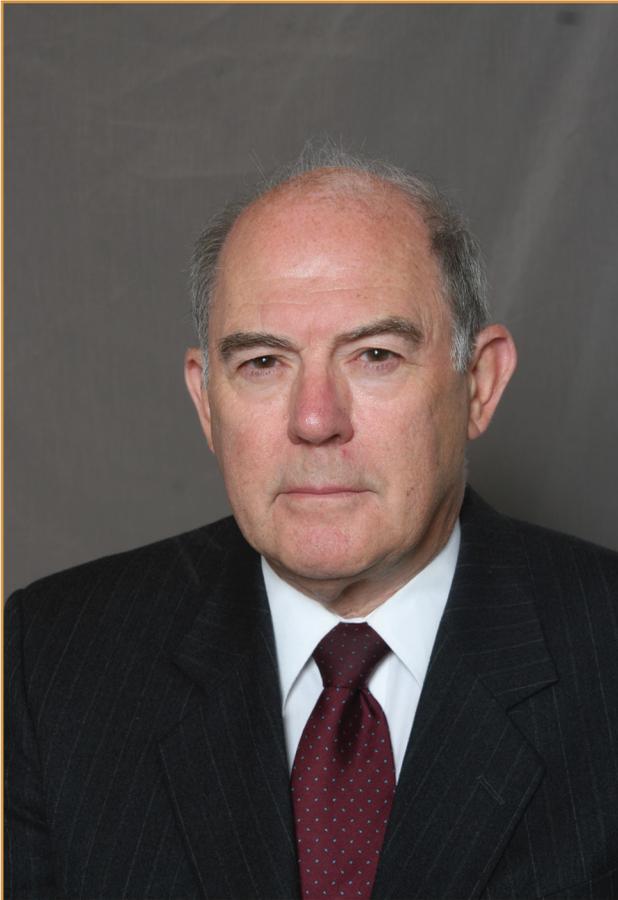




ANGUILLA FINANCIAL SERVICES COMMISSION Annual Report and Accounts 2009



CHAIRMAN'S REPORT



Dennis Cross

This is my sixth annual report on the affairs of the Anguilla Financial Services Commission. It is also my final report in view of my retirement as chairman on April 30, 2010.

As expected, 2009 turned out to be a year of serious challenges and there is no doubt that this is continuing into 2010. Our staff must be commended for coping well with a very heavy workload. The routine work of the Commission continues to expand because of the ever increasing number of licences in issue. In addition a number of exceptional events occurred during the year. These included the very substantial effort required to respond to the demands placed on us by the Mutual Evaluation examination by the Caribbean Financial Action Task Force (CFATF) which continued into 2010. This report is vitally important to Anguilla as a whole and its remit extends

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beyond the activities of the Commission into various organs of government. The Commission played a central role in responding to huge informational demands from CFATF. There were similar, though less extensive, demands relating to the Foot Report on British Offshore Financial Services. There were also some exceptional regulatory issues which included dealing with the Anguillian aspects of the regional financial difficulties of the British American Insurance Group.

Notwithstanding these events, as well as the negative impact of the worldwide recession on the general economy of Anguilla, there has been continued steady progress in the operations and financial standing of the Commission. The success of Anguilla as a centre for captive insurance has continued through 2009 and into 2010, and the volume of other financial services has remained stable.

The Commission has continued to operate as an independent body. The audited financial statements for 2009 reveal another year with a healthy financial surplus, comfortably exceeding that for the 16 month period of 2007/8, once again consolidating our

CHAIRMAN'S REPORT (continued)



financial independence. In view of the uncertainties inherent in the climate for financial services towards the end of 2008 when we prepared our budget for 2009, we made allowance for the possibility of lack of growth in the number of our licensees. However our caution proved to be unwarranted as licence revenues continued their growth trend unabated. The surplus has been used to augment our reserves in preparation for expected significant increases in our future costs.. Estimates of revenue and expenditure for 2010 have been prepared and approved and we expect another surplus to be achieved but, exercising caution once again, we are prepared for it to be smaller than previously.

The Work Plan for 2009 which is required under the Financial Services Commission Act was completed in many areas during the course of the year but not all, due to the exceptional workloads referred to above. The Director's Report provides further information on the Work Plan. The Plan for 2010 was prepared and approved as required by the Act.

Each year for the last several years I have commented on the fact that the Commission is a long-time supporter of the concept that development of the financial services industry would be boosted by the formation of an organisation whose sole activity would be the promotion of financial services in Anguilla as a whole. This depends upon initiatives by the government and the private financial services sector. Whilst the Commission supports the concept, it is not appropriate for us to take an active role in organising a promotional body. A new factor in 2009 was the Foot Report which, in one of its few specific references to Anguilla alone, made a strong recommendation for the establishment of such a body. We hope the this enhanced interest will lead to the formation of a separate and objective promotional body in the not too distant future.

The staff of the Commission continue to interact regularly with bodies outside Anguilla in three types of activity, namely, developmental assistance; liaison with other regulatory bodies; and providing

staff members with training opportunities. As can be seen from our financial statements we achieved very substantial cost savings this year due to a number of factors. These included the fact that the last financial statements covered a 16 month period compared to 12 months this year, reduction in industry support efforts particularly in the Far East, subsidies received for staff training particularly from the Caribbean Regional Technical Assistance Centre (CARTAC) to whom we owe a special vote of thanks, and some limited use of online video conferencing to reduce travel expenses. The Director organised a third annual conference in November 2009 for Anguillian and other financial professionals to reinforce knowledge of regulatory and legislative developments. As in previous years this was well received with increased attendance.

In October 2009, Mr. Michael Foot published the report of his "Independent review of British offshore financial centres" to the British Chancellor of the Exchequer. In addition to Anguilla the report covered eight other jurisdictions, namely Bermuda, BVI, Cayman, Gibraltar, Guernsey, Isle of Man, Jersey and Turks and Caicos. The report provides a balanced view of the impact of offshore financial services reflecting both the benefits of this activity as well as the dangers which are the subject of much political rhetoric in some developed countries. The report contains a number of constructive recommendations. They include recommendations for action by the British government and the governments of the nine jurisdictions as well as those which relate to independent regulatory authorities including our own Commission. The jurisdictions are encouraged to improve their compliance with international standards for example on transparency and fighting financial crime. The report also recognises that moving beyond those international standards where they are deficient must be an international effort and that for the nine jurisdictions, or even the British government, to attempt it in isolation would be unrealistic. The report uses, as an indicator of regulatory staffing adequacy, the ratio of licensees to regulators employed. An advantage of



CHAIRMAN'S REPORT (continued)

this ratio is that it is easy to calculate, a disadvantage is that it could be misleading by giving the same arithmetic weight to, for example, major Bermudian captive insurance companies as typically very small but numerous Anguilla captives. We recognise the need to increase our manpower but it is important that measures of adequacy should be proportionate to the size and risk of licensees and not simply to their number.

I am confident that the Commission will respond responsibly to the few recommendations directed specifically to Anguilla and to others directed to regulators in general. It is to be noted though that many of the recommendations are directed to the government of the U.K. and those of the nine jurisdictions

Also in 2009, Anguilla was examined by the CFATF. The final report will be issued after I have completed this report and my term of office. It is therefore premature to comment other than to say that indications are that Anguilla, whilst not quite matching the level of the most compliant offshore jurisdiction, our compliance with international standards seems to be well above the lowest level and well within the mid range of the nine jurisdictions.

We have been fortunate to have the services of Niguel Streete for the last three years as our Director. In addition to his normal work in 2009 Mr. Streete played a leading role within the Anguilla team in responding to the requirements of the CFATF review. He completed his contract at the end of 2009 and returned to his home in Grenada. His successor as Director from the beginning of 2010 is Eleanor Astaphan who has been Deputy Director since 2008 and is well qualified to assume the role of chief executive.

We expect to see staff numbers increase significantly in 2010 in addition to the employment of a new Deputy Director. Several of these new staff members have been identified. This staff expansion, as well as the requisite office accommodation and

equipment, is required to deal with a number of new factors. These include the continuing increase in licensees, the assumption by the Commission of responsibility for the supervision of a new category of entities "Designated Non-financial Businesses and Professions", and the expected ongoing and likely increasing demands of external regulatory bodies.

I would like to express my appreciation for the support of Ralph Hodge (Deputy Chairman) and Carl Harrigan who have served as board members throughout the six years of my term of office as well as, more recently, Tara Ruan and until mid 2009 Claudel Romney. The attendance record of board members throughout the six years has been outstanding. My successor in the chair is Helen Hatton. Ms. Hatton is recognised internationally as a leading expert in the field of offshore regulation with two decades of experience in the Isle of Man and Jersey. She retired as a Jersey regulator last year in order to establish her own professional firm of regulatory advisors. I have no doubt that the Commission will continue to improve its standards under the leadership of Ms Hatton and thereby further improve the prospects of Anguilla as a responsible and increasingly important financial centre. I will observe these developments from afar but with great interest.