



DIRECTOR'S REPORT

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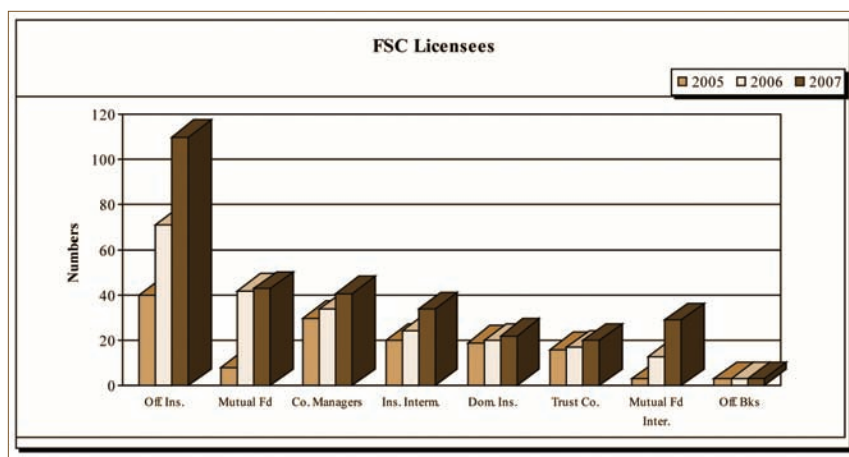
INTRODUCTION

The Commission recorded yet another successful year, both operationally and financially. This success is evaluated against the Commission's functions as articulated in Section 3 of the Financial Services Act, 2003, and its core objectives of enhancing the safety and stability of the financial system while contributing to establishing Anguilla as a premier financial centre.

The financial services sector remained relatively stable over the review year ended 31 August 2007; licensees generally complied with the terms of their licences and the applicable legislation, regulations and guidance notes. The Commission did not uncover any significant areas of instability or threats to the financial system, nor were any material concerns brought to its attention. The Commission was also able to maintain its financial independence and expand its reserves during the review period.

GROWTH IN LICENSEES

The Anguilla 'brand' is becoming better known internationally, which is reflected by an increase in demand for Anguillian licences; investors view Anguilla as a viable wealth management alternative to other international financial centres. Anguilla also continues to be a very cost effective jurisdiction compared to other financial centres.



The graph depicts the growth in the Commission's licensees over the three years ended 31 August 2007. The total number of licensees grew by 78 (35%) to 302 over the review period. The bulk of this growth was reflected in the offshore insurance sector which expanded by 35%; mutual fund intermediaries, 123%; insurance

“The Commission and the jurisdiction continue to be challenged to build and maintain a good reputation as a credible international financial services centre....”

intermediaries, 41%; and company managers, 21%. The growth in the offshore insurance sector was primarily in the area of captives.

As expected, the increase in the insurance and mutual funds intermediaries tracked the growth in those sectors. The increase in demand for Anguillian licences is expected to continue into 2008.

Insurance

The growth in the insurance sector appears to have been stimulated, in part, by the passage of the new Insurance Act. It is anticipated that as the industry continues to grow and achieve greater name recognition, it would attract significant operators in the insurance business. Based on this premise, further strong growth is anticipated in the insurance sector over the next three years.

Mutual Funds

Mutual fund business is widely distributed among the service providers in Anguilla. The types of funds are also very diverse, ranging from funds invested in regular securities to those invested in sophisticated real estate and derivative products, and carbon certified emission credits. The combination of the Mutual Funds Act and the Protected Cell Companies (PCC) Act has

enhanced the attractiveness of Anguilla as a serious mutual funds jurisdiction. The PCC Act offers investors the option to compartmentalise their business interests, liabilities and risks.



DIRECTOR'S REPORT (cont'd)

Mutual funds have the option to use PCCs as vehicles to offer different groups of investors different kinds and levels of protection. Accordingly, the Commission anticipates consistent growth in this sector.

Trust Companies

Trust licensees were primarily in the area of private trusts. The growth in trust business has been modest and is not expected to change significantly over the coming year. The untapped potential of this sector will be exploited as the popularity of the jurisdiction increases. The passage of the Anguilla Foundation Act is expected to create additional competition for trust business in Anguilla.

Company Managers

The steady growth in company managers spiked during the second half of the review period. This was influenced by the Commercial Registry's policy decision not to allow unlicensed persons to incorporate companies. This resulted in an increase in demand for the services of company managers.

REGULATORY ACTIVITIES

The Commission's regulatory activities can be summarised as the formulation of regulatory policies and directives, review and approval of financial service licences, conduct of onsite and offsite surveillance and analysis, interaction with the industry, and the provision of training to licensees.

Policy formulation was an important feature of the review period. During the period, the Commission partnered with the Anguilla Financial Services Association (AFSA) to prepare a Regulatory Code of Conduct for the financial services industry; this code will replace the AFSA code. The Commission also prepared regulatory guidance notes for the offshore insurance sector in the areas of solvency computation, allowable assets, and the role of insurance managers. The regulatory code and guidelines all benefited from industry comments. An onsite insurance examination manual was also introduced to consistently guide the insurance examination process.

Review and approval of prospective licensees and other regulatory requests continued to absorb a significant portion of the Commission's resources; this is reflected in the number of licenses granted during the review period. The Commission prides itself on the speed and

efficiency of its response to approval requests. To assist in the review and approval process, and consistent with its emphasis on conducting effective due diligence on all prospective licensees and principals of licensees, the Commission acquired another professional due diligence tool during the year, Intelligence Information Systems (C6). This will complement World-Check, Lexis Nexis, and KYC News which the Commission also uses. Licensees are also encouraged to use professional due diligence sources.

As part of its ongoing supervision and monitoring, the Commission conducted a series of onsite anti-money laundering (AML) examinations of offshore banks and money service providers in Anguilla. The primary findings of the examinations were that some institutions needed to put more structures and procedures in place to adequately 'know their customers' and their customers' source of funds, to effectively measure and manage their AML risk, and to increase senior management's involvement in the AML compliance process.

The onsite examination of company managers during the year revealed that more emphasis needs to be placed on due diligence and on the maintenance of, or access to, all relevant documents in Anguilla.

The Commission's training schedule included industry wide training in the area of compliance provided through a joint workshop with AFSA, and training provided on request to individual licensees. This was augmented by the Commission's continued outreach and interaction with the industry via meetings with the Ministry of Finance, the AFSA executive, the Commercial Registry and industry related partners.

LEGISLATION AND REGULATIONS

Despite the best of intention and efforts, the anticipated passage of the Anguilla Foundation Bill did not occur during the review period. However, the Bill is currently in an advanced stage of preparation and review, and it is anticipated that the Bill will be presented to the Legislative Council during the first quarter of the 2008 calendar year. This Bill seeks to close the gap between the common law trust concept and the civil law foundation concept, which would enhance the suite of financial products available in Anguilla.



DIRECTOR'S REPORT (cont'd)

The revised Guidance Notes on the Prevention of Money Laundering was issued on 24 July 2007. The Guidance Notes were issued pursuant to Section 4 of the Money Laundering Reporting Authority Act to give practical guidance with respect to Anti-Money Laundering Regulations.

The Offshore Banking Fee Regulations were amended to increase the licence fees for offshore banks which are not fully owned subsidiaries of domestic banks from US\$15,000 to US\$20,000. The fee increase is reflective of the disparity in resources employed in regulating stand-alone offshore banks as compared to regulating in partnership with the Eastern Caribbean Central Bank (ECCB).

The draft amendments to the Fee Regulations for the Financial Services Enactments administered by the Commission are making their way through the legislative approval process. The objective of the amendments is to create a consistent payment schedule for licence and penalty fees. All licence fees will be due and payable by 15 January; a 5% penalty fee will be due if paid by the end of February, 25% if paid by the end of March, and 50% if paid by the end of June. Fees outstanding after the end of June would be grounds for the revocation of the applicable licence.

The Commission has also prepared proposed amendments to the Financial Services Commission Act. The amendments provide for the payment of the Commission's surplus to the Government of Anguilla, give greater clarity to the Principal Act, provide the Commission with additional regulatory discretion, and correct an oversight in the Principal Act.

Legislative work also included assisting the Attorney General's Chambers and/or the ECCB with the review of the following pieces of legislation: Bill of Exchange (Amendment) Bill 2007; Payment Systems Bill; Money Services Business Bill; Revised Domestic Insurance Bill; and the Anguilla Development Bank Act.

REGIONAL AND INTERNATIONAL PARTNERSHIPS

The Commission continued to work with the ECCB on the effective coordination of regulation in Anguilla. The Commission is an active participant in the ECCB's project to establish single regulatory units in the member territories of the Eastern Caribbean Currency Union; a

feat Anguilla achieved since 2000, and which it is now in a position to share with its ECCU partners.

The Commission collaborated closely with its British Overseas Territories partners on financial sector regulation and development, as well as coordinated responses to international initiatives and challenges. This was the subject of a meeting held in May of the Caribbean British Overseas Territories and Countries (OTC) engaged in international financial services. The Commission has also benefited from advice, guidance and support from the OTCs on its regulatory initiatives.

The quality of the Commission's regulatory work in the area of insurance was recognised by its acceptance into the International Association of Insurance Supervisors (IAIS); the prestigious international standard setting body for insurance regulation. This membership will be leveraged for training, international recognition, and networking opportunities.

During the year the Commission also partnered with the Caribbean Financial Action Task Force (CFATF) in providing resources for the mutual evaluation exercise conducted on the territory of Antigua and Barbuda. The Commission's participation in this exercise was also an important learning exercise as it prepares for Anguilla's mutual evaluation exercise, which is scheduled for the last quarter of 2008.

ADMINISTRATIVE ISSUES

The effectiveness of the regulatory structure administered by the Commission is dependent, in part, on the efficiency of its administration. This is influenced by the competence and calibre of its staff, the quality of its operations, the effectiveness of its board oversight and the adequacy of its resources. This is even more challenging in the case of the Commission because of its small staff and significant mandate.

The board continued to place great emphasis on its stewardship function. This was reflected in the board's deliberations on an appropriate regulatory structure for Anguilla, its work on keeping current on regulatory issues, and its review of the appropriateness of and compliance with the Commission's work programme.



DIRECTOR'S REPORT (cont'd)

During the review year the Commission changed directors and lost an experienced member of staff. Changing leadership is never an easy thing for any organisation; however, as indicated by the Chairman, this occurred with minimal disruption to the work programme's momentum. This is testimony to the efficiency with which the former director, Mr John Lawrence, managed the Commission's operations; we at the Commission owe John a debt of gratitude for his path-breaking work in financial sector regulation in Anguilla.

The Commission's staff continues to cope admirably with their impressive work load and challenging responsibilities. I thank them for their support during the year and especially for my efficient orientation.

Staff development remains a priority for staying current and effective, and in preparing for future challenges. Accordingly, during the review year the Commission embarked on an impressive training schedule, which included internal and external training. Internal training was provided in the area of onsite examination, while external training was provided primarily in the area of insurance regulation and policy formulation; the Commission's primary growth area. Next year's training will concentrate on trust company and mutual fund regulation and preparation for the planned CFATF mutual evaluation exercise.

During the review period, the Commission revised its work programme to introduce quarterly targets and benchmarks. This has proven to be extremely effective in focusing the work of the Commission and in facilitating quarterly reviews and recalibration, where necessary. The Commission is pleased to report that it was able to achieve all of its internal targets and most of its overall targets during the review period.

PROJECTION FOR 2008

During the 2007/08 financial year, the Commission will continue to work on enhancing its human resources and technological platform to conduct ongoing monitoring of licensees and the general financial system. This will include the establishment of an electronic database to collect and analyse quantitative and qualitative data on licensees. The efficient use of this database should enhance the Commission's risk profiling of licensees, which should in turn lead to the better allocation of its limited resources.

External Assessment

The major project for 2008 is the planned CFATF mutual evaluation exercise scheduled for the last quarter of 2008. The emphasis of the evaluation exercise will be on the jurisdiction's compliance with the FATF 40 + 9 recommendations on preventing money laundering and terrorist financing. The evaluation will assess the adequacy of the territory's legislation, compliance with the legislation, the regulatory infrastructure and programmes to achieve compliance, and the effective implementation of the provisions of all applicable legislation.

CONCLUSION

The Commission and the jurisdiction continue to be challenged to build and maintain a good reputation as a credible international financial services centre. This requires a judicious balance of effective regulation/supervision, financial innovation, efficient and effective processing of requests, and comprehensive and continuous review of existing licensees. The Commission's responses to these challenges continue to have a significant impact on the success of the jurisdiction.