



Guernsey Banking Deposit Compensation Scheme

Annual Report and Accounts

2014



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Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2014

This is my fifth report as Chairman of the Board¹, incorporating the accounts for the Scheme for the calendar year 2014.

The original and continuing members of the Board are myself, as Chairman, and the following members:

John Lee (Vice Chairman)
Steve Butterworth
Nigel Carey

I am grateful for their help and support over this period.

This report summarises the work of the Board since my last report, details work in progress and sets out some plans for future development for the Board.

Accounts for the period to 31 December 2014

The accounts for the year to 31 December 2014, which are included at the back of this report, show a modest income surplus, which reflects a slightly increased level of annual fees coupled with virtually unchanged annual expenditure. There remains, in the Board's opinion, an adequate contingency reserve.

Changes in the UK Banking environment

It is now apparent that changes to the UK banking system that will result in retail banks being 'ring-fenced' will not include banks in the Crown Dependencies, which will no longer be able to be branches of UK retail banks, or even owned by them directly. The exact implications for Guernsey are not yet clear but we expect some form of corporate restructuring to affect many local banks. Because some of the issues that arise will have similar effects in all the Crown Dependencies, a greater climate of cooperation is now evident between Guernsey, Jersey and the Isle of Man at both governmental and deposit compensation scheme levels.

¹ As before, this report uses the abbreviations 'Scheme', 'Board', 'Department' and 'Commission' for the Guernsey Banking Deposit Compensation Scheme, its Board, the Commerce and Employment Department of the States of Guernsey and the Guernsey Financial Services Commission.

Cooperation with the Commerce and Employment Department

Having worked closely with the Department over legislative changes, as discussed below, the Board has been preparing a number of proposals for the future of the Scheme with staff at the Department and other interested parties as described in a later section of this report. The Board expects to make a presentation to the Department once these discussions are concluded.

Cooperation with the Financial Services Compensation Scheme ('FSCS')

I mentioned in my last report that we had held a productive meeting with the FSCS. As a senior and experienced member of the deposit compensation community, liaison with the FSCS both keeps the Board in touch with current issues and provides a resource to assist the Board in its future planning. Because of the FSCS's experience in moving towards rapid pay-out (see comments below), we arranged for staff for the FSCS to visit Guernsey in March 2015. This proved to be a very productive meeting and we look forward to continued working with the FSCS.

Cooperation with the Guernsey Financial Services Commission

In keeping with the Memorandum of Understanding entered into with the Guernsey Financial Services Commission in 2012, regular meetings are held with the Commission. These help to keep the Board informed of actions being taken by the Commission and any relevant matters in connection with banks that have received negative comment from the media. In general the Board is encouraged by the steps taken by the Commission to enhance the balance sheets of local banks and to reduce their reliance on upstream lending to group members.

During the year the number of banks that are participants in the Scheme has risen to 31 as the result of the arrival of First Rand Bank on the island; however, two banks will soon be relinquishing their license, so the result will be a net decrease of one.

Cooperation with Association of Guernsey Banks

The Board meets with AGB representatives from time to time to discuss current issues. Several of the issues highlighted in this report will require close cooperation in the development of the Scheme over the next year.

Legislative change

It is pleasing to confirm that the legislative changes that the Board has been working on for such a long time were finally approved at the end of 2014. As the discussion below implies, there will need to be further changes in due course and the Board is actively working on its recommendations

Publicity and Advertising

The Scheme's website www.dcs.gg has continued to be updated as necessary. As soon as the legislative proposals referred to were approved, the website was updated, and a revised Scheme Brochure introduced. The Board regularly reviews this Brochure (which is issued to participant banks for their clients and is also available on the website) to ensure that it is clear and accurate. The Board has also considered on a number of occasions whether it should engage in wider publicity, such as radio or newspaper advertising. Given that many depositors are resident outside the Bailiwick,

it does not currently believe that wider publicity is appropriate, but it will keep this topic under regular review.

The Board routinely receives enquiries about a number of aspects of the Scheme by telephone, email or letter and responds to these as appropriate. Responses are either agreed by Board members or reviewed at routine meetings.

Administration

The administrative arrangements with Aon Services (Guernsey) Limited have now been in operation for over six years. The Board would like to acknowledge the considerable contribution made by the staff of Aon during the year to the work of the Board. Specifically, the Board would like to express its thanks to Ben Dunning, who has been the Board's main point of contact, for his valuable assistance during his time at Aon.

The International Association of Deposit Insurers 'IADI': revised 'Core Principles'

The revised IADI 'Core Principles' (abbreviated here as the 'new CPs') were published in November 2014. Steve Butterworth conducted a detailed review of the Guernsey Scheme's compliance with these principles and the Board has produced a full analysis of the level of compliance, with recommendations for action. No one should be in any doubt as to the radical changes to the first set of Core Principles published in 2009. I highlighted in my last report some of the areas that were likely to require action; in broad summary, there are several areas where the Guernsey Scheme does not comply with the new CPs and the Board is working on a plan to eliminate such areas of non-compliance, while noting that full compliance is potentially costly and may not be achievable. The Board is in no doubt that the Guernsey Scheme will have to consider some fairly radical actions to avoid criticism by international bodies when reviewing the island.

Because of the fundamental issues raised by the new CPs and the number of parties involved, the Board requested the assistance of various organisations in setting up a working party on this topic:

Policy Council
Commerce & Employment Department
Treasury & Resources Department
Guernsey Financial Services Commission
Law Officers of the Crown

Two meetings of the working party have so far been held. It became apparent at an early stage that some involvement from Jersey and the Isle of Man was essential. There are several reasons for this: the islands have very similar issues to resolve; working together is more likely to produce results than working separately; there are inter-jurisdictional issues which require resolution. As a result, Commerce & Employment Department has been working directly with their opposite numbers in Jersey and the Isle of Man, but the Board has also initiated direct discussions with Jersey while keeping the Isle of Man informed about its discussions. A very constructive meeting took place in Jersey in June with the Director for Finance Industry Development, on behalf of the Jersey scheme.

This is a complex topic, and the Board has by no means decided on its future recommendations, but the following give some idea of the Board's areas of concern and what is being considered to resolve them. It is by no means an exhaustive list.

- Participation in resolution mechanisms. At the moment the Scheme has no effective part to play in resolution of a bank failure. In addition, Guernsey has no very precise form of resolution mechanism and it lacks both a central bank and the legislative power, for example, to take over a bank as a less costly method, which might even avoid a failure. There are active discussions taking place on this topic, involving all the Crown dependencies, but the Scheme is not as yet directly involved in these discussions. It is entirely possible that it may, in common with other schemes elsewhere, have a role to play in a future resolution mechanism and so the Board is monitoring the discussions.
- Liquidity. The Guernsey Scheme is inferior to those in Jersey and the Isle of Man in not having a defined role for government funding. The representative from Treasury & Resources Department on the working party has been asked as a matter of priority to consider proposals which would improve this situation. Part of the outcome may also include a review of the caps on the contributions to be made by individual banks, but this would need to pay heed to the slightly different caps which apply in Jersey.
- Advance funding. The new CPs recommend ex-ante funding. This is potentially very unattractive for Guernsey, an opinion shared by the other Crown Dependencies. If the introduction of ex-ante funding is to be avoided, it will be essential to demonstrate that the Guernsey Scheme's liquidity is much more robust than at present.
- Rapid pay-out. Granted the Scheme's potential non-compliance in some areas, it is important to move towards an approach which promises much more rapid pay-out as recommended by the new CPs. Currently depositors in a failed bank might have to wait many weeks for payment, which is somewhat self-defeating in terms of public confidence in the Scheme. Together with the FSCS, the Board is examining how Guernsey might move towards a UK-style 'straight-through' payment approach – although whether 7-day payment would be achievable is still uncertain.
- Contingency planning. The new CPs imply rather more advanced contingency planning than the Guernsey Scheme has at present. I have already referred to a possible role for the Scheme in resolution mechanisms. The introduction of the single customer view (essentially a structured database extract available at any time from a bank) would greatly simplify and speed up response to a bank default and provide a mechanism for testing contingency plans.
- Better integration into liquidation law. The Scheme's special status in any recovery process needs recognition and it is essential in examining this concept to realise that other jurisdictions are involved. One of the topics of our debate with Jersey and the Isle of Man is a mutual amendment to insolvency law to ensure that local schemes receive preferential treatment (as in the UK) on an equal footing between the Crown Dependencies.

- Improved resources. Many of these proposals imply the availability of greater IT and other resources than the Scheme can currently command.

Longer –term plans

The Board, through its membership of IADI monitors external developments in the banking sector, and specifically in the deposit compensation field; it will be working closely with the Department to map out a plan for the Scheme’s future enhancement, in line with the new IADI Core Principles, and any other appropriate changes, with the aim of ensuring that Guernsey depositors are properly protected in accordance with high international standards.



Charles Tracy

Chairman of the Board

Guernsey Banking Deposit Compensation Scheme

GUERNSEY BANKING DEPOSIT COMPENSATION BOARD

FINANCIAL STATEMENTS

31 DECEMBER 2014

**GUERNSEY BANKING DEPOSIT
COMPENSATION SCHEME**

FINANCIAL STATEMENTS

31 DECEMBER 2014

GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

FINANCIAL STATEMENTS

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REPORT OF THE DIRECTORS

The Board submits its report and the audited financial statements of the Guernsey Banking Deposit Compensation Scheme ("the Scheme"), which is established in Guernsey, for the year ended 31 December 2014.

BOARD'S RESPONSIBILITIES

The Board is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Scheme and of the profit or loss of the Scheme for that period and are in accordance with applicable laws. In preparing those financial statements the Board is required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- 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 Scheme will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and to enable it to ensure that the financial statements have been properly prepared in accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. The Board is also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Board members are aware, there is no relevant audit information of which the Scheme's auditor is unaware, having taken all the steps the Board ought to have taken to make themselves aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

PRINCIPAL ACTIVITY

The principal activity of the Board is the administration of the Scheme which was established by the States of Guernsey on 26 November 2008.

RESULTS AND DIVIDENDS

The results of the Scheme for the year are set out in detail on page 5.

REPORT OF THE DIRECTORS

BOARD

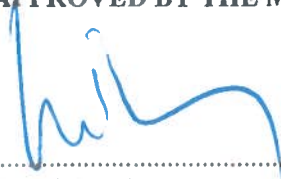
The members of the Board who served during the year were:-

- Charles Tracy - Chairman
- John Lee - Deputy Chairman
- Steve Butterworth
- Nigel Carey

AUDITOR

BDO were re-appointed as auditor during the year.

APPROVED BY THE MEMBERS OF THE BOARD



.....
Board Member



.....
Board Member

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

We have audited the financial statements of Guernsey Banking Deposit Compensation Scheme for the year ended 31 December 2014 which comprise the Income & Expenditure Account, the Balance Sheet and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice').

This report is made solely to the Scheme Board, in accordance with The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. Our audit work is undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the Boards' Responsibilities Statement within the Report of the Board, the Scheme Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors, including "FRC Ethical Standard - Provisions Available for Small Entities (Revised)", in the circumstances set out in note 2 to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME
(continued)

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Scheme's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

BDO Limited

CHARTERED ACCOUNTANTS

Place du Pré

Rue du Pré

St Peter Port

Guernsey

Date: *23 April 2015*

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note		2013
INCOME	3	176,957	165,062
Administrative expenses		(165,446)	(163,611)
OPERATING SURPLUS	3	11,511	1,451
Interest receivable		1,298	1,178
SURPLUS FOR THE FINANCIAL YEAR	7	£ 12,809	£ 2,629

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses other than the surplus for the financial year.

A statement of movements on reserves is included in note 7 to the financial statements.

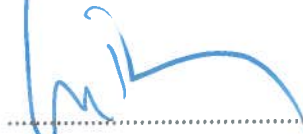
The notes on pages 7 to 8 form an integral part of these financial statements.

BALANCE SHEET

31 DECEMBER 2014

	Note		2013
CURRENT ASSETS			
Debtors	5	69	-
Cash at bank		309,925	288,953
		309,994	288,953
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR			
	6	(196,566)	(188,334)
		£ 113,428	£ 100,619
NET CURRENT ASSETS			
CAPITAL AND RESERVES			
INCOME AND EXPENDITURE ACCOUNT	7	113,428	100,619
		£ 113,428	£ 100,619
RESERVES			

APPROVED BY THE MEMBERS OF THE BOARD AND AUTHORISED FOR ISSUE BY:



 Board Member



 Board Member

23/04/2015

 Date

The notes on pages 7 to 8 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

1. ACCOUNTING POLICIES

(a) CONVENTION

These financial statements have been prepared under the historical cost convention. The principal accounting policies which the scheme has adopted within that convention are set out below.

(b) 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.

(c) GOING CONCERN

The Board has prepared the financial statements on a going concern basis.

The Board has the power to levy the Participants of the Scheme on an annual basis to cover the expected costs of the forthcoming year.

(d) INCOME RECOGNITION

Bank interest receivable is accounted for on an accruals basis.

Turnover comprises fees receivable which are accounted for on an accruals basis.

2. APB ETHICAL STANDARD - PROVISIONS AVAILABLE FOR SMALL ENTITIES

In common with many other entities of its size and nature the scheme uses its auditor to assist with the preparation of the financial statements.

3. INCOME AND OPERATING SURPLUS

Income and operating surplus derive wholly from continuing activities. During the year the main source of income was obtained from 32 Participant banks of £5,500 per Bank. During September 2014, an additional bank joined the scheme, the fee of which was pro rated for 2 months of the financial year (2013: 33 Participant Banks at £5,000).

4. TAXATION

In accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 the Scheme is exempt from tax. Provision had therefore not been made in these financial statements for Guernsey Income Tax.

5. DEBTORS

	2013	
Trade debtors	£ 69	£ -
	_____	_____

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

6. CREDITORS - AMOUNTS FALLING DUE
WITHIN ONE YEAR

		2013
Deferred income	155,250	165,000
Sundry creditors	41,316	23,334
	<hr/>	<hr/>
	£ 196,566	£ 188,334
	<hr/>	<hr/>

7. INCOME AND EXPENDITURE ACCOUNT

Balance at 1 January 2014	100,619
Surplus for the financial year	12,809
	<hr/>
Balance at 31 December 2014	£ 113,428
	<hr/>

8. CONTROLLING PARTY

The Scheme is established under the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 and is under the direction of the Board. The Board members are appointed by the States of Guernsey Commerce and Employment Department.

**THE FOLLOWING PAGE DOES NOT FORM A PART OF THE
AUDITED FINANCIAL STATEMENTS OF THE SCHEME
AND IS PRESENTED FOR INFORMATION PURPOSES ONLY**

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

2013

INCOME		176,957		165,062
ADMINISTRATIVE EXPENSES				
Salaries and States Insurance	85,000		85,000	
Consultancy fees	52,500		52,500	
Disaster recovery	12,641		11,075	
Legal and professional fees	7,977		8,213	
Audit fee	3,825		3,600	
Advertising, printing and stationery	1,834		155	
Website design and maintenance	1,170		700	
Travel and entertaining	302		2,070	
Bank charges	113		40	
Telephone and postage	84		258	
		<u>(165,446)</u>		<u>(163,611)</u>
OPERATING SURPLUS		11,511		1,451
INTEREST RECEIVABLE				
Bank interest receivable		1,298		1,178
		<u>£ 12,809</u>		<u>£ 2,629</u>