preservation Fund
Supreme Growth Fund
Swiss Capital PCC Limited
T.A.L. Private Investment Funds
Taurus Emerging Fund Limited
Theta Global Market Risk Fund
TSG (GCI) Management Trust
UBKAM Arabian Investment Country Funds Limited
UBKAM Arabian Investment Master Fund Limited
UBKAM Enhanced Select Fund Limited
UBKAM Select High Yield Investment Fund Limited
Wafra Global Fund Limited
Wafra Small Cap Fund Limited
Waxwing International Limited
Wilen Trust
Woolwich Offshore Asset Plus Fund
The Collective Investment Schemes (Class B) Rules 1990 apply to the above.

Class Q Schemes

MG Metals Fund Limited
NIF Holdings Fund PCC Limited
The Sanwa Total Return Fund
Winterthur Short Term Reserve Funds
The Collective Investment Schemes (Qualifying Professional Investor Funds) (Class Q) Rules 1998 apply to the above.

The Insurance Business (Guernsey) Law, 1986

Institutions registered at 31 December 1999

Domestic insurers

Allied Dunbar Assurance Plc
Allied Dunbar International Assurance Limited
Ancient Order of Foresters Friendly Society
Axa Insurance Plc
Britannic Assurance Plc
Britannic Unit Linked Assurance Limited
The British United Provident Association
CGU Life Assurance Limited
CMI Insurance Company Limited
Combined Insurance Company of America
Commercial General Union Assurance Company Plc
Co-operative Insurance Society Limited
DBI Insurance Company Limited
Domestic & General Insurance Plc
Eagle Star Insurance Company Limited
Eagle Star Life Assurance Company Limited
The Equitable Life Assurance Society
Exeter Friendly Society Limited
Friends' Provident Life Office
GAFLAC Plc
Guardian Insurance Limited
The Guernsey Alliance Insurance Society
Guernsey Mutual Insurance Society
Independent Order of Oddfellows, Manchester Unity Friendly Society
Insurance Corporation of the Channel Islands Limited
The Islands' Insurance Company Limited
La Fraternelle Mutual Fire Insurance Society
Lincoln National (Guernsey) Limited
Lloyds TSB Life Assurance Company Limited
Norwich Union Life Insurance Company Limited
Pearl Assurance (Unit Funds) Limited
Pearl Assurance Plc
Police Mutual Assurance Society Limited
The Prudential Assurance Company Limited
Refuge Assurance Plc
Royal Liver Assurance Limited
The Royal London Mutual Insurance Society Limited
Scottish Boiler & General Insurance Company Limited
Scottish General Insurance Company Limited
Sun Life Assurance Company of Canada
United Friendly Insurance Plc
Western Provident Association Limited

Offshore insurers

A.A. Reinsurance Company (Guernsey) Limited
ABB Insurance Limited
ABB Power Insurance Limited
Aberdeen International Limited
Abigroup Risk Management Services Limited
Absolut Re Limited
ABTA Insurance Company (Guernsey) Limited
ABTA Travel Agents Insurance Company Limited
Acacia Insurance (Guernsey) Limited
Aegis Insurance Company Limited
Agrochem Insurance Company Limited
AGS Insurance Company Limited
Alexander Bartholomew Insurance Limited
Alliance & Leicester Mortgage Insurance (Guernsey) Limited
Allied Colloids Insurance Limited
Amadis Insurance Company Limited
Amco Insurance Company Limited
American Phoenix Life & Reassurance Company – Guernsey Branch
Amersham International Insurance Services Limited
Anchor Insurance and Reinsurance Company Limited
Anchorage Insurance Company Limited
Arcadian Guernsey Limited
Archer Insurance Limited
Arisis Limited
Arjo Wiggins Appleton Insurance Limited
Ark Re Limited
Arnold Clark Insurance Limited
Arriva Insurance Limited
Ascot Underwriting Limited
Automotive Financial Insurances Limited
Automotive Services Insurance Limited
Aviation Baggage Claims Insurance Company Limited
Avon Reach Insurance Company Limited
Aztec Insurance Limited
Bailiwick Insurance PCC Limited
Baker Street Risk and Insurance (Guernsey) Limited
Banks's Brewery Insurance Limited
Bantam Insurance Company Limited
BBP (PCC) Insurance Limited
Bee Insurance Limited
Belaire Insurance Company Limited
Belvoir Insurance Company Limited
BIFA Mutual Insurance Company Limited
B.I. Insurance Limited
Black Lion Insurance Company Limited
BLG Insurance Limited
B M (Insurance) Limited
Bonaventure Insurance Company Limited
Bouverie Insurance Limited
Brecon Insurance Company Limited
Britannia Insurance Company Limited
Britsafe Insurance Services (Guernsey) Limited
Broom Insurance Company Limited
Brownstone Insurance (Guernsey) Limited
Brunel Insurance Company Limited

The Insurance Business (Guernsey) Law, 1986

Offshore insurers continued

B S Insurance Limited
Bulldog Insurance Company Limited
Burnaby Insurance (Guernsey) Limited
The Burnhill Insurance Company Limited
Butterfield Insurance (Guernsey) PCC Limited
Cairngorm Insurance Limited
Capstan Insurance Company Limited
Carfax Insurance Limited
Carfax Personal Lines Insurance Limited
Carmelite Insurance Limited
The Catholic National Mutual Limited
CBS Insurance Limited
Cellulose Insurance Limited
Censure Insurance Company Limited
Channel Life PCC Limited
Channel Shipowners Marine Indemnity Association
Charnwood Insurance Company Limited
City and Commercial Insurance Company Limited
City & Provincial Insurance (PCC) Limited
City Insurers Limited
Clarges Insurance Limited
Clerical Medical Investment Group Limited
Clydesdale Insurance Services Limited
Coborn Insurance Company Limited
Colins Limited
Collegiate Insurance Company Limited
Colonnade Reinsurance Limited
Connaught Insurance Company Limited
Continental Indemnity Limited
Continental Life (International) Limited
Continuum Insurance PCC Limited
Contrex Insurance Limited
Coppice Insurance Company Limited
Cornhill Insurance (Guernsey) Limited
Countrywide Insurance Company Limited
Cowick Insurance Services Limited
Credit Life Assurance Society Limited
Cronors Insurance Limited
Crystal Insurance Company Limited
Curzon Insurance Limited
Deburn Indemnity Limited
The Delphic Insurance Company Limited
Delta Insurance Limited
Derwent Insurance Limited
Design Professionals Insurance Company Limited
DLG Insurance Limited
Dove Insurance Company Limited
Drummonds Insurance PCC Limited
Eachairn Insurance Limited
East West United Insurance Limited
Eastwood Insurance Company Limited
ECC Insurance Limited
Elecrent Insurance Limited
Elementis Insurance Guernsey Limited
Environmental Insurance (Guernsey) Limited
European Credit and Guarantee Insurance PCC Limited
European Life (Channel Islands) Limited
European Reinsurance (Guernsey) Limited
Fairfax Insurances Limited
Fairway Insurance Limited
Fanum Reinsurance Limited
Farmers Re Limited
Farringdon Insurance Company Limited
Felcourt Insurance Company Limited
Felcourt Insurance Company (Overseas) Limited
Field Insurance Limited
Finistere Life Assurance Company Limited
First Century Insurance Limited
The First Saxon Insurance Company Limited
Fistar Limited
Flightform Insurance Limited
Foresight Insurance Limited
The 41 Insurance Company Limited
Foundation Reinsurance PCC Limited
Friars Street Insurance Limited
Fruitcover Limited
Fulmar Finance & Insurance Limited
Fulwood Insurances Limited
Furnival Insurance Company Limited
Gamond Insurance Company Limited
Gannet Indemnity Limited
Garlan Insurance Limited
Geest (Guernsey) Limited
General Credit Insurers Limited
Generali International Limited
Generali Worldwide Insurance Company Limited
Glensure Insurance Company Limited
Global (Guernsey) Limited
Grafton Limited
Grampian Insurance (Guernsey) Limited
Grange Insurance Company Limited
Great Western Insurance Limited
Green Flag Insurance Limited
Guardian Insurance (Guernsey) PCC Limited
Guardian Shield Insurance Limited
Haldan Indemnity Limited
Halifax Guarantee Insurance Company Limited
Halifax Mortgage Re Limited
Harlequin Insurance PCC Limited
Hauteville Insurance Company Limited
Heritage Motor Vehicle Insurance Company Limited

The Insurance Business (Guernsey) Law, 1986

Offshore insurers continued
High Street Insurance Company Limited
Hinton Insurance Limited
Hiscox Insurance Company (Guernsey) Limited
HJM Insurance Company Limited
Holdright Insurance Company Limited
Hollard International Insurance (PCC) Limited
Home Finance Guarantors (Insurance) Limited
HSBC Insurance (Guernsey) Limited
HSBC Insurance SPC Limited – Guernsey Branch
Iberia Reinsurance Limited
IM Insurance Company Limited
The Independents' Advantage Insurance Company Limited
Inreska Limited
Inter-European Insurance Company Limited
International Aviation Syndicate
International Insurance & Guarantee Company Limited
International Marine Syndicate
International Movers Mutual Insurance Company Limited
International Personal Accident Syndicate
Ispat International Insurance Company Limited
Jancap Insurance PCC Limited
JCB Insurance Company Limited
JLP Insurance Limited
Jupiter Insurance Limited
KF Insurance Services Limited
Kingsmill Insurance Company Limited
Kirkstone Insurance Limited
Kopinsure Limited
Korin Insurance Limited
La Coupe Insurance PCC Limited
Lawgram Insurance Limited
Leeside Services (Guernsey) Limited
Les Minquiers Limited
Life Association of Guernsey Limited
Lignin Insurance Company Limited
Lilley Insurance (Guernsey) Limited
Linpac Insurance Company Limited
Lloyds TSB Bank Insurance Company Limited
Lochside Insurance Limited
London Power Insurance Limited
London Transport Insurance (Guernsey) Limited
Longwood Insurance Company Limited
Lothbury Insurance Company Limited
Magnet Insurance Limited
Mainstay Insurance Limited
Mainstay Limited
Markfield Insurance Company Limited
Maxfort Insurance Limited
The May Insurance Company Limited
Maypole Insurance Company Limited
MDDUS Insurance Limited
MDU Insurance Limited
The Meadows Indemnity Company Limited
Meyer International Insurance Limited
MHACE Insurance Company Limited
Michaelangelo Insurance Limited
Mid-Pacific Reinsurance Company Limited
Millennium Life Assurance Company Limited
Mill Stream Insurance Company Limited
Minories Insurance Company Limited
Misys Group Insurance Limited
Moorfields Insurance Company (Guernsey) Limited
Morse Insurance Company Limited
Mountgrave Insurance Limited
M S Insurance Limited
Mutual Indemnity (Bermuda) Limited – Guernsey Branch
NAAFI Insurance (Guernsey) Limited
National Express Guernsey Limited
National Grid Insurance Limited
Neste Insurance Limited
New Horizon Insurance Limited
New World Insurance Company Limited
NFC Insurance Limited
Nightingale Insurance Limited
Nordben Life & Pension Insurance Company Limited
Northern Foods Insurance Limited
Northern Rock Mortgage Indemnity Company Limited
Northside Insurance Company Limited
Norwich Union Life & Pensions Limited
Nova Insurance Limited
NTL Insurance Limited
OCS Insurance (Guernsey) Limited
Octavian Insurance Company Limited
Old Mutual International (Guernsey) Limited
Old Mutual Life Assurance Company (South Africa) Limited, Guernsey Branch
Orchid Insurance Limited
Osiris Marine and General Insurance Company Limited
The Patriot Insurance Company Limited
Peninsula Insurance Limited
Penningtons Insurance Limited
Pentagram International Insurance Company Limited
Peterborough Indemnity Insurance Limited
Peter Cox Insurance Company Limited
PI Insurance Company Limited
Pi Underwriting Limited
Polygon Insurance Company Limited
Portland Insurance Company Limited
Porton Underwriting Limited
Portway Insurance PCC Limited
PostCap Guernsey Limited
Praetorian Insurance Company Limited

The Insurance Business (Guernsey) Law, 1986

Offshore insurers continued

Premium Life International Limited
Princess Management & Insurance Limited
Prometheus Insurance Company Limited
Prospect Underwriting Limited
Protector Insurance Limited
Provident International Credit Guarantee Company Limited
Queen Street Mutual Company Limited
Railtrack Insurance Limited
Rank Insurance Limited
R B Insurance Limited
Redland Insurance Limited
Reigndei Limited
Remus Limited
Republic Industries Automotive Rental Group Insurances Limited
The Rock Company Limited
Romulus Limited
Royal Heritage Life Assurance Limited
Royal Life Insurance Limited
Rugby Insurance Limited
Rutherford Indemnity Limited
Rutland Insurance Limited
Samson Insurance Company Limited
Sandringham Insurance Limited
Sarnia Insurance Company Limited
SB Insurance Limited
Scanport Insurance Limited
Scarcroft Insurance Limited
Scor Channel Limited
Scout Insurance (Guernsey) Limited
SDH Insurance Company Limited
Second Opinion Insurance Company Limited
Senator Insurance Limited
Serco Insurance Company Limited
Servicecover (Guernsey) Limited
Shield Insurance Company (Guernsey) Limited
S L Insurance Limited
S M Insurance (Guernsey) Limited
Soteria Insurance and Finance Limited
South African Reserve Bank Insurance Company Limited
Southern Electric Insurance Limited
Southon Insurance Company Limited
Spread Eagle Insurance Company Limited
SRH Reinsurance Company Limited
Stapleford Insurance Company Limited
Statemet Insurance Company Limited
St James's Insurance Limited
Sure–Ha International Limited
Tain Insurance Company Limited
Talisman Guernsey Limited
Target Insurance Company (Guernsey) Limited
Tayside Reinsurance Limited
TDG Insurance Limited
The Temple Insurance PCC Limited
Tern Insurance Limited
Terrace Insurances Limited
Tesco Insurance Limited
Thame Insurance Company Limited
Thomson Travel Insurance Services Limited
Thorn Insurance Company Limited
TI Group Insurance Limited
Topsail Insurance Company Limited
Tor Insurance (Guernsey) Limited
Transcor Insurance Limited
Trans-European Insurance Limited
Travel Managers Insurance Company Limited
Two Oceans Reinsurance Company Limited
UN & M Insurance Company Limited
Unic Insurance Limited
United Insurance Company PCC Limited
United Kenning Rental Group Insurance Services Limited
Universal Insurances Limited
Valkaray Insurance Limited
Voyager Insurance Company Limited
Vulcan Insurance PCC Limited
Watertight Insurance Limited
Western Insurance Company Limited
West House Insurance Limited
Whitehall Insurance Company Limited
White Horse Insurance Limited
White Rock Insurance Company PCC Limited
White Swan Insurance Company Limited
Windsor Limited
Winguard Insurance Company Limited
Winston Insurance Company Limited
Woodcroft Insurance Company Limited
World Traveller Insurance Limited
WPD Insurance Limited
W.S. Atkins Insurance (Guernsey) Limited
Yealme Insurance Limited
Yorksafe Insurance Company Limited

There are seventeen insurers currently exempt from regulation.

Insurance managers authorised at 31 December 1999

Unrestricted

AIG Insurance Management Services (Guernsey) Limited
AON Insurance Managers (Guernsey) Limited
AON Risk Services (Guernsey) Limited
Assicurazioni Generali (Insurance Managers) Limited
Bachmann Insurance Managers Limited
Bacon & Woodrow Insurance Management (Guernsey) Limited

The Insurance Business (Guernsey) Law, 1986

Unrestricted continued

CGU Management Services (Guernsey) Limited
Channel Islands Insurance Consultants Limited
Griffiths & Armour Captive Management Limited
HSBC Insurance Management (Guernsey) Limited
Insurance Corporation Service Company Limited
International Risk Management (Guernsey) Limited
Investec Bank (Channel Islands) Insurance Management Services Limited
Lambert Fenchurch Insurance Management (Guernsey) Limited
Langtry Insurance Services (Guernsey) Limited
Le Marchant Underwriting Management Limited
Marsh Management Services (Guernsey) Limited
McCalls Insurance Managers (Guernsey) Limited
Mutual Risk Management (Guernsey) Limited
Normandie Risk Management Limited
Optimum Risk Research (C.I.) Limited
Polygon Management Limited
Prism Insurance Management Limited
Risk Management Limited
Sartor Resources Limited
Sedgwick Management Services (Guernsey) Limited
Sinser (Guernsey) Limited
Willis Corroon Management (Guernsey) Limited

Restricted

Channel Life Management Consultants Limited, restricted to long-term insurance only
Orion Insurance Management Limited, restricted to managing:-
- Ancient Order of Foresters Friendly Society Court "Pride of Sarnia"
- La Fraternelle Mutual Fire Insurance Society

Portman Welbeck Limited, restricted to managing:-
- Prospect Underwriting Limited
- Winston Insurance Company Limited

Intermediaries

Anthony Le Blanc & Partners
Argus Insurance Brokers Limited
Arrow Insurance Brokers (Guernsey) Limited
Bachmann Insurance Brokers Limited
Barclays Offshore Financial Services
Birch Insurance Brokers Limited
Canivet Webber Financial Services Limited
Capital Guernsey Limited
Channel Financial Services (Guernsey) Limited
Channel Insurance Brokers Limited
Charlesworth International (Guernsey) Limited
Chis Insurance Services Limited
Clarity Financial Limited
Clarke Middleton Associates Limited
Clegg Gifford (Islands) Limited
Collins Stewart (CI) Limited
De Beauvoir International Financial Consultants Limited
De La Rue and Jones Financial Services Limited
Doric Insurance Brokers Limited
First City Insurance Brokers Limited
First (Guernsey) Limited
Flint & Company Limited
Goldridge Stone Limited
Hepburns Life & Pensions Limited
HSBC Bank plc
Islands' Insurance Brokers Limited
Lloyds TSB Independent Financial Advisors Limited
Marsh Financial Services Limited
Martin-Gray Insurance
Miller Insurance Group Limited
NatWest Offshore Limited
NetworkDirect Limited
Normandie Insurance Brokers Limited
Nova Financial Services Limited
Pentagon Insurance Brokers Limited
Principal Financial Limited
R A Rossborough (Guernsey) Limited
Rossborough Financial Planning Limited
Rossborough Healthcare International Limited
Rossborough Insurance Brokers (Alderney) Limited
Ross-Gower Group Limited
Royal Bank of Canada (Channel Islands) Limited
Royal Bank of Scotland International Limited
Safehaven International Limited
SG Hambros Bank & Trust (Guernsey) Limited
Southern Insurance Management Limited
United Assurance Management Services Limited
Woodlock Financial Services

Temporary intermediaries

Anthony K Falcon Limited

Outsourcing of Administration Functions in Respect of Authorised Collective Investment Schemes

1. Introduction

During the past two years the Commission has been approached by a number of parties enquiring as to whether administration functions in respect of collective investment schemes authorised under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 ("the POI Law") may be delegated by the Designated Manager to parties in other jurisdictions. The purpose of this Guidance Note is to set out the Commission's policy relating to such outsourcing, and to give practical guidance to Designated Managers who may be considering outsourcing.

2. The Commission's Policy

2.1 The Commission's policy is based on the following premises:-

(a) the ultimate responsibility for outsourced business remains with the Designated Manager;

(b) the Designated Manager should satisfy itself at the outset, and on a continuing basis thereafter, that the overseas administrator is fit and proper, and be able to evidence that it has done so if required by the Commission.

2.2 In principle, the Commission will consider proposals for the outsourcing from Guernsey of certain administration functions in respect of schemes authorised under the POI Law. The Commission would normally expect such proposals to relate to schemes with, inter alia, a high net asset value and high volume of transactions (for example, retail funds). As there would normally be a loss of economic benefit to Guernsey, resulting from the Guernsey Designated Manager having to pay the non-Guernsey service provider from its own fees, the Commission will need to take into account the additional fees that would be earned by the Designated Manager to make up the loss. In all of the cases of outsourcing considered to date by the Commission, the Designated Managers have outsourced the valuation processes in order to utilise their local resources on new business for which they are then able to act.

2.3 As always, the Commission is prepared to meet with Designated Managers and other parties to discuss proposals to outsource administration functions from Guernsey and would encourage such discussion at an early stage of any proposal.

3. Practical Guidance

In general terms, if outsourcing is proposed-

3.1 The Commission will carry out its own regulatory and other checks into the proposed entity ("the administrator") that is to carry out functions on behalf of the Guernsey Designated Manager. The Commission will also need to be satisfied that the administrator has a demonstrable track record in the proposed functions to be undertaken and that under the relevant regulatory regime of its own jurisdiction it may undertake these functions. The Commission will need to be satisfied that the jurisdiction from which the delegate operates is adequately and suitably regulated.

3.2 The Commission would expect to be kept informed of major developments in respect of outsourcing proposals during the planning and development stages. From the Commission's experience, based on Designated Managers who have outsourced, this process can take up to six months to complete, mainly due to the need for legal and procedural documentation to be drafted, agreed and implemented.

3.3 The Commission will carry out a compliance visit to the Designated Manager after the implementation of any outsourcing arrangements to ensure that the Designated Manager continues to comply, and demonstrates compliance, with the POI Law and the relevant rules and regulations made thereunder. In addition the Commission will check to ensure that all of the matters set out under 3.4 to 3.9 below have been addressed by the Designated Manager.

The Commission would expect the Designated Manager to ensure that the following matters have been addressed:-

3.4 The Designated Manager should carry out its own due diligence in respect of the administrator and be able to provide written evidence of such due diligence to the Commission upon request. Such due diligence should be updated on a periodic basis in the light of information coming to the Designated Manager's attention. The frequency of the ongoing due diligence is a matter for the Designated Manager but should be rationalised and be demonstrable. The Designated Manager must also be satisfied that the proposed arrangements will have no adverse regulatory or fiscal impact upon the scheme.

Outsourcing of Administration Functions in Respect of Authorised Collective Investment Schemes

3.5 The Commission would expect all of the planning and pre-implementation processes to be fully documented. In addition, a period of parallel operation (using the old and new systems) would be expected. Some form of procedures manual will need to be developed, tested and put into operation. The Designated Manager's own compliance arrangements, required under Part 16 of the Collective Investment Schemes (Designated Persons) Rules 1988, will need to be updated.

3.6 The Designated Manager should ensure that a legally binding administration agreement is entered into with the overseas administrator effective from the date of appointment. In particular, the Commission would not expect the authorised scheme to bear the costs of the implementation and continuation of the outsourcing arrangements or any errors or problems arising therefrom.

3.7 Real time links between the Designated Manager and the administrator must be maintained and the Designated Manager must have at least read access to the information held by the administrator. The relevant rules made under the POI Law relating to record retention must be addressed. Disaster recovery and back-up facilities will need to be put in place.

3.8 The Commission would expect regular liaison to occur between the Designated Manager and the administrator to discuss the operation generally, problems identified and future developments and for this to be evidenced. The Designated Manager would be expected to carry out its own regular "audits" of the administrator's operations (in particular of the administrator's internal controls), the frequency of which is a matter for the Designated Manager to decide but which would be expected to be at least once a year. The frequency and scope of such "audits" must also take into account the extent of any problems with errors made by the administrator.

3.9 It is pointed out that the Commission would expect all Designated Managers which outsource functions to comply with the foregoing; from the evidence seen on Commission compliance visits and discussions with the relevant Designated Managers this has been the case.

4. Liaison with Designated Trustees/Custodians

The Commission would expect the Designated Manager to keep the Designated Trustee/Custodian advised of any proposals to outsource administration functions and for the latter to be content with the proposed arrangements. There are also implications under the Commission's "Incorrect Pricing of Authorised Collective Investment Schemes – Guidance Note on Correction and Compensation" (for example, 2.1, 2.2, 2.3 and 3.2 of the Guidance Note) that will need to be considered.

The Guidance Note above was issued by the Commission in 1999.

Administered Banks – Outsourcing to Maximise Resource Efficiency

The concept of a bank without a stand-alone presence was first elaborated in Guernsey in 1987. It was felt that all Guernsey banks having their own building and a full complement of staff was a poor use of the Bailiwick's resources. In this respect Guernsey was a pioneer in the field of outsourcing – a phenomenon becoming increasingly popular in the business world today.

Under the administered bank concept existing banks were permitted to administer other banks, seconding staff and leasing areas of office space where and when necessary. To be deemed acceptable to administer another bank, the administering bank has to persuade the Commission that it has the necessary expertise to handle such a major outsourcing service. It also has to show that in certain areas it has spare capacity. Importantly, and unlike other jurisdictions offering a similar service, only a bank is permitted to administer another bank.

Administered banks are not to be confused with the so called "cubicle banks" or "brass plate banks" operated from other jurisdictions. Brass plate and cubicle operations are strictly forbidden in Guernsey. Administered banks are no different to any other bank in Guernsey apart from their more comprehensive outsourcing arrangements. This means that all primary records, books and accounts must be maintained in the Island and they are locally audited. These banks pay tax on their profits in Guernsey and employ staff in the Bailiwick (many on a seconded basis).

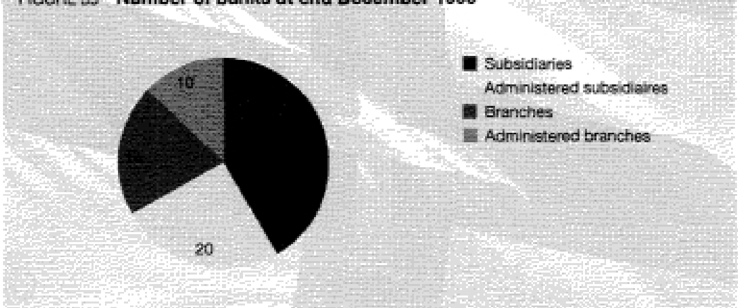
From the supervisory standpoint administered banks and stand-alone banks are treated no differently. All Guernsey banks receive the same banking licence. All have to be fully supervised in Guernsey using the Commission's combination of on-site annual prudential meetings with management; monthly statistical and quarterly prudential reporting; on-site targeted review team visits and the usual array of supervisory tools. All have to meet the requirements of the Basel Committee on Banking Supervision's Capital Accord.

Although there is a uniform licence, there is no typical structure for an administered bank. They can be a local subsidiary or a branch of a non-Guernsey bank. Some banking groups with stand-alone banks in the Bailiwick use those banks to administer Guernsey subsidiaries or branches of other banks in their group of companies. Others have specialised in administering third-party banks and have the service as one of their product income streams. This has resulted in some banks administering up to six other banks (of varying complexity).

The extent of outsourcing also differs. Some straightforward deposit-gathering banks outsource all activities to the administering bank which can result in twenty staff being seconded to the administered bank. Other very limited operations can be operated on a full-time equivalent of two or three man-years. However, some administered banks employ staff of their own alongside staff seconded from the stand-alone bank. In the extreme, this can lead to some administered banks employing very limited resources from the stand-alone bank whilst the "hybrid" administered bank occupies its own, distinct premises. This is not uncommon. Furthermore, on at least three occasions, administered banks have evolved over time to become stand-alone banks with no connection with their former service provider. This flexibility of structure is part of the attraction of the administered bank concept.

Figure 35 shows how Guernsey's banking sector is made up and how important administered banks have become. Although not the predominant structure, they are significant and have helped the banking sector to grow and diversify, particularly in forms of geographic sources of business, whilst minimising the consequential use of Guernsey's scarce resources.

FIGURE 35 **Number of banks at end December 1999**



"Fit and Proper" Criterion

In earlier Annual Reports, the Commission published an explanation of how it understands and applies the criterion of "fit and proper" persons. Both for convenience and for emphasis, the "fit and proper" criterion is included in this Annual Report.

The Commission takes the opportunity to stress that it sees the definition given as being of universal application in the provision of financial services and does not see it as confined to those areas where it has formal responsibilities and powers. It follows that it is entitled, when acquiring such responsibilities and powers in new areas of provision of financial services and applying the criterion, to take into consideration any evidence of past performance.

The "fit and proper" criterion runs right through the work of the Commission in the exercise of its statutory functions. Section 6 of the Banking Supervision (Bailiwick of Guernsey) Law, 1994 requires the Commission to be satisfied that an applicant is a fit and proper person to be registered and that a registered person continues so to be. Section 4 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended requires the Commission to be satisfied that an applicant is a fit and proper person to carry on controlled investment business. Section 43 of the Insurance Business (Guernsey) Law, 1986 as amended requires the Commission to be satisfied that an applicant is a fit and proper person to be authorised as an insurance manager. It is envisaged that the proposed law for the regulation of fiduciaries and administration businesses will also contain a requirement that the Commission must be satisfied that an applicant is a fit and proper person before a licence will be granted to provide fiduciary services.

The criterion, which dates back in public administration over very many years, has undergone some evolution in recent years. In the United Kingdom, both the Bank of England and the Securities and Investments Board published guidance on how those institutions apply the criterion in the course of their work under the Banking Act 1987 and the Financial Services Act 1986 respectively. The Tribunal in the matter of Noble Warren Investments Limited also contributed to understanding of the criterion in its findings in that case, which was an unsuccessful appeal against refusal of authorisation under the Financial Services Act 1986. The Commission took note of these precedents in formulating the following statement of how it applies the criterion.

The Commission also takes account of the 1998 revision of the Statements of Principles published by the United Kingdom Financial Services Authority in accordance with the Banking Act 1987 and The Banking Co-ordination (Second Council Directive) Regulations 1992.

The Commission's view of the criterion goes well beyond the mere consideration of whether or not the person concerned has a bad record or reputation and it does so in at least two respects.

First, the Commission does not look for evidence that the person at least meets a minimum standard but rather it looks for evidence that the person meets a high standard. This is because, in the context of the provision of financial services, the person concerned will almost invariably occupy a position of trust in respect of money, other assets or financial interests of customers and this must imply higher standards of conduct than in many walks of life. With regard to institutions which become subject to regulation under new legislation and thereby applicants for authorisation, the Commission will look for much more positive evidence in favour of the applicant than the simple fact that it has operated in the particular field of financial services concerned for some years without giving cause for complaint. Second, the Commission believes that the concept embraces not only honesty but solvency, competence and responsible behaviour. It believes that an objective standard exists which it is required by its statutory functions to apply and that it is competent to apply such a standard. It is irrelevant that an applicant or authorised institution may hold a subjective view of its own fitness and properness and, while the view of customers or counter-parties may be relevant to the Commission's consideration of this criterion, these are not a substitute for the Commission's judgement. One reason for holding this view is that the Commission also believes that the concept of "fit and proper" extends to conduct not only in dealings with the public but in the ordering of the institution's internal affairs.

In considering whether a person fulfils the "fit and proper" criterion the Commission has regard to a number of general considerations, whilst always taking account of the particular circumstances of the individual or institution concerned. With regard to institutions, the Commission is entitled to take account, inter alia, of their business records, their other business interests, their financial soundness and strength, the nature and scope of their business, and the institution's record-keeping and other internal systems. With regard to an individual who is an executive director or manager of the institution, the Commission includes amongst the relevant considerations whether he has sufficient skills, knowledge, experience and application properly to undertake and fulfil his particular duties and responsibilities. In addition, the Commission takes into account a person's reputation and character, including such matters as whether he has a criminal record. Convictions for dishonesty are especially relevant but the Commission also has regard to other types of offence since it is vital that a person responsible for managing an institution authorised by the Commission in discharging its statutory functions is of the highest integrity.

The Commission has regard to the performance of the person in the exercise of his duties. Thus incompetence or imprudence in the conduct of an institution's business or anything which has threatened (without necessarily having damaged) the interests of existing or future customers will reflect adversely on those responsible, whether the matters of concern have arisen through the way they have acted or their failure to act in an appropriate manner. The Commission takes a cumulative approach, so that it may determine that a person does not fulfil the criterion on the basis of several instances of such conduct which, taken individually, might not lead to that conclusion.

The standards demanded are more onerous for those with prime responsibility for an institution's affairs, though they will vary according to the scale and nature of the business concerned. In all cases, the Commission looks for a firmly based understanding of the institution's business, a clear conception of its future development and evidence of sound judgement regarding both commercial and administrative matters relevant to the business.

"Four-Eyes" Criterion

The Commission applies the "four-eyes" criterion and normally requires at least two individuals to direct the business of a licensed/registered institution. It is expected that the individuals will be either executive directors or persons granted executive powers by, and reporting immediately to, the board.

These provisions are designed to ensure that at least two minds are applied to both the formulation and implementation of the policy of the institution. The Commission would not regard it as sufficient for the second person to make some, albeit significant, decisions relating only to a few specific aspects of the business. Both must demonstrate the ability to influence strategy and day-to-day policies and their implementation, and both must actually do so in practice. Both persons' judgements must be engaged in order that major errors leading to difficulties for the business are less likely to occur. Both persons must have sufficient experience and knowledge of the business and the necessary personal qualities to detect and resist any imprudence, dishonesty or other irregularities by the other person. It would be unlikely, in the Commission's view, that closely related persons would be sufficiently adequate to meet this criterion.

International Regulatory and Supervisory Bodies

Banking

The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision is a committee of banking supervisory authorities which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of the banking supervisory authorities and central banks of Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America. Its current chairman is Mr William J McDonough, president and chief executive officer of the Federal Reserve Bank of New York. The Basel Committee usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

The Committee is responsible for issuing guidelines on standards which the international community expects from banks and bank supervisors. The most famous of these were probably the Basel Concordat in 1983 and the Basel Capital Accord of 1988. The Concordat set out demarcation lines for supervisors while the Capital Accord established how supervisors should measure the amount of capital needed to support a bank's risk. The Capital Accord introduced the concept of a minimum risk asset ratio of 8%. More recently the Committee has introduced 25 Core Principles of Effective Banking Supervision and an underlying methodology. It is also working on a revised Capital Accord.

This only scratches the surface of the Basel Committee's work. It has produced papers on a wide variety of subjects and has gone a long way to improving international standards of banking supervision.

The Offshore Group of Banking Supervisors

The Offshore Group of Banking Supervisors ("the OGBS") was established in 1980 as a forum for supervisory co-operation between the banking supervisors in offshore financial centres. Current members of the Group are:- Aruba, Bahamas, Bahrain, Barbados, Bermuda, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong, Isle of Man, Jersey, Labuan, Malta, Mauritius, Netherlands Antilles, Panama, Singapore and Vanuatu.

The group meets annually. In years when the International Conference of Banking Supervisors is held, it meets at that conference's venue, in other years at a location in one of the jurisdictions represented in the group.

Guernsey was a founding member of the OGBS. It is a useful forum where offshore centres can make their views known and compare experience with like minded centres. It also enables concerns to be passed to the Basel Committee. One such example is the working group made up of Basel Committee and OGBS members. This working group has produced papers on the supervision of cross-border banking and continues to provide input and put forward proposals. The Director General of the Commission is a member of this joint working group.

Insurance

The International Association of Insurance Fraud Agencies

Guernsey is a member of the International Association of Insurance Fraud Agencies ("the IAIFA").

The IAIFA was formed in 1986 by the directors of insurance fraud agencies from the United States of America and Canada.

The IAIFA aims to co-ordinate the efforts, training and education of law enforcement agencies, government bodies and the insurance industry to prevent and combat insurance fraud worldwide more effectively.

By working with regulators, other law enforcement agencies and companies, the IAIFA attempts to break down jurisdictional barriers. The association is also active in encouraging other enforcement agencies to share information to the mutual benefit of all who are involved in assuring a high level of integrity throughout the insurance industry.

The International Association of Insurance Supervisors

The International Association of Insurance Supervisors ("the IAIS") was formed in 1993 and comprises international regulatory officials representing over 100 countries. It is led by an Executive Committee and supported by a full-time Secretary General located at the Bank for International Settlements in Basel, Switzerland.

There are several committees within the IAIS:- Executive, Technical, Emerging Markets Issues, Budget and Conference Planning. There are also several sub-committees that report to the Technical Committee and/or the Emerging Markets Issues Committee in connection with:- accounting; investments; reinsurance; solvency; insurance laws, regulations, practices and standards; supervision of financial conglomerates; exchange of information; insurance fraud; derivatives; and education. The Executive Committee consists of supervisors from the United States of America (chairman), the Netherlands (vice-chairman), Australia, Canada, Chile, Guernsey, Japan, Mexico, Poland, Singapore, South Africa, Sweden and the United Kingdom. There is also an Electronic Commerce/Internet Working Group and a Task Force on Enhanced Disclosure.

Under the IAIS By-Laws, supervisors resolve to:-

(a) co-operate to ensure improved supervision of the insurance industry on a domestic as well as an international level, in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders; and

(b) to unite their efforts to develop practical standards that members may choose to apply.

The Association has introduced Insurance Supervisory Principles (in September 1997), which cover Compliance Definitions; General Supervisory Principles; Licensing and Changes In Control; Corporate Governance and Internal Controls; Prudential Rules; Monitoring and On-Site Inspections; and Sanctions and Co-ordination.

International Regulatory and Supervisory Bodies

The Offshore Group of Insurance Supervisors

The Offshore Group of Insurance Supervisors ("OGIS") was formed in 1993 and was, for a while, known as the Group of Cross-Border Insurance Supervisors. It consists of full members and provisional members, as well as non-member observers (thirteen members and four observers) and its main objectives are:-

(a) to provide mechanisms and fora whereby insurance supervisors from jurisdictions concerned with cross-border insurance business may discuss areas of mutual interest and concern and formulate appropriate policies;
(b) to provide assistance and encouragement to appropriate non-member jurisdictions to establish régimes for the supervision of cross-border insurance business at least to standards equivalent to those of OGIS;
(c) to represent the interests of OGIS at international insurance fora; and
(d) generally, to promote the proper supervision of cross-border insurance business.

The membership criteria of OGIS are:-

(a) agreement with the objects of OGIS concerned with cross-border insurance business;
(b) legislation in place:-
    (i) which enables the regulatory authority to supervise insurance business adequately; and
    (ii) which permits the exchange of information with other regulatory authorities for the purposes of the prudential regulation of insurance business; and
(c) effective enforcement of its insurance legislation and other relevant legislation;
(d) adequate resources (including properly qualified supervisory personnel) to regulate its cross-border insurance business effectively; and
(e) a clear commitment to the implementation of the 1996 anti-money laundering recommendations of the Financial Action Task Force on Money Laundering.

OGIS has recently introduced guidelines on the Implementation of "Fit and Proper" Statement of Principles as well as on Quality of Assets and Capital Adequacy, Standards for Reinsurance Security and Technical Reserves for Property and Casualty Insurers.

For several years Guernsey has chaired OGIS and therefore takes an active rôle in raising the standards of supervision and training within the offshore insurance sector, working in conjunction with the International Association of Insurance Supervisors.

Investment

Enlarged Contact Group on the Supervision of Collective Investment Funds

The Enlarged Contact Group on the Supervision of Collective Investment Funds ("the ECG") is an informal group of collective investment fund regulators established in 1970.

Membership was originally restricted to the regulatory authorities of the European Union member states, but has now widened significantly to include, in addition to the fifteen European Union member states, Guernsey and the other Crown Dependencies, Brazil, Canada, Hong Kong, Japan, Mexico, Norway, Switzerland and the United States of America.

The ECG holds annual meetings, chaired and organised by the host regulatory authority. These annual meetings include discussions on current regulatory topics, international regulatory co-operation, and recent developments in regulation in the member countries. During the year, members maintain contact on regulatory matters, exchange of information and so forth.

International Organization of Securities Commissions

The International Organization of Securities Commissions ("IOSCO") is an association of securities regulatory organisations created in 1983 and now comprising some 164 members. The Commission was originally admitted as an Associate Member in 1991 and became a Full Member in 1997.

IOSCO now embraces almost all the world's securities and derivatives' regulatory bodies and plays an increasingly important rôle in assisting members to achieve and maintain high regulatory standards in the interests of investors and the prevention of crime.

The main objectives of IOSCO's members are:-

(a) to co-operate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
(b) to exchange information on their respective experiences in order to promote the development of domestic markets;
(c) to unite their efforts to establish standards and an effective surveillance of international securities transactions; and
(d) to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offences.

IOSCO works with several other major international fora, such as the G-7 Financial Stability Forum, the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors to ensure, in particular, close co-ordination with banking and insurance regulators. The work of IOSCO is directed by an Executive Committee supported by a permanent Secretariat. In turn, the Executive Committee has established two specialised working Committees, the Technical Committee and the Emerging Markets Committee, to address the following functional areas:-

International Regulatory and Supervisory Bodies

(a) disclosure and accounting;
(b) regulation of secondary markets;
(c) regulation of market intermediaries;
(d) enforcement and the exchange of information; and
(e) investment management.

There are also four Regional Standing Committees (Africa/Middle East, Asia-Pacific, European and Interamerican) which meet to discuss specific regional problems or considerations and a SRO consultative committee for self-regulatory organisations which are Affiliate Members of IOSCO. The Commission is a member of the European Committee.

All Full and Associate Members comprise the Presidents' Committee, which meets during the IOSCO annual conference and has all the powers necessary or convenient to achieve the purposes of IOSCO.

Economic crime

The Financial Action Task Force on Money Laundering

The Financial Action Task Force on Money Laundering ("FATF") is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering – the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilised in future criminal activities and from affecting legitimate economic activities.

FATF currently consists of twenty-six countries and two international organisations. The twenty-six FATF member countries and governments are:- Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America. The two international organisations are the European Commission and the Gulf Co-operation Council. The Offshore Group of Banking Supervisors is one of several bodies which is affiliated to FATF.

FATF originally drew up Recommendations in 1990. In 1996 the Forty Recommendations were revised to take into account the experience gained over the previous six years and to reflect changes in the global money laundering environment. From time to time, the Forty Recommendations are extended by the issue of interpretative notes.

The Forty Recommendations set out a basic framework for anti-money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation.

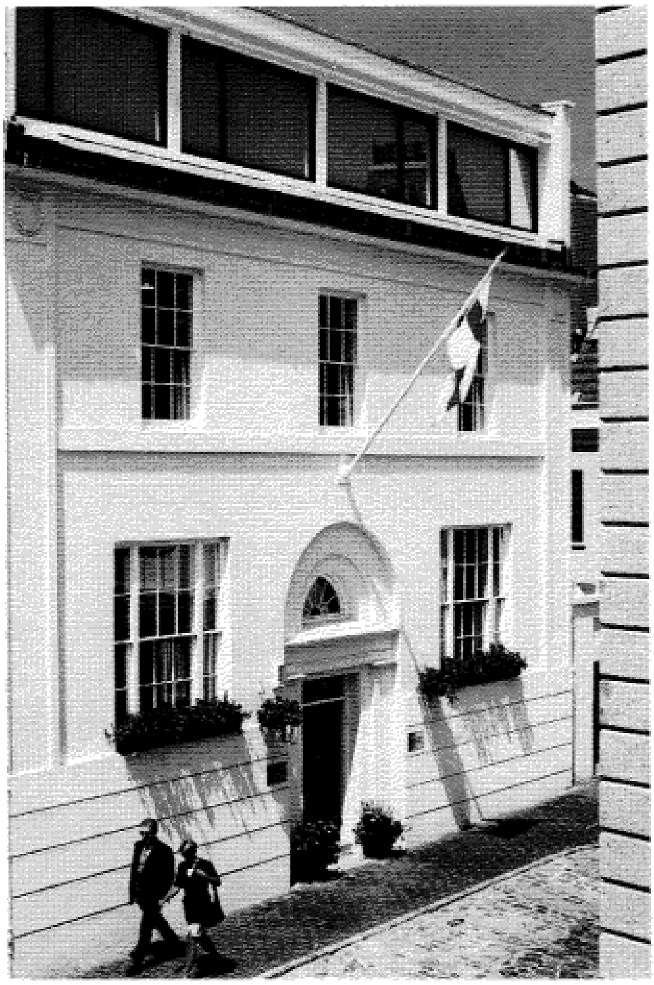
In early 2000 FATF issued Twenty-Five Criteria for defining non-co-operative countries or territories. These criteria are designed to ensure that international co-operation in the fight against money laundering is not impeded by detrimental rules and practices of financial centres.

Balance Sheets for the Banking Sectors in the Crown Dependencies 1997 to 1999

Liabilities		1997 Total (£) (000)	1998 Total (£) (000)	**1999 Total (£) (000)**
Deposit Liabilities				
Banks/building societies	UK	3,277,178	3,734,507	**3,577,800**
registered in:	CI/IOM	11,324,698	16,705,689	**17,192,699**
Financial corporations	UK	3,639,596	2,584,657	**4,050,001**
registered in:	CI/IOM	8,130,366	9,954,741	**10,947,959**
Non-financial corporations	UK	3,848,309	4,832,604	**4,353,950**
registered in:	CI/IOM	6,587,854	7,794,360	**8,873,214**
Public sector	UK	18,729	20,105	**440,654**
registered in:	CI/IOM	248,362	293,354	**388,266**
Households and individual trusts	UK	17,462,984	20,112,923	**21,151,437**
registered in:	CI/IOM	11,778,382	12,964,358	**13,293,231**
Banks	RoW	25,897,405	21,434,025	**36,578,802**
Other	RoW	68,738,268	79,664,748	**68,972,508**
Total Deposit Liabilities		160,952,131	180,096,071	**189,820,521**
Certificates of Deposit Issued		4,102,763	3,171,884	**11,255,608**
Other Liabilities		22,304,992	21,322,835	**16,787,214**
Total Liabilities		187,359,886	204,590,790	**217,863,343**
Assets				
Loans, Advances and Market Loans				
Banks/building societies	UK	72,066,986	84,671,631	**88,450,200**
registered in:	CI/IOM	10,420,846	14,045,110	**15,942,443**
Financial corporations	UK	1,132,232	982,980	**2,121,287**
registered in:	CI/IOM	994,974	404,321	**1,045,832**
Non-financial corporations	UK	986,930	893,575	**1,226,980**
registered in:	CI/IOM	1,286,312	1,558,938	**1,523,594**
Public sector	UK	4,787	3,682	**44,478**
registered in:	CI/IOM	28,605	24,266	**25,806**
Households and individual trusts	UK	598,130	1,115,293	**1,212,100**
registered in:	CI/IOM	2,103,118	2,342,710	**2,402,135**
Banks	RoW	55,692,477	55,980,418	**58,732,600**
Other	RoW	6,032,462	7,824,743	**7,747,478**
CDs and other short term paper issued/accepted by UK, Guernsey, Jersey or IoM Banks and Building Societies		6,272,109	7,619,704	**9,306,792**
Investments and Securities		11,549,487	13,771,909	**14,190,103**
of which: UK, CI and IOM		1,907,180	1,380,680	**1,381,050**
RoW		9,642,307	12,391,229	**12,809,053**
Other Assets		18,190,431	13,351,510	**13,891,515**
Total Assets		187,359,886	204,590,790	**217,863,343**

Sources: Guernsey Financial Services Commission, Isle of Man Treasury, Jersey Financial Services Commission

History of the Site of La Plaiderie Chambers



In March 1999, the Guernsey Financial Services Commission moved to premises currently known as La Plaiderie Chambers. In its time, the building has been a merchant's house with stores, a hotel, an officers' mess and a hostel for the homeless. It was converted to offices in 1961. Owners and occupiers since the late seventeenth century have included representatives of the most well-to-do and interesting families in Guernsey history, including a prominent merchant, a wealthy ship owner and an eminent local clergyman.

Manorial records indicate a garden existing on the site in the sixteenth and early seventeenth centuries, belonging to the Baudain family.

Marie Baudain was the mother of Josué Gosselin (1607-61). She must have survived her son, and at her death her estate appears to have devolved by representation to the children of Josué's half-brother Nicolas. His son, Jean Gosselin, seems to have acquired the Plaiderie premises, which were then inherited by his brother Pierre Gosselin (1638-87).

In the early nineteen-sixties, when covering the cellar floors of the current building, cannon balls were discovered below the surface. During the English Civil War period, before much of the Pollet was built, the Parliamentarian Court, which was housed at La Plaiderie, was a prime target for the Royalist Castle (Castle Cornet). It is known that in 1650 Pierre Priaulx (ironically, a Royalist) was killed in the yard now adjacent to La Plaiderie Chambers by shot from the Castle. Clearly, other cannon balls fell short of target and on to the garden.

At a date between 1663 and 1686 the first house to be recorded on the site was built, probably for Pierre Gosselin. Two lines of quoins, still visible on the northern gable of the building, suggest the original dimensions of the house. Pierre's grandson, another Josué Gosselin, got into serious financial difficulties and on 4 March 1735 transferred the house and its courtyard to Thomas Le Marchant, one of his creditors.

Le Marchant sold the premises, then described as a house, yard and garden, to his son-in-law, William Bell, on 18 March 1773. Bell had married Marie Le Marchant in 1755. William Bell originally came from Leith in Scotland, travelled around Europe and prospered as a wine merchant, before arriving in Guernsey in 1749. A few days after his acquisition, Bell consulted the parish authorities as to the location of a new wall along the northern boundary of the property. The surviving large vaulted cellars with access direct to the street, for easy delivery of goods, providing an ideal storage place for barrels of wine and spirits, may have been constructed about the same time in connection with Bell's trade.

The property stayed in the hands of the Bell family for some years. By 1860 the house had a high annual rental value of £70. To put this into context, in the same register the fine Saumarez town residence next door, now the medium-sized Moore's Hotel, was assessed at £50.

William Bell, grandson of the first Bell owner, died on 22 June 1863. He willed the house to his nephew, the Reverend Thomas Bell (1820-1917). The new proprietor signed an agreement with Daniel De Putron, builder, on 14 September of the same year. De Putron was "...to execute certain works in repairing and painting a Dwelling house and Outhouse belonging to the said Thomas Bell situate at the Plaiderie...". Unfortunately, the schedule to the building contract is lost but, given the large expense (the agreement refers to £120), the survival of the old building line and the Victorian character of the building as it now exists, it appears that the works included the addition of a new façade to the house.

It would seem that the Reverend Thomas Bell did not, however, live in the property but rented it out. In the 1867 Cadastre records, the occupant is listed as GF Carrington. His address remained La Plaiderie in 1874. He was Guernsey's leading ship owner with, in 1864, eight vessels to a total of 1984 tons. Gustave Carrington died in 1895.

In 1896 Thomas Bell, by then Dean of Guernsey, sold the property to Mrs Gardner, the owner of the Old Government House Hotel. By 1907, the property had come to be known as the Hôtel de France. The occupant then was listed as A. Badaire. The position remained unaltered until 1920 when Hôtel de France Limited was purchased from Mrs Gardner. Presumably Badaire remained manager of the hotel for the Hôtel de France Limited (and perhaps the company's principal) because, in 1921, he bought the property "ex La Maison de la Plaiderie presently

History of the Site of La Plaiderie Chambers

Hôtel de France" from the company. The Badaires remained in residence until 1936, when the widow of Aldonse Badaire sold it to Mr AJ Dingle who installed Mr and Mrs FC Culpeck to manage the hotel.

Mr and Mrs Culpeck were evicted in October 1940 when the hotel was the first to be commandeered by the German occupying forces. During the time it was used as an officers' mess, Austrian/German style beams were installed. At the end of the war, as people began to return to the island, accommodation was in short supply and the hotel was requisitioned by the States Housing Authority. It was still being referred to as "the Housing Authority Hostel at the Hôtel de France" in 1947. By the end of this period the property was in a derelict condition. It was purchased at auction by Langlois Limited in 1961 and the era of modern renovations and the premises' use as offices began.

The above report was researched and prepared by Judith Robey of the States of Guernsey Island Archives Service. The Commission wishes to record its appreciation to the Archives Service.

The States are asked to decide:—

Whether after consideration of the Report dated the 15th June, 2000, of the States Advisory and Finance Committee, they are of opinion:-

1. To note that Report.
2. To approve the accounts of the Guernsey Financial Services Commission for the year ended 31st December, 1999.
3. To appoint the firm of BDO Guernsey Limited as auditors of the accounts of the Guernsey Financial Services Commission for the year ending 31st December, 2000.

DE V. G. CAREY,
Bailiff and President of the States.

The Royal Court House,
Guernsey.
The 7th July, 2000