Channel Islands Financial Ombudsman
ANNUAL REPORT 2016

Fairness of **outcome**...
Fairness of **process**...

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Financial Ombudsman (CIFO)
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Channel Islands Financial Ombudsman

OUR MISSION

The Channel Islands Financial Ombudsman (CIFO) is independent. We support public confidence in financial services by resolving complaints when things go wrong and pointing out where things could be improved. We are easy to use and understand, and free for complainants. We do not take sides. We decide what is fair, even if that is not popular. We are open about our work. We are prompt and efficient, and seek to get better at what we do.

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CHANNEL ISLANDS FINANCIAL OMBUDSMAN

Senator Lyndon Farnham
Minister for Economic Development, Tourism, Sport and Culture
States of Jersey
Cyril Le Marquand House
St Helier
Jersey
JE4 8UL

President Peter Ferbrache
Committee for Economic Development
States of Guernsey
Raymond Falla House
PO Box 459
Longue Rue
St Martin's
Guernsey
GY1 6AF

Dear Minister and President

As you know, the Channel Islands Financial Ombudsman is the joint operation of the Office of the Financial Services Ombudsman established by law in the Bailiwick of Guernsey and the Office of the Financial Services Ombudsman established by law in the Bailiwick of Jersey.

On behalf of the Directors, I am pleased to submit the report and accounts for 2016. These take the form of a shared report accompanied by separate accounts, which include a division of overall overheads in accordance with the memorandum of understanding between you.

The report and accounts are submitted under section 1(c) of Schedule 2 of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and article 1(c) of Schedule 2 of the Financial Services Ombudsman (Jersey) Law 2014.

Yours sincerely

David Thomas,
Chairman

MESSAGE FROM
THE CHAIRMAN

Channel Islands Financial Ombudsman

David Thomas

This report from the Channel Islands Financial Ombudsman (CIFO) is for the calendar year 2016. CIFO is the joint operation of independent financial ombudsman bodies established by law in the Bailiwick of Jersey and the Bailiwick of Guernsey. The report covers the first full year since we opened for business on 16 November 2015.

Financial ombudsmen have been established worldwide. But CIFO is unique in covering two separate international financial centres. This provides flexibility and economies of scale, while doubling the number of governments and stakeholders with whom we deal. We appreciate the support they have all given to us, both in setting up the office and in carrying out our work.

CIFO is an independent body that supports public confidence in financial services provided in the Channel Islands, and internationally from the Channel Islands. We do this by resolving financial services complaints – fairly and impartially – as an informal alternative to the courts, and by pointing out where things could be improved for the future.

We received more complaints than was expected when plans for the office were laid, more than half from customers outside the Channel Islands. But a higher proportion of complaints than expected was outside the remit given to us by the States. Some were outside the relevant time limits, but a significant number related to types of financial services excluded from our scope.

A notable feature was that we received groups of complaints about a particular financial services provider (FSP), or even about a particular product from one FSP. Although some groups of complaints shared some similar features, we had to treat each one individually – dealing with separate circumstances and separate (often distressed) individuals.

We kept staff and resources to a prudent minimum whilst we gained experience of the longer-term volume and pattern of complaints. So, though we coped with the greater than expected volume of complaints, some cases took longer to resolve than we had hoped and some non-casework activities had to be restricted. We have since scaled up to cope with the greater workload.

As we did last year, we will be convening public annual meetings in Guernsey and in Jersey to discuss this report. This is part of our commitment to transparency and to engagement with our stakeholders and users. We surveyed users during the year, and will use their feedback to shape our staff training and improve our service.

The annual statistics in this report have, of course, been foreshadowed by the quarterly statistics we published throughout the year. After discussion with our stakeholders, it was concluded that all concerned needed time to adapt to CIFO's existence and approach and that it would not be appropriate to disclose the identity of individual FSPs in relation to cases determined before 1 January 2018.

Looking ahead, around November 2017 my board will stand back and review how things have gone in the two years since the office opened for business – with a view to refreshing our strategy for the future in the light of experience. We will be delighted to hear from any of our stakeholders about things they would like us to consider as part of that review.

A definite item on the agenda is a review of the funding formula, by which the cost of CIFO is raised from FSPs. The existing arrangements run until the end of 2018. But the complexity of devising an arrangement that will be both fair and practicable from 2019 onwards is such that we are starting a programme of focused discussions with stakeholders during 2017.

In conclusion, I am grateful to the other members of my board for their commitment, support, and wise counsel. They and I join in thanking the principal ombudsman and all the members of his staff for their hard work in meeting the dual challenge of getting the office successfully established and in handling the volume of complaints that emerged.

MESSAGE FROM THE **PRINCIPAL OMBUDSMAN & CHIEF EXECUTIVE**

Douglas Melville

What a difference a year makes.

The Channel Islands Financial Ombudsman (CIFO) celebrated its first anniversary on 16 November 2016 and completed its first full calendar year of operation on 31 December. For any new endeavour, these are milestones to be celebrated, but they represent only the first steps in a much longer journey for this unique mandate.

Establishing a new public interest mandate, building an office and forming a team is challenging under any circumstances. This is compounded when the initiative is pan-island in nature, working across two jurisdictions and engaging with two of everything from a stakeholder perspective: governments, regulators, industries, media, and consumer and community contacts. It required a great deal of commitment and assistance from all stakeholders across the Channel Islands. This is what we celebrate, and for which we wish to express our appreciation.

We are very gratified to have received such strong support from all stakeholders during our first year of operation. Whether in form of engagement to better understand our mandate and how we function, sharing of information about CIFO to inform industry and the general public, or referral of complainants to our office, all of these activities contributed to this new mandate. While we are independent in terms of our decisions on complaints, our frequent contact with both governments and regulators in Guernsey and Jersey helped us to refine our approach to the mandate and lay the structural foundation for our future success. Bodies like the Jersey Consumer Council, Citizens Advice Bureaus on both islands, and Trading Standards have helped to signpost Channel Island consumers to our office and have also helped CIFO staff to appreciate the consumer perspective of challenges encountered with financial services.

As with any new endeavour, the creation of CIFO has not been without its challenges. Complaint volumes during 2016 were nearly double the volume estimated during the pre-launch planning of the office. This was partially off-set by the high proportion of complaints during our first year that fell outside the remit set by the States. Some (as expected) fell outside the statutory time limits and others (rather more than expected) related to types of financial services excluded from our remit. As time passes, we expect to see the nature of complaints settle into a regular pattern of volumes and themes. We have provided a robust analysis of our complaint volumes for 2016 in this report. The fact that so many consumers brought their complaints to our office during our first year is a positive reflection on both the mandate and the need for an alternative to the courts in seeking redress for losses incurred.

The creation of CIFO was greatly assisted through initial funding from the States of Guernsey and States of Jersey in the form of lines of credit. These were both fully repaid in early 2016 once CIFO had well established the process for raising annual levies. The patience of industry stakeholders was greatly appreciated while the intricacies of available regulator data and the underlying business activities of financial service providers were navigated to facilitate the levy process going forward.

In another positive aspect of our first full year of operation, the financial services industry has responded to CIFO's creation in several important ways:

- Attendance and engagement at our outreach events arranged in conjunction with industry bodies in both Guernsey and Jersey. While we welcome all the interest from individual financial service providers seeking to engage with our office, we have limited capacity for such non-complaint-related activity. We therefore endeavour wherever possible to arrange outreach events through industry bodies to maximise the use of staff time and to efficiently share the information as broadly as possible amongst industry stakeholders.

- Sharing information with their customers about CIFO and the ability to refer unresolved complaints to our office.

- Engagement with our team to resolve complaints constructively and as quickly as possible.

- Working with our team at an early stage to achieve quick resolutions through mediation rather than insisting on formal determinations. This greatly increased our efficiency and enabled us to tackle far more complaints than otherwise would have been possible with our limited resources during the initial period.

Throughout our first full calendar year, we continued to work with our colleagues engaged in regulation in both Guernsey and Jersey, and occasionally beyond the Channel Islands. Through the sharing of information and cooperation on specific matters, we seek to assist them in their important work and obtain their assistance to enhance our ability to fairly and efficiency perform our unique dispute resolution function. We are also developing relationships with law enforcement. We plan to continue to nurture these close working relationships for mutual benefit and thank all of our colleagues for their assistance during our start-up phase.

CIFO's independence is the key enabler which makes it possible to work between the economic power of industry and the interests of individual consumers to achieve fair outcomes to unresolved complaints. Our independence is vigorously protected by CIFO's Chairman and the other Directors. We are grateful for their oversight and guidance. CIFO staff and all stakeholders benefit greatly from their collective experience in dispute resolution, regulatory and public policy, financial and legal affairs, and board governance. They also bring the local perspectives of Guernsey and Jersey so critical to the effective creation and sustaining of a pan-island institution. In their roles, they hold the CIFO team accountable for our effective and efficient performance of this important public interest mandate. They are also strong advocates for fair and effective dispute resolution which benefits consumers, financial service providers, and the reputation of the Channel Islands.

To our staff, I note that we have had a fascinating first year together as we have endeavoured to combine building the infrastructure of our new office with simultaneously resolving a large number of consumer complaints that found their way to us. It has been a challenging year but the team can be justly proud of our progress. We look forward to continuing to lay the foundation for our work while continuing to bring to both parties a fairness of outcome through the application of a fair process; a tough job that the CIFO team has taken on with great commitment, energy and integrity. For that they deserve our heartfelt thanks. Well done.

Channel Islands Financial Ombudsman
WHO WE ARE

The Channel Islands Financial Ombudsman (CIFO) is the independent dispute-resolution service for unresolved complaints involving financial services provided in or from the Channel Islands of Jersey, Guernsey, Alderney and Sark. Complaints can be brought by any individual consumers and small businesses from anywhere in the world, plus certain Channel Islands charities.

CIFO is a joint operation of two statutory ombudsman roles, established in law by the Financial Services Ombudsman (Jersey) Law 2014 and the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014, jointly operating under the name Channel Islands Financial Ombudsman. CIFO operates from a single office in Jersey with one set of staff and the same Board members overseeing the two statutory roles. The States of Jersey and States of Guernsey jointly appointed the Board of Directors and the Board appointed the Principal Ombudsman and Chief Executive. The office commenced operation on 16 November 2015.

The primary role of CIFO is to resolve complaints about financial services provided in or from the Channel Islands. It resolves complaints against financial services providers – independently, fairly, effectively, promptly, with minimum formality and so as to offer a more accessible alternative to court proceedings. This helps to underpin confidence in the finance sectors of Jersey and Guernsey, both locally and internationally.

Channel Islands
Financial Ombudsman
HOW WE WORK

OUR STAFF

Our staff – with a wide variety of experience and training in financial services, law, finance, consumer research and policy, dispute resolution and regulatory compliance – review and investigate unresolved complaints about financial services providers (FSPs) in or from the Channel Islands.

Douglas Melville
Principal Ombudsman & Chief Executive

Sophie Watkins
Manager, Administration & Stakeholder Relations

George Butler
Financial Accountant

Dominic Hind
Case Handler

Richard Langlois
Case Handler

Ross Symes
Case Handler

Heather Rushton
Administration Officer

OUR APPROACH

When we receive a complaint, our team looks at the information provided to make sure it falls within our remit (see our process on page 13). For instance, the FSP has to fall within CIFO's remit as set out by law in both Jersey and Guernsey. A summary of CIFO's remit is set out in the table on page 11. We also look for a final answer from the FSP to the consumer, which allows us to start our review knowing the positions of both parties.

During an investigation, we gather information from both parties and review the facts of the case. We make decisions based on what's fair to both the consumer and the FSP, taking into account general principles of good financial services and business practices, the law, regulatory policies and guidance, and any applicable professional body, standards, codes of practice, or codes of conduct. If we believe that the facts of the case do not warrant further review, we will let the consumer know quickly. We always make sure that we explain our reasons, just as we do when we are determining that compensation is appropriate.

If we determine that compensation is owed to the consumer, we try to resolve the dispute through a facilitated settlement between the consumer and FSP that aims to address the complaint quickly with a fair outcome to both parties.

PRINCIPAL OMBUDSMAN & STAFF

Left to right: Ross Symes, Douglas Melville, Sophie Watkins, George Butler, Heather Rushton, Richard Langlois, Dominic Hind.

If we are unable to facilitate a settlement but we continue to believe the consumer should be compensated, we will complete our investigation and make a determination. Our decision, if accepted by the consumer, becomes binding upon the FSP.

We can require that FSPs pay compensation to the consumer of up to £150,000. We may also determine that compensation for inconvenience is appropriate in the specific circumstances. In some instances, non-financial actions such as correcting a full calendar year record may be appropriate.

Neither a court nor a regulator, CIFO does not fine or discipline FSPs or individuals working within the financial sector. While we do not handle matters that have already been through a court or an arbitration, if a client does not accept our conclusions, they are free to pursue their case through other processes including the legal system, subject to statutory limitation periods.

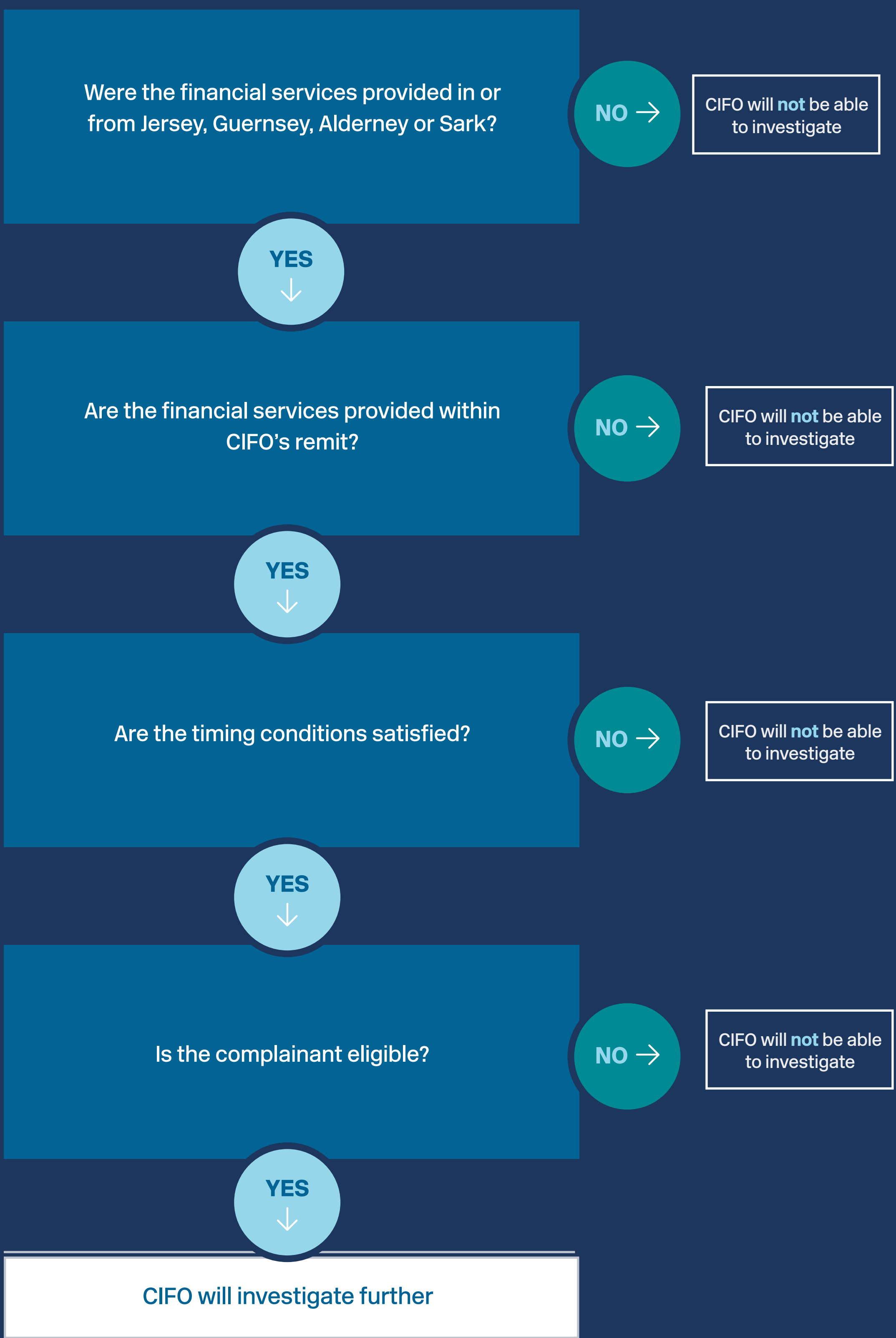
OUR MANDATE

The scope or mandate of the Channel Islands Financial Ombudsman is set in the primary laws and supporting secondary legislation in Jersey and the Bailiwick of Guernsey. CIFO can only investigate complaints that meet certain conditions relating to the person bringing the complaint, the type of financial service complained about and the timing conditions. The table on the following page summarises the mandate according to the location from where the financial services were provided. Please note that this is a summary and the full detail is provided in the legislation viewable on our website.

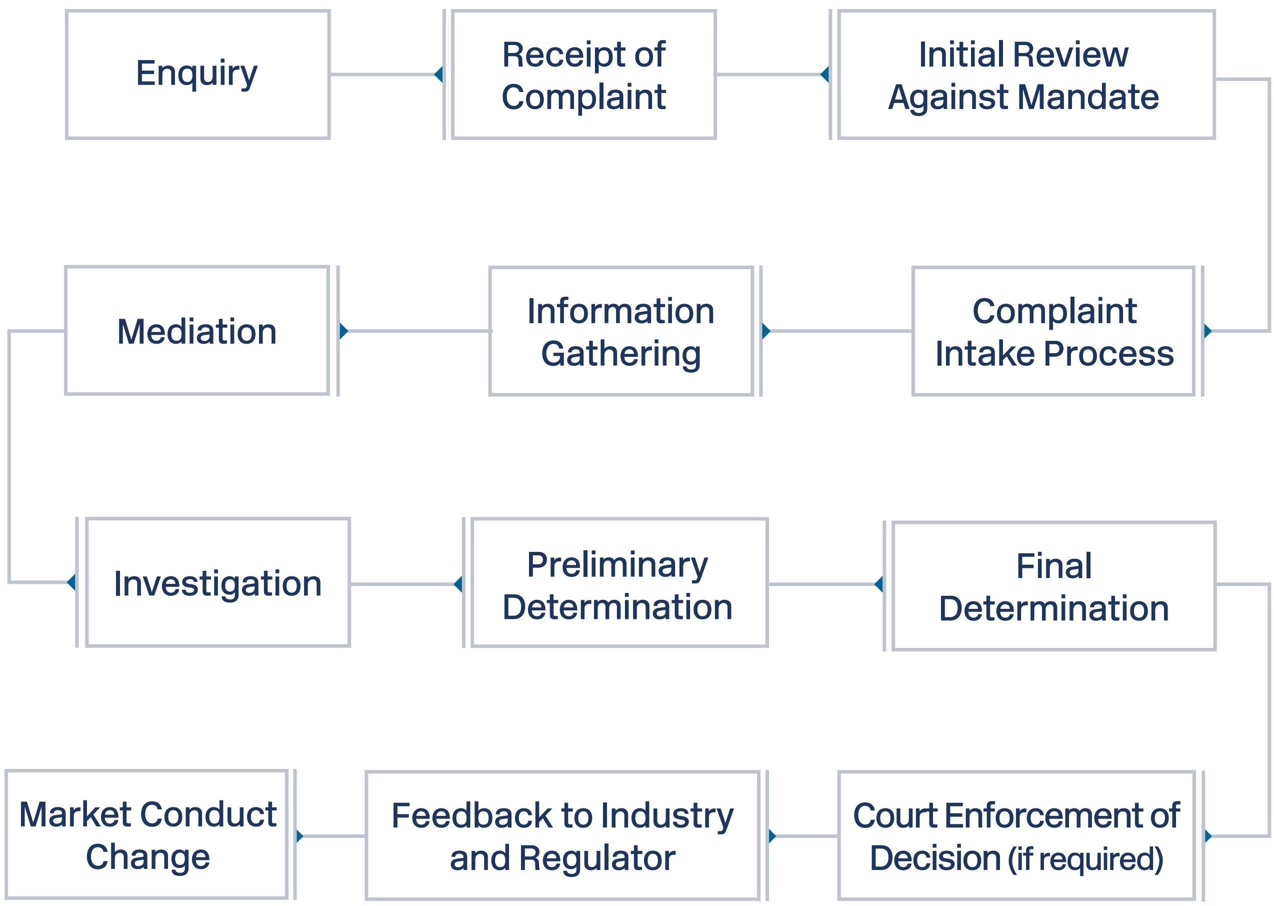
<table>
<tr><th>Service provided in / from</th><th>Guernsey, Alderney and Sark</th><th>Jersey</th></tr>
<tr><td rowspan="1">Complainants</td><td colspan="2">1. Must be a consumer or microenterprise (anywhere in the world) or a Channel Islands small charity;
2. Must not be a financial services provider;
3. Must have been a client or had another specified relationship with the financial services provider.</td></tr>
<tr><td rowspan="3">Financial Services</td><td colspan="2">The complaint must relate to an action (or failure to act) by a person while carrying out relevant financial services business, in or from within the location. Relevant financial services business covers:
1. Banking
2. Money service business</td></tr>
<tr><td>3. Insurance, excepting commercial reinsurance;
4. Investment funds: activities relating only to Class A collective investment schemes and not other collective investment schemes;
5. Investment services such as advising, managing or dealing in Class A funds and other investments such as stocks and shares;
6. Pensions. Exemption for pension business carried on in relation to an occupational pension scheme, where the employer does not do any other pensions business;</td><td>3. Insurance;
4. Investment funds: activities relating only to recognized funds and not other collective or alternative investment funds;
5. Investment services such as advising, managing or dealing in collective investment funds and other investments such as stocks and shares;
6. Pensions. Exemption for pension business carried on by employers in relation to their occupational pension schemes, where the employer does not do any other pensions business;</td></tr>
<tr><td colspan="2">7. Credit. Exclusions for informal store credit; debt-advice from a third party such as the Citizens Advice Bureau; point-of-sale credit intermediaries that are not financial services entities;
8. Related (or ancillary) services provided by the same financial services provider;
9. Providing advice or introductions to the areas above.

Fiduciary / trust company business is exempt unless it relates to one of the areas above</td></tr>
<tr><td rowspan="2">Timing</td><td>1. ‘Starting point’: the act or omission that led to the complaint must not be before 2 July 2013;</td><td>1. Starting point’: the act or omission that led to the complaint must not be before 1 January 2010;</td></tr>
<tr><td colspan="2">2. The financial services provider must have already had a reasonable opportunity to resolve the complaint (a maximum of 3 months);
3. The complainant must refer the complaint to CIFO by the later of:
a. 6 years from the act/omission; or
b. 2 years after complainant should have known he/she had reason to complain
4. The complainant must also refer the complaint to CIFO within 6 months of receiving the financial services provider’s decision on the complaint if the financial services provider met certain conditions in handling the complaint.</td></tr>
</table>

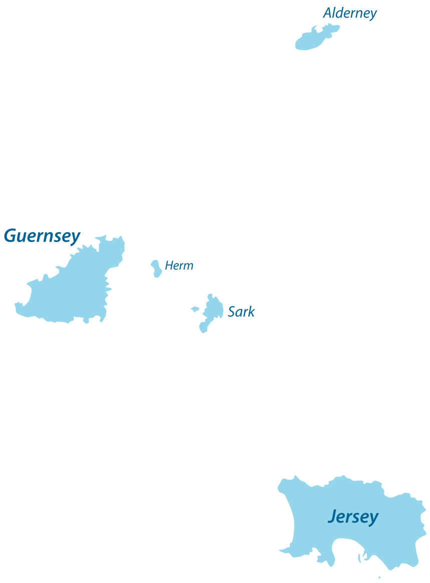
A SUMMARY OF
HOW WE DETERMINE IF A COMPLAINT IS WITHIN CIFO'S MANDATE



THE PROCESS
FROM ENQUIRY THROUGH TO FINAL DETERMINATION AND BEYOND



YEAR IN REVIEW **2016**



OPERATIONS

CIFO’s first full calendar year of operation provided numerous indications of what the future may hold for this new and unique mandate. Our small team met the challenges of higher than expected complaint volumes while continuing to establish the infrastructure, policies and procedures that support the day-to-day core function of resolving financial sector disputes.

The volume of complaints experienced by the office (1,293 in 2016) was almost double the annual volume of 700 predicted during the planning phase of CIFO’s creation. This was offset by the high proportion of complaints that were found to fall outside of CIFO’s remit due to statutory date bars or excluded financial services business. Given the inability to accurately predict the volume of complaints, and not wanting to commit to additional staff in case the initial complaint volumes were a temporary spike, it was decided to delay adding case handler capacity until it was clear whether the initial complaint volumes seen at the beginning of operation at the end of 2015 would continue. Complaint volumes continued above plan through 2016 and the high volume of out of mandate complaints also required significant effort to review, confirm their status against CIFO’s remit, and explain to complainants, who were at times highly engaged, why their complaint could not be reviewed under CIFO’s remit. These operating pressures resulted in an increase in case file inventory and completion times that were slower than desired by both CIFO and the parties to the complaints. One of the other impacts of higher complaint volumes and constrained capacity was the inability to dedicate sufficient effort to non-case file work related to sharing of learnings from complaints handled by CIFO. This includes the preparation of case studies and root cause analysis. By the end of 2016, the decision was taken to increase case handler capacity by 50% with the addition of a third case handler who joined the team at the beginning of 2017.

One unexpected aspect of the complaints seen in 2016 was the experience of multiple complaints arising from a single financial service provider involving a single product or issue. Some of these multiple complaints were found to be out of mandate while others represented a significant proportion of CIFO’s case file work during the year. The operational impact of these multiple complaints was somewhat counter-intuitive. The workload per case file was not lessened by the multiple nature of the complaints. Indeed, it can be increased. The implications of multiple complaints for the solvency of the financial service provider, the availability of redress through professional indemnity-type insurance, or other sources of funds for redress, can all become a significant issue. A final determination awarding compensation is of little utility to an aggrieved consumer if there are no funds available to pay the compensation.

POLICY ISSUES ARISING

CIFO's complaint reviews can be expected to surface policy issues about the financial services industry and CIFO's remit. These issues will be brought to the attention of CIFO's Board of Directors, the regulators, and the States of Guernsey and States of Jersey as appropriate.

One such issue is that in a dynamic financial sector, businesses are being created, merged, and dissolved. Customers may move their accounts between financial service providers. Financial sector professionals can move between employers and bring their clients along with them. All of this creates a complex system for determining which financial service provider should be responsible for problems that arise or continue over a period of years. We encountered numerous complaints where it was necessary to allocate responsibility between financial service providers for the same loss. In other situations, we sought assistance from financial service providers who were not the subject of a customer complaint but had customer or product information in their possession important to the review of the complaint. These situations exposed limitations in the powers of CIFO to ensure cooperation by financial services providers that held relevant information but were not a party to the complaint.

STAKEHOLDER OUTREACH

During CIFO's first full calendar year of operation, it was important to get out into the community to engage with stakeholders and to help them understand what CIFO is, and sometimes more importantly what CIFO is not. CIFO staff participated in dozens of meetings through the year with governments, regulators, industry groups, consumer and community groups, and the media. All stakeholders have a role to play in making customers aware of the ability to refer an unresolved complaint to our office. It also helps to build support for effective complaint handling both within financial services providers and through CIFO as required.

As a more formal expression of CIFO's commitment to transparency, in July 2016 we convened public annual meetings in Guernsey and in Jersey to present our 2015 annual report and audited financial statements. These were also an opportunity for the public to address questions directly to the Board of Directors and management.

FUNDING

The initial start-up funding for CIFO was provided through lines of credit provided by the States of Guernsey and States of Jersey. Both loans were repaid at the end of Q1 of 2016 once the levy schemes were in place to obtain funding directly from financial service providers in Guernsey and Jersey.

To guide the development of the levy schemes for the initial period of CIFO's operation, the initial funding structure for CIFO was agreed between the States of Guernsey and States of Jersey. It set out that the operating costs for the combined operation should be allocated equally to the States of Guernsey and States of Jersey for an initial period until complaint volume data could be accumulated to support a discussion of alternate funding structures. In late 2016, this initial funding structure was extended by the States of Guernsey and Jersey through to the end of 2018 to reflect the fact that less than a year of complaint data had been accumulated, considered insufficient to form the basis for discussion of a new funding structure for CIFO.

In any financial Ombudsman scheme, one of the biggest challenges is to develop a funding structure that reflects the unique nature of the local market and the legitimate concerns of industry stakeholders. CIFO experienced this challenge in connection with the Guernsey investment sector where the categories of financial services provider subject to CIFO’s mandate and liable to pay the annual levy did not align to the categories of regulated entities in Guernsey. It took an extra round of communication with industry in early 2016 and several months to clarify the Guernsey investment sector providers subject to the levy. The cooperation and patience of the Guernsey investment sector during this challenging process was appreciated.

OFFICE INFRASTRUCTURE DEVELOPMENT

CIFO undertook two major office infrastructure projects in 2016. The first was to create a finance function to bring in-house functions such as book-keeping, reporting, payroll and the billing and collection of levies and case fees that had previously been outsourced. The in-house function will replace the outsourced activities from the start of 2017 and will also support statistical and financial analysis relating to CIFO’s complaint handling activities.

The second project involved the acquisition, modification, testing, and deployment of a new complaint management system (CMS) to handle CIFO’s complaint handling, workflow and reporting. CIFO is grateful to the Ombudsman for Banking Services and Investments (OBSI) in Canada for their generosity in providing CIFO with the code and documentation from their newly-developed CMS. This enabled CIFO to build from a well-designed base system thereby saving our team significant cost, time and effort. The system went live on 1 January, 2017.

LOOKING AHEAD TO 2017

In many ways, 2017 will be an extension of the work we started during 2016. Investing in our team through training and development focused on mediation skills. Investing in our office infrastructure by refining our new complaint management system (CMS). Clarifying our approach for all stakeholders by refining, documenting and communicating our processes for resolving complaints and publishing case studies to inform industry and the general public about complaint issues we see affecting financial consumers.

Building on the success of our working relationships with regulators in both Guernsey and Jersey, we will finalise arrangements with law enforcement in both Guernsey and Jersey to enable information exchange to support each other's mandates.

We will engage in extensive consultation with industry stakeholders to hear their concerns and ideas and begin the process to identify a long-term funding structure for CIFO to become effective from 1 January 2019. Discussions through 2017 will focus on identifying a principles-based approach that is fair and practical. In 2018, the stakeholder discussions will continue, informed by two full years of island-specific complaint volume data which CIFO will begin publishing in Q1 of 2018.

At the end of 2017, the initial period of acclimatisation to CIFO's new mandate will come to an end. Final determinations made from 1 January 2018 onward will identify the financial service provider concerned, with similar changes to published complaint volume data beginning in Q1 2018. 2017 will therefore be the final year for financial service providers to refine their internal complaint handling and become accustomed to mediated resolutions with CIFO before the commencement of the new reporting will place into the public domain CIFO's complaint experience with each financial service provider.

In addition, complaint statistics will distinguish between complaints about Jersey and Guernsey providers starting in Q1 2018.

COMPLAINT STATISTICS **2016**

This presentation of CIFO's complaint statistics represents the first full calendar year of operation for the new office and supplements the quarterly complaint statistics regularly published by CIFO on our website. CIFO commenced operation on 16 November 2015, about six weeks before the end of CIFO's 2015 fiscal year. None of the 87 complaints received and opened up to 31 December 2015 became case files in 2015. As a result, the 2016 complaint statistics reflect all of the closed case files since CIFO's commencement of operations.

The volume of complaints received by CIFO in 2016 was significantly higher than the volumes predicted during the planning for the new office. Partially off-setting this higher complaint volume was a significantly higher proportion of complaints which were found to be out of mandate given the limitations placed on CIFO's remit by Jersey and Guernsey legislation.

The complaint statistics are presented for the Channel Islands on a consolidated basis. Island-specific quarterly complaint data will be reported commencing in Q1 of 2018 and annual statistics in next year's 2017 Annual Report.

Compared with the quarterly statistics published for 2016, data have been updated as classification of a complaint can change during its life cycle and there is an ongoing effort made to review and refine the accuracy of complaint data which can lead to minor post-period adjustments.

2016 COMPLAINT STATISTICS SUMMARY

2016 Stage 1 ***Enquiries***
483

2016 Stage 2 ***Complaints Received***
1,293

Stage 3 ***Initial Review as at 31 Dec 2016***

9 Awaiting customer documents/ consent

112 Complaints under initial review

Rejected as out of mandate

Appears within mandate

Stage 4 ***FSP Document Request as at 31 Dec 2016***

7 Waiting for documents from FSP

1 Pending further review against remit

Rejected as out of mandate

Total Rejections as out of mandate
963

Within mandate

Case Fee Payable

Stage 5 ***Open Case Files as at 31 Dec 2016*** (117)

18	65	10	24
Under 30 days	30-60	61-90	Over 90

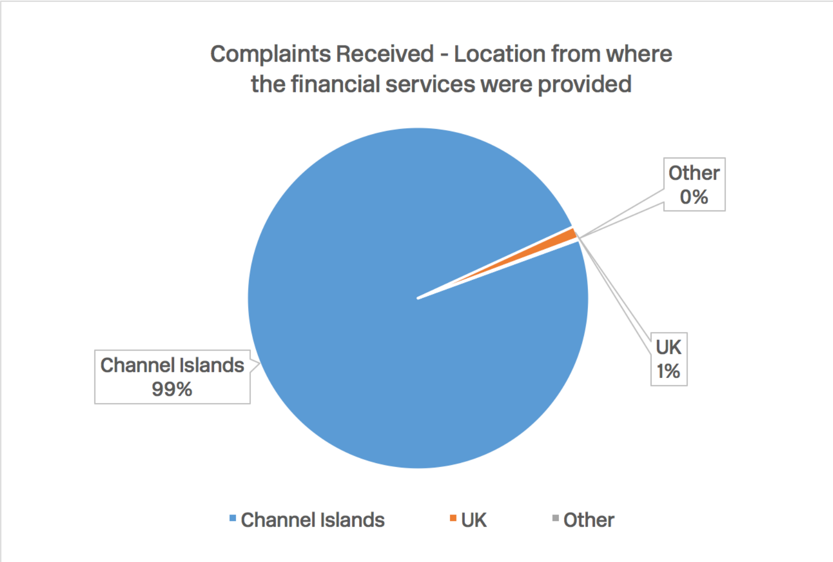
Closed Case Files (149)

80	30	39
Mediated	Decided	Withdrawn

2016 COMPLAINT STATISTICS ANALYSIS

Complaints Received - Location from where the financial services were provided

Channel Islands	1,276	99%
UK	15	1%
Other	2	0%
Total	**1,293**	**100%**

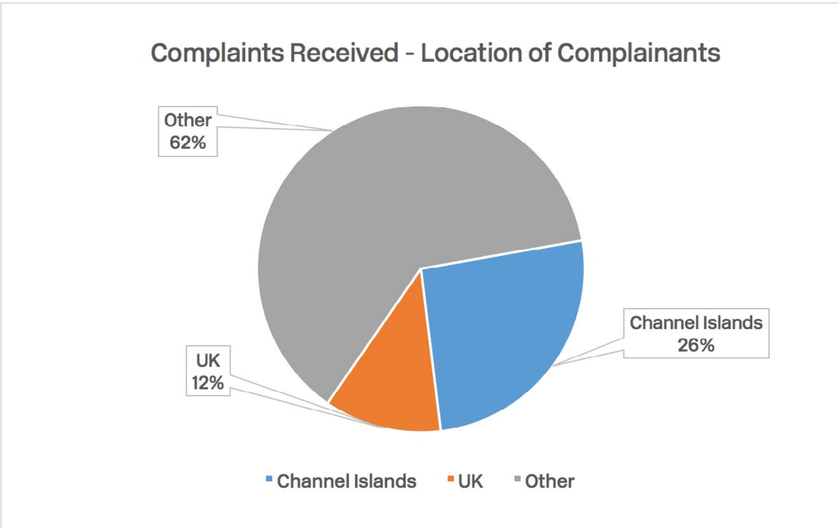


This section of the 2016 Statistics Analysis provides detailed information concerning complaints, which are all customer expressions of dissatisfaction about a financial services provider that have been received by CIFO whether or not they are ultimately deemed to fall within CIFO's mandate.

Of the 1,293 complaints received by CIFO in 2016, 1,276 (99%) were against financial services providers operating in or from within the Channel Islands. 1.5% (15) operated in or from within the UK, and 2 operated elsewhere. When CIFO receives a complaint against a financial services provider operating outside of the Channel Islands, it will be referred to the most appropriate financial ombudsman service or regulator within that jurisdiction.

Complaints Received - Location of Complainants

Channel Islands	334	26%
UK	150	12%
Other	809	62%
Total	**1,293**	**100%**

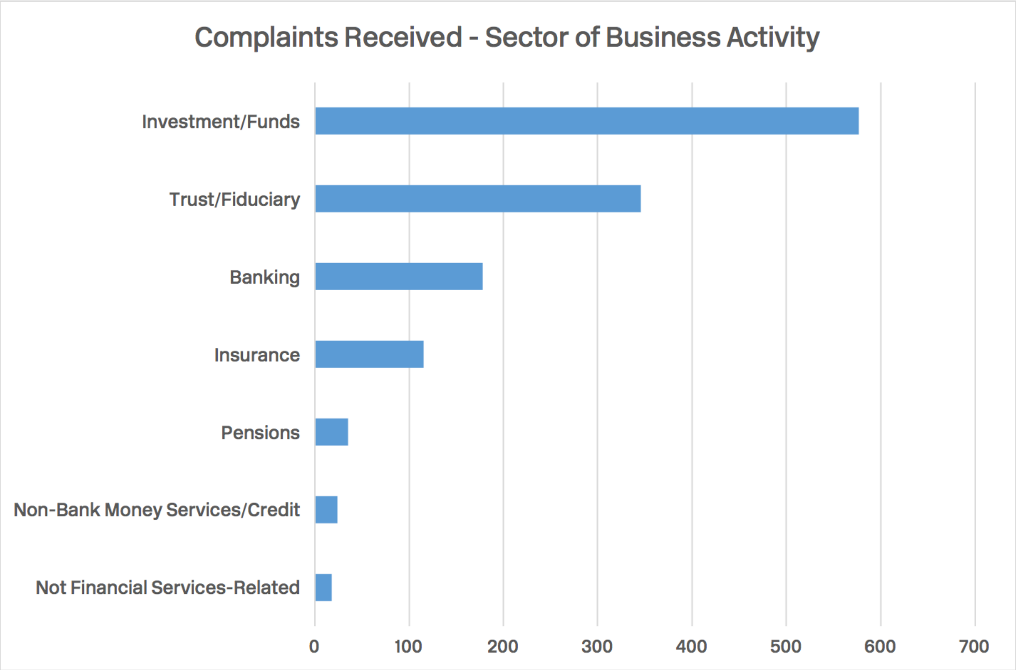


Of the 1,293 complaints received by CIFO in 2016, 809 (62%) were from complainants residing outside of both the Channel Islands and the UK. 334 (26%) were from Channel Island residents and 150 (12%) were from UK residents.

Complaints Received - Sector of Business Activity

Investment/Funds	577	44%
Trust/Fiduciary	346	27%
Banking	178	14%
Insurance	115	9%
Pensions	35	3%
Non-Bank Money Services/Credit	24	2%
Not Financial Services-Related	18	1%
Total	**1,293**	**100%**

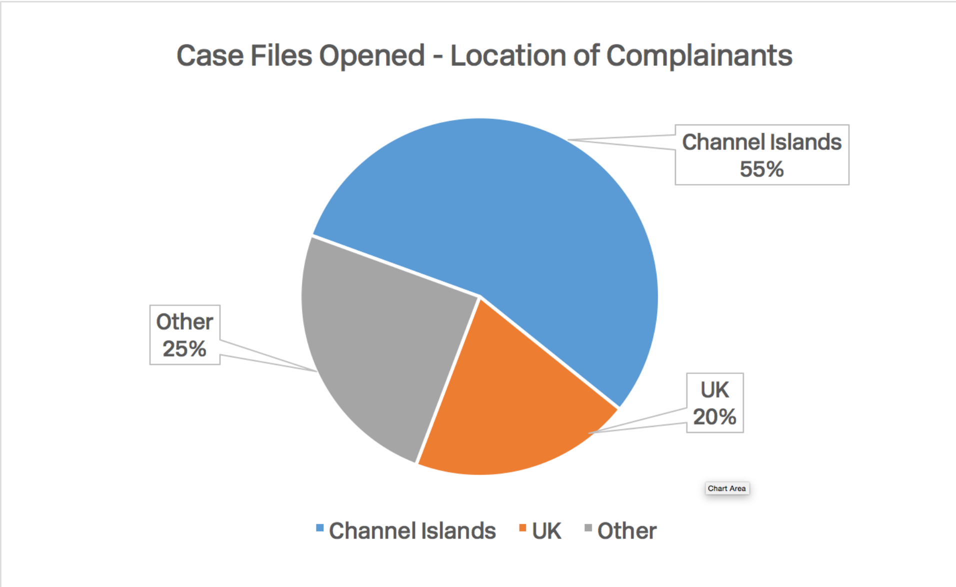
Of the 1,293 complaints received by CIFO in 2016, the majority were about the financial sub-sectors of investments/funds and trust/fiduciary. 577 (44%) were about investments/funds and 346 (27%) were about trust/fiduciary. Of the remaining complaints, 178 (14%) were about banking, 115 (9%) were about insurance, 35 (3%) were about pensions, 24 (2%) were about non-bank money services and credit, and 18% (1%) were not financial services-related.



Case Files Opened - Complainant Location

Channel Islands	127	55%
UK	46	20%
Other	57	25%
Total	**230**	**100%**

This section of the 2016 Statistics Analysis provides detailed information concerning case files. A case file is any complaint which has passed the preliminary review against CIFO's remit and an investigation has commenced.

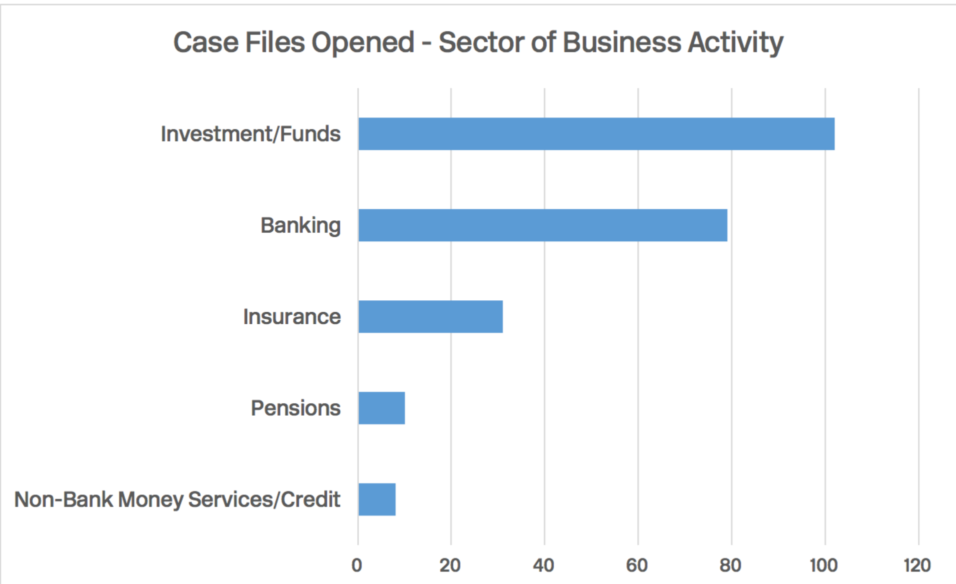


Of the 230 case files opened by CIFO in 2016, 127 (55%) involved a complainant from the Channel Islands, 46 (20%) involved a UK resident, and 57 (25%) involved a complainant resident elsewhere.

Case Files Opened - Sector of Business Activity

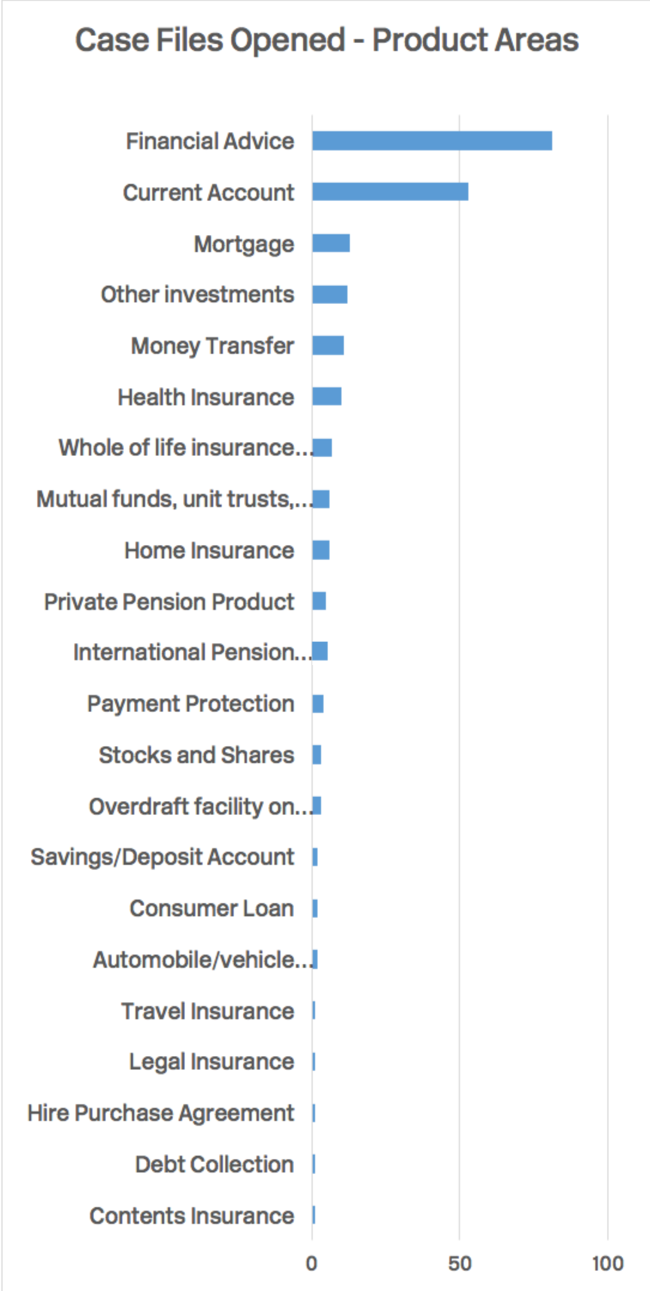
Investment/Funds	102	44%
Banking	79	34%
Insurance	31	14%
Pensions	10	4%
Non-Bank Money Services/Credit	8	4%
Total	**230**	**100%**

Of the 230 case files opened by CIFO in 2016, 102 (44%) related to the investment/fund sub-sectors, 79 (34%) related to the banking sub-sector, 31 (14%) related to the insurance sub-sector, 10 (4%) related to the pensions sub-sector, and 8 (4%) related to the non-bank money services and credit sub-sectors.



Case Files Opened- Product Areas

Financial Advice	81	36%
Current Account	53	24%
Mortgage	13	6%
Other investments	12	5%
Money Transfer	11	5%
Health Insurance	10	4%
Whole of life insurance (Investment)	7	3%
Mutual funds, unit trusts, collective investment schemes	6	3%
Home Insurance	6	3%
Private Pension Product	5	2%
International Pension Scheme	5	2%
Payment Protection	4	2%
Stocks and Shares	3	1%
Overdraft facility on current account	3	1%
Savings/Deposit Account	2	1%
Consumer Loan	2	1%
Automobile/vehicle Insurance	2	1%
Travel Insurance	1	0%
Legal Insurance	1	0%
Hire Purchase Agreement	1	0%
Debt Collection	1	0%
Contents Insurance	1	0%
Total	**230**	**100%**



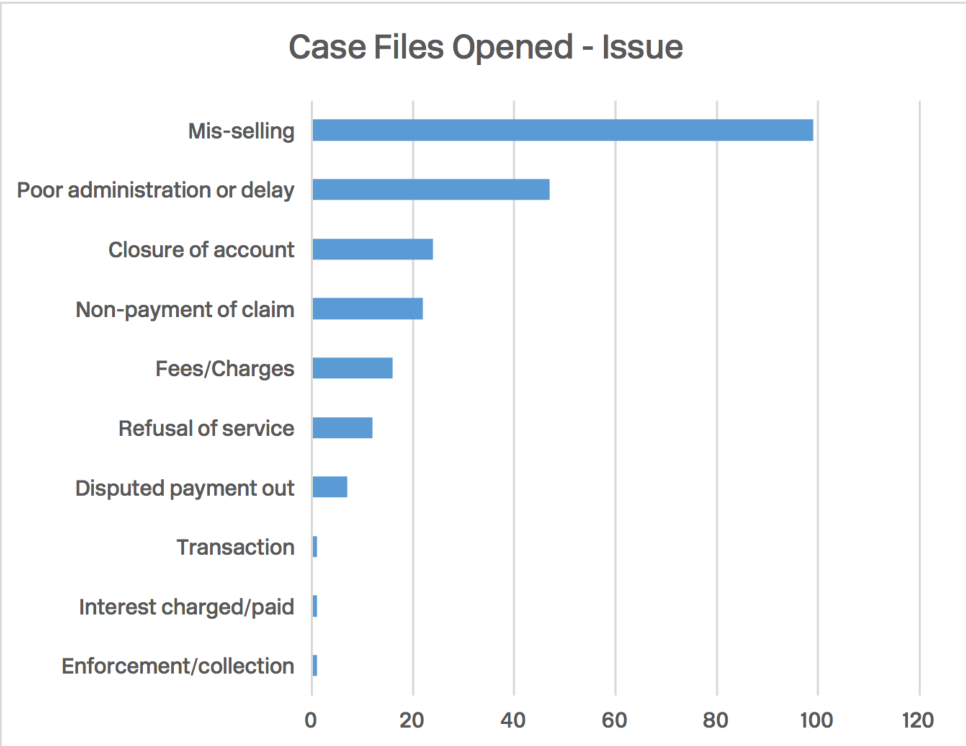
Over a third of case files (36%) opened by CIFO in 2016 related to financial advice as the product or service. Current accounts were the second most common product or service, with 53 (24%) case files. Case file volumes involving other product areas were considerably lower.

Case Files Opened - Issue

Mis-selling	99	43%
Poor administration or delay	47	21%
Closure of account	24	11%
Non-payment of claim	22	10%
Fees/Charges	16	7%
Refusal of service	12	5%
Disputed payment out	7	3%
Transaction	1	0%
Interest charged/paid	1	0%
Enforcement/collection	1	0%
Total	**230**	**100%**

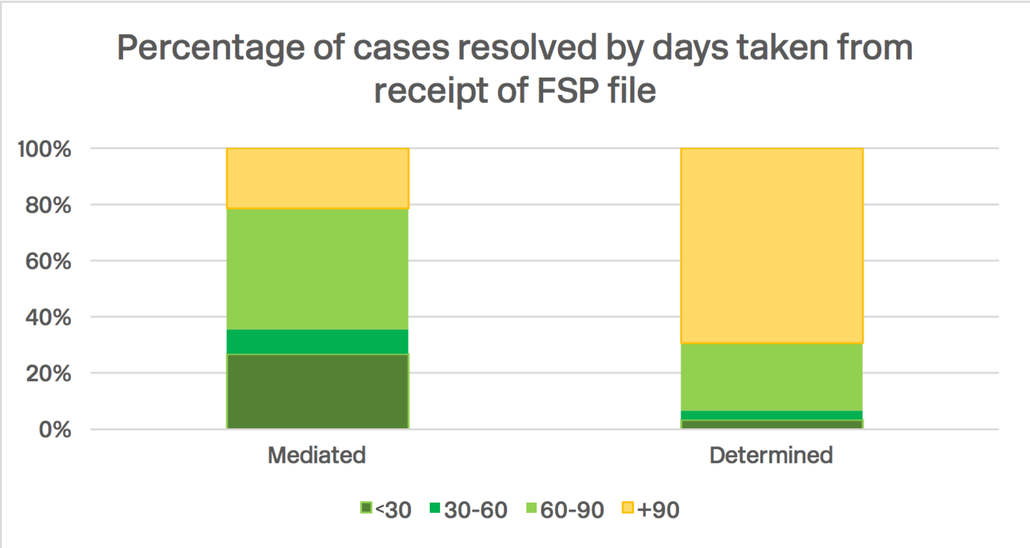
The most common issue in case files opened by CIFO in 2016 was mis-selling or unsuitable investment recommendations, with 99 (43%) cases.

The second most common issue was poor administration or delays, with 47 (21%) cases. This was followed by account closures with 24 (11%) related cases, and the non-payment of insurance claims with 22 (10%) cases.



Percentage of cases resolved by days taken from receipt of FSP file

Percentage of cases resolved by days taken	Mediated	Determined	Total
<30	27%	3%	21%
30-60	9%	3%	7%
60-90	43%	24%	37%
>90	21%	70%	35%
Grand Total	**100%**	**100%**	**100%**



The time taken is measured from the date of receipt of the documentation from the financial services provider. The graph shows the mediated cases separately from the determined cases and shows the breakdown of the proportions concluded in under 30 days from receipt of FSP's file, 30-60 days, 60-90 days and over 90 days.

The majority of cases closed through mediation in 2016 were resolved within 90 calendar days. In comparison, cases which progressed to the end of CIFO's process, the final determination stage, were more likely to take over 90 days to complete.

Of the 110 cases closed by CIFO in 2016 (excluding withdrawn cases), 65% were closed within 90 calendar days. Of these 110 closed cases, 80 (79%) were resolved by mediation, and 30 (21%) were closed by determination.

Of the 80 cases closed through mediation, 79% were closed within 90 days from receipt of the FSP's file. Of the 30 cases closed through determination, only 30% were closed within 90 days.

Closed complaints

Closed complaint by reason

Out of Mandate	963	87%
Withdrawn	39	3%
Mediated	80	7%
Determined	30	3%
Total	**1,112**	**100%**

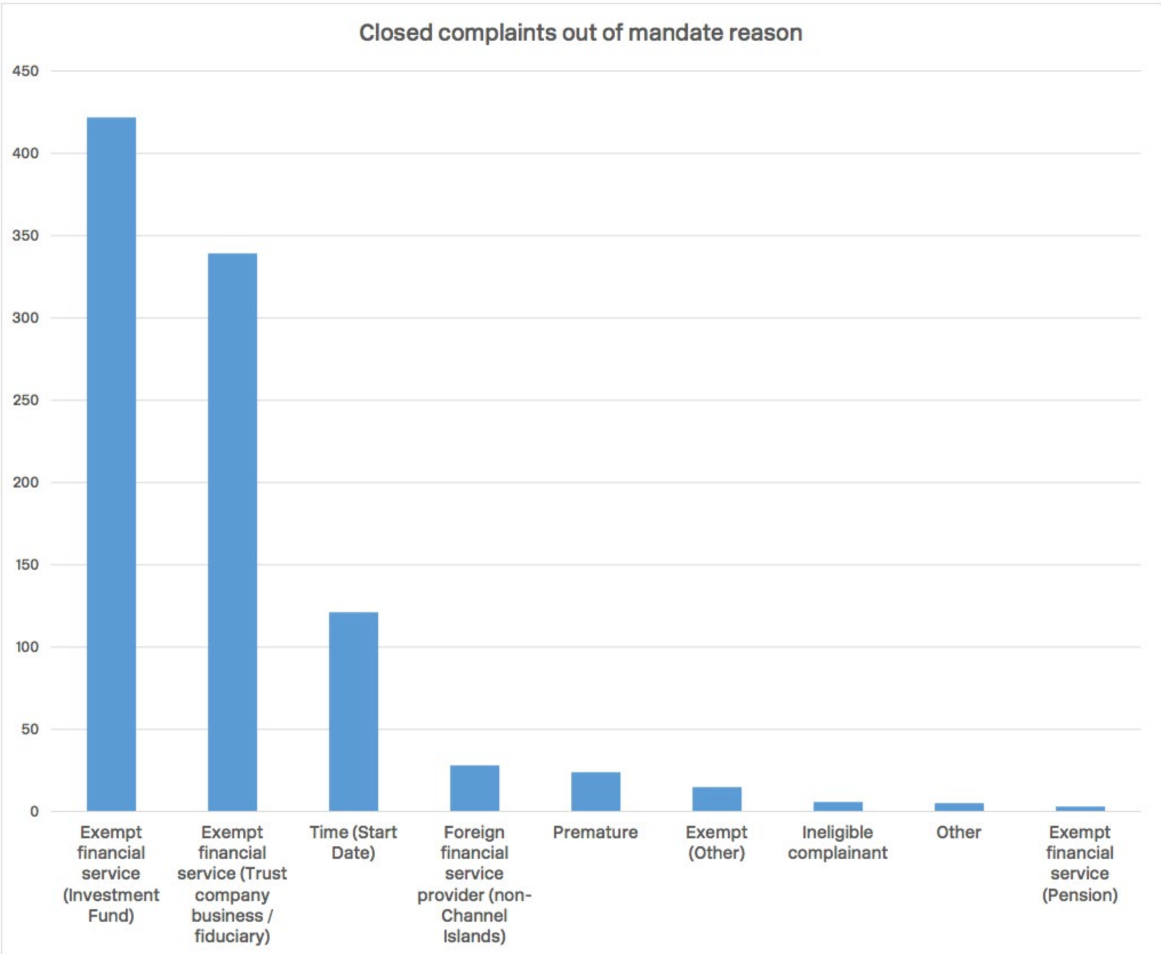
This table shows the closure reasons for all complaints that were closed in 2016. 963 were rejected as they were outside CIFO's remit as set by law. 39 complaints were withdrawn by the complainant and 80 were settled by mediation, by which we mean with the assistance of CIFO staff the parties agreed an outcome, and 30 complaints required the full powers of the Ombudsman to be used in issuing a determination on the complaint.

Of the 963 out of mandate complaints which CIFO could not review in 2016, the majority related to financial services exempted from CIFO's remit. 422 related to exempt fund services business, and 339 related to exempt trust company business.

The second most common out of mandate reason was because the relevant act or event occurred before CIFO's statutory maximum reach back date (1st January 2010 for complaints in Jersey and 2nd July 2013 for complaints in Guernsey).

Closed complaints out of mandate reason

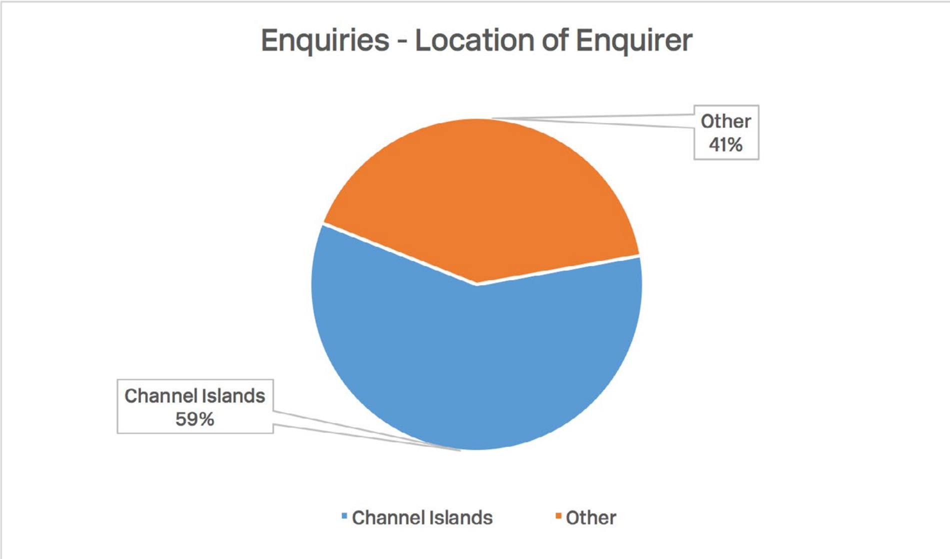
Exempt financial service (Investment Fund)	422	44%
Exempt financial service (Trust company business / fiduciary)	339	35%
Time (Start Date)	121	13%
Foreign financial service provider (non-Channel Islands)	28	3%
Premature	24	2%
Exempt (Other)	15	2%
Ineligible complainant	6	1%
Other	5	1%
Exempt financial service (Pension)	3	0%
Total	**963**	**100%**



Enquiries - Location of Enquirer

Channel Islands	284	59%
Other	199	41%
Total	**483**	**100%**

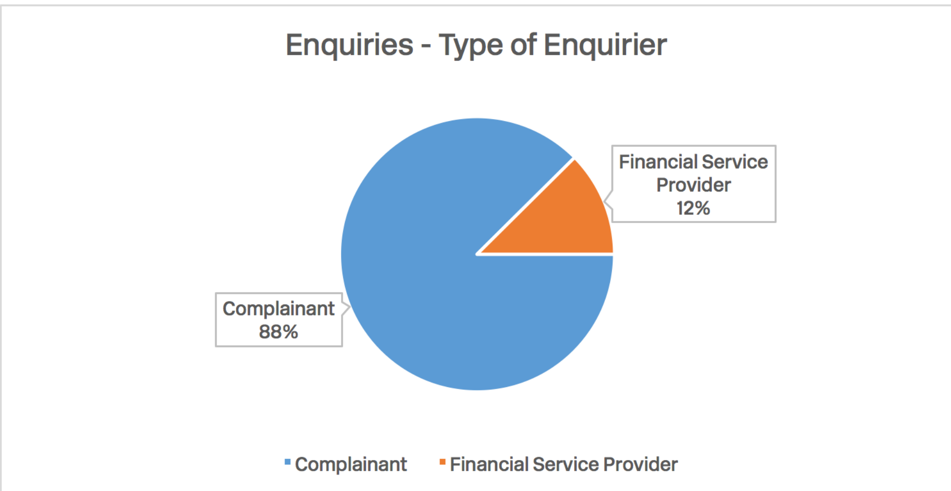
Of the 483 enquiries received by CIFO in 2016, 284 (59%) came from Channel Islands residents and 199 (41%) came from elsewhere.



Enquiries - Type of Enquirer

Complainant	423	88%
Financial Service Provider	60	12%
Total	**483**	**100%**

Of the 483 enquiries received by CIFO in 2016, 423 (88%) came from potential complainants and 60 (12%) came from financial services providers.



Complaints Received - Type of Complainant

	C.I.	UK	Other	Total	%
Consumer	1,239	15	2	1,256	98%
Microenterprise	31	0	0	31	2%
Trustee	3	0	0	3	0%
Charity	2	0	0	2	0%
Other	1	0	0	1	0%
Total	**1,276**	**15**	**2**	**1,293**	**100%**

Closed Case Files by Outcome

Case Files Resolved in Favour of Complainant for More Compensation than Previously Offered by FSP	50	46%
Case Files Resolved in Favour of Complainant for Same or Less Compensation than Previously Offered by FSP	18	16%
Case Files Resolved in Favour of FSP	42	38%
Total	**110**	**100%**

Compensation Data

Maximum	£67,235
Average	£5,231
Median	£513
Minimum	£19

For mediated and determined cases closed where compensation was financial in nature.

Of the 1,293 complaints received by CIFO in 2016, 1,256 (97%) were brought by consumers, 31 (2%) were brought on behalf of microenterprises, 3 were brought by trustees, 2 were brought by enterprises, and 1 was brought by a charity.

Of the 110 case files closed in 2016, 50 (45%) were upheld in favour of the complainant with increased compensation awarded over any originally offered by the FSP. In another 18 (16%) we found that the complaint was upheld but the compensation CIFO awarded was the same or less than that previously offered by the FSP. In 42 case files (38%), we did not uphold the complaint.

Of the cases which were resolved in favour of the complainant and involved financial compensation, the largest award of compensation was £67,235. The average award of compensation was £5,231.

INSIGHT INTO OUR APPROACH **CASE STUDIES**

The case studies presented in this report and published on CIFO's website are intended to illustrate the type of complaints handled and the approach taken to resolve them. The case studies are based on actual CIFO case files. Some specific details may be altered to protect confidentiality.

Case Study #1 **BANK MISLED CUSTOMER ABOUT INTEREST RATE**

Themes

- Bank Account
- Interest Rate
- Misrepresentation
- Lack Of Communication

Mrs B complained that her bank had not paid interest on her account at the rate she had been promised.

She said that, while she was carrying out a transaction at local branch of her bank, the cashier noted she had a large balance in her account and asked her if she wanted to change to a different account with an interest rate of 7%. Mrs B agreed and a meeting was arranged with another member of the bank's staff for a later date. Mrs B left that next meeting believing that she had opened a new account which would pay her interest at 7% for the rest of the year.

At the end of the year, Mrs B was annoyed and disappointed to see that no interest had been paid. She visited the bank branch. The staff member she met was apologetic but said that the bank did not have an account that paid 7%. The best Mrs B could have received was 6%, but she would have needed to open a separate savings account.

Mrs B asked the bank for the interest which she would have earned – approximately £900 - but the bank did not agree. It gave her £75 as a gesture of goodwill. Mrs B was dissatisfied and referred her complaint to CIFO.

We contacted the bank. It confirmed that it did not have any account which paid 7% interest. It did have a savings account that paid interest at tiered rates, depending on the amount in the account, up to a maximum of 6%.

But it said the account Mrs B opened was merely an upgraded version of her previous transaction account offering no interest. She would have been upgraded automatically to this new account anyway one month after she came into the branch to complete the account change.

We asked the bank for a statement from the employee who had opened the new account, and asked why Mrs B had not been given the terms and conditions for the new account. The bank said that the employee had left. It did not have any notes of the meeting, but it did not think upgrading Mrs B's account was the same as opening a new account. This was why it had not advised Mrs B about the interest rate and the account terms and conditions.

Conclusion

In the light of the available evidence, we concluded that Mrs B had indeed been led to believe that she would receive 7%. It was not unreasonable for her to believe this, especially as she was not given written details of the new account and the bank's website suggested that it paid between 4% and 8% on its savings accounts, depending on when they were opened.

We concluded that Mrs B should be put in the position she would have been in if the bank had given her the correct information at the outset. If it had, she would have had her money in an account that paid up to 6%, meaning that she would have earned interest of £98. We recommended the bank to pay her that, plus £500 for the inconvenience it had caused her in getting her to open an account that she would otherwise have received automatically. Both parties agreed.

Case Study #2

BANK CAUSED UNNECESSARY INCONVENIENCE TO CUSTOMER DURING ACCOUNT SUSPENSION AND CLOSURE

Themes

- Delay
- Documentation
- Lack of clear guidance
- Non-resident customer
- Consequential loss
- Account closure
- Reasonable notice

Mr E lived in Africa. He complained that Bank A suspended his account, and later closed it, without cause – and that this resulted in the loss of a business opportunity.

In order to minimise fraud, banks are required by law to hold certain ‘know your client’ information about their customers. When Mr E notified Bank A of his change of address, it realised that the information it held was incomplete.

In August 2014 the bank asked Mr E for proof of his address. In October 2014 it sent him a reminder. Mr E said that he sent the information in November 2014. The bank said it did not receive it. In December 2016 the bank suspended Mr E’s account.

In December 2014 Mr E sent the bank a tenancy agreement to confirm his address, but this was in the name of a company rather than Mr E – so, after checking with its compliance team whether it was possible to obtain an exemption, the bank concluded that the evidence was insufficient to meet the bank’s legal obligations.

In February 2015 Mr E opened an account with Bank B, which sent Bank A a printout of Mr E’s address. Bank A did not consider that was sufficient, and it was not until 3 June 2015 that Bank A received sufficient evidence from Bank B. On 23 June 2015 Bank A lifted the suspension from Mr E’s account. Bank A offered Mr E compensation of £100 for the short delay from 3 June to 23 June.

In October 2015 the bank again wrote to Mr E giving him 60 days’ notice of its decision to close his account. In December 2015 the bank closed the account.

In January 2016 Mr E phoned the bank. It said that he could obtain the funds on the closed account by sending in a written payment instruction. Mr E sent such an instruction, but the bank responded that it needed supporting documentation, including a certified copy of his passport and confirmation of his home address. Mr E arranged for Bank B to provide information to Bank A, which released his funds 20 days after it had received his original written payment instruction.

Mr E complained about Bank A’s original suspension of his account. He said that it was unreasonable in asking for a residential postal address, as there was no such system in the country where he lived. The suspension of his account had caused him inconvenience, and he had lost a business opportunity in Asia. He also complained about the subsequent closure of his account and said he had been given insufficient notice.

Conclusion

In respect of the suspension of the account, we concluded that Bank A had not acted unfairly. It had no choice but to comply with its legal obligations. It followed that the bank was not responsible for the loss of the business opportunity to which Mr E referred. The bank had been a little slow in lifting the suspension once it received the necessary information, but we considered that the £100 compensation for this already offered by the bank was sufficient.

In respect of the later closure of the account, banks are normally free to decide with whom they will do business (provided there is no illegitimate discrimination). We decided that the bank's decision to close Mr E's account was a legitimate exercise of its commercial judgement, and there was no evidence that it had done so for an illegitimate reason. It was required to give him reasonable notice, and the 60 days it had given him was sufficient. But the bank had erred in causing delay in transferring the money from the closed account. Despite its previous experience of difficulties caused by his residence in Africa, it had failed to tell him accurately what documents would be required. We decided that the bank should pay Mr E a further £500 for the inconvenience he had been caused by this.

Case Study #3 - Investments
UNSUITABLE INVESTMENT

Themes
- Unsuitable investment advice
- Distinction between concentration and suitability of investments
- FSP responsibility for new business
- Opportunity costs
- Iliquid investments
- Uncrystallised losses

Mr and Mrs A complained that they had lost money as a result of unsuitable investment advice.

In 2009 Mr and Mrs A consulted firm X about the investment of £65,000. They were classified as low/medium risk investors. They were advised to put all the £65,000 into a single investment fund. Later that year, the employee who advised them moved from firm X to firm Z.

In 2010 Mr and Mrs A's investment came up for annual review. Firm Z did not raise any issues or concerns. In 2011 the investment fund ceased trading. Mr and Mrs A's investment dropped in value and then became illiquid when the fund stopped paying out.

By this time firm X had been liquidated. So Mr and Mrs A complained to firm Z. They said that the investment fund was high risk and therefore unsuitable for them. Firm Z rejected their complaint, and Mr and Mrs A referred it to us.

We did not consider that firm Z was responsible for the original advice given by firm X. But firm Z had taken on the ongoing responsibility to keep the suitability of Mr and Mrs A's investment under review. The first reasonable opportunity that new firm had to identify issues with the investment was the annual review in 2010.

Conclusion

We did not agree with Mr and Mrs A that in 2010 the investment fund was inherently high risk or unsuitable for them. But, after reviewing their total investable assets, we considered that it was unsuitable to concentrate all their £65,000 in a single fund. It should have been diversified in order to spread risk.

In the light of the total value of Mr and Mrs A's investable assets, it was unsuitable to invest more than 25% of these (amounting to £27,337) in the single fund. At the time of the review in 2010, they had £43,095 more than this in the fund. So we required firm Z to pay Mr and Mrs A what the £43,095 would have been worth if it had been suitably reinvested – calculating this using a benchmark, specified by us, for a low/medium risk portfolio.

To avoid the possibility that Mr and Mrs A would recover twice over if the investment fund recovered and paid out, we made it a condition that they transferred the excess holding in the investment fund to firm Z.

Case Study #4 - Non-Bank Money Services and Credit

EARLY REPAYMENT CHARGE ON PRIVATE FINANCE AGREEMENT

Themes
- Unfair contract terms
- Early resolution
- Statutory exception to 90-day complaint timescales

Mr B and Miss C complained that were being asked to pay an unreasonable charge on repaying a private finance agreement.

In 2011 Mr B and Miss C obtained private finance on their property through a local credit broker. They refinanced in 2012, and then again in 2016. The lending agreement in 2016 differed from the previous ones, because it required a period of two years to pass before notice could be given to pay off the loan early.

Mr B and Miss C did not realise about the change until after they had arranged to sell their house and buy another. As well as paying off the balance of the loan, the lender wanted them to pay two years' interest in advance. They complained to us that their sale and purchase were due to go through in a matter of weeks and they would be left with insufficient money to pay for the house they were buying.

In normal circumstances, would not consider a complaint until the financial service provider has had a reasonable opportunity to investigate and respond. But the law under which we operate gives us discretion to waive this in exceptional circumstances. In view of the urgency of the property situation, we agreed to look at the complaint.

Conclusion

We managed to mediate a speedy settlement between the parties, enabling the sale and purchase to go through. Mr B and Miss C agreed to pay three months' (instead of two years') additional interest, and the private lender agreed to accept this.

Case Study #5 - Pensions

UNSUITABLE INVESTMENT ADVICE IN AN INDIVIDUAL PENSION FUND

Themes

- Unsuitable investment advice
- Appropriate loss calculation
- Opportunity cost
- Speculative or consequential loss
- CIFO handling of situations where own staff are conflicted

Mrs C complained that her pensions adviser had given unsuitable investment advice and was offering inadequate compensation.

The pensions adviser wrote to Mrs C with its advice on her pension. The main recommendation was that her existing personal pension should be transferred to a retirement annuity trust scheme, or RATS, and invested in certain investments suggested by the pension adviser. This included putting £25,000, about 20% of Ms C's pension assets, in a type of investment called a 'structured note'.

A little over two years later, Mrs C complained to the pension adviser about the investment advice. Payments totalling £6,120 had been made from the structured note to her RATS account, but the underlying value of the note had since fallen and it no longer had any market value.

The pension adviser conceded that the structured note was not a suitable investment in Mrs C's circumstances. It offered to pay the difference between the original £25,000 invested and the value of the note, less the £6,120 received as income. In effect, Mrs C would have ended up with the £25,000 originally invested.

Mrs C rejected that and referred her complaint to us. She wanted a higher amount of compensation, plus additional compensation for a missed investment opportunity that she said she could otherwise have pursued with a 30% tax free lump sum withdrawn from her RATS account.

A senior member of our staff knew Mrs C personally, so a potential conflict of interest arose. To ensure the complaint would be seen to be handled impartially, our Board of Directors appointed a temporary ombudsman for this case. He was an outside expert with extensive experience in the resolution of pension-related complaints and handled the complaint outside our office.

Conclusion

Having investigated the matter, and after considering the parties' representations on his initial views, the temporary ombudsman issued his decision. He decided that Mrs C should be paid what she would have received (in capital and income) if the £25,000 had been appropriately invested – calculated according to a benchmark for a balanced-asset portfolio – less the income of £6,120 that she had actually received. This should be paid into the RATS account as a tax free adjustment. She should also be paid directly compensation of £300 for inconvenience.

The ombudsman did not award compensation for the missed business opportunity. He concluded that there was insufficient evidence that this arose from the unsuitable investment advice or from the dispute about the appropriate level of compensation. Mrs C could have withdrawn the 30% at any time, but chose not to do so pending resolution of her complaint.

INSIGHT INTO OUR APPROACH
CIFO APPROACH TO INVESTMENT SUITABILITY COMPLAINTS

When an investor engages with a financial adviser, it starts an important process and relationship which shares an investor's most private information and deals with their personal assets. When something goes wrong with that relationship, and usually in conjunction with investment losses on individual investments or the portfolio as a whole, complaints are sometimes raised that investment losses occurred as a result of unsuitable investment advice. The following gives an indication of the general approach that CIFO is minded to take in reviewing this type of complaint.

It bears clarification at the outset that CIFO does not exist to insulate investors from market risk they knowingly took with their investments. Investment losses are a normal part of financial markets and the risk-return trade-off. Not surprisingly, complaints rarely emerge when investments, suitable or otherwise, are generating positive investment returns. Investors are not necessarily owed compensation for investment losses merely because they complain. The review of the complaint starts with the process that determined the suitability of the investment recommendations.

The financial adviser is the individual in the relationship that has the role of identifying the relevant information to determine an investor's personal circumstances, investment objectives, investment experience, risk tolerance, and time horizon. This role is about getting to know your client (KYC) and is referred to as the KYC process. The financial adviser is also expected to know the product being recommended to the investor, so that the financial adviser can make a recommendation of an investment that matches the personal circumstances of the investor as identified in the KYC process. Finally, the execution of the investment decision needs to proceed as expected to purchase a suitable investment.

This can be described as a chain of responsibilities held by the investment adviser. The objective reality of the investor's personal circumstances should be reflected in the information gathered during the KYC process. The process is not a signed KYC form in the investor's file, but rather the information gathered from a discussion with the investor that sets out the personal characteristics of the investor noted above and forms the basis for identifying and recommending suitable investment options. The investment adviser then recommends an investment that is consistent with the KYC information. A low-risk inexperienced investor with a short time horizon is not likely to be suitably invested in a complex, medium to high risk, illiquid, and long-term investment product. Such a visible disconnect between the investor and the investment recommended would need to have been part of the discussion with the investor and would need to have been well-documented. These types of disconnects between the personal circumstances of an investor, the KYC information gathered, and the nature of the investment recommended form the basis of most complaints about investment suitability.

In order to arrive at a determination of what would be fair and resonable in the circumstances, we look at the relevant law, any codes of practice or other regulatory guidance from the Financial Services Commissions, any other relevant regulatory instruments, and relevant industry good practice at the time.

Where we determine that an unsuitable investment recommendation has been made, we seek to put the investor back in the position they would have been in had the unsuitable investment not occurred. Depending on the circumstances, this can be a simple analysis or a tremendously complicated one depending on the nature of the investment or investments and the time periods involved. We may decide that an investor should be able to return the investment or be compensated for the losses they suffered due to an unsuitable investment recommendation. If on the other hand an investment has been found to be suitable, the fact that an investor lost money does not make it a valid complaint and we would say that to the investor.

In the case of losses due to an unsuitable investment recommendation, we would consider what the investor lost as well as what would have happened had the unsuitable recommendation not been made. Sometimes this means putting the investor in the position they were in before in a different investment. Sometimes, especially in situations involving the investment of cash, it involves looking at what would have happened if the investment had been made in a suitable investment product.

GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

GOVERNANCE ACCOUNTABILITY AND TRANSPARENCY

When combining an important public interest mandate with a strict need for independence, it is important to demonstrate accountability and transparency. CIFO is taking several steps to ensure that we are held accountable for our performance of the role and to support our commitment to continuous improvement.

Customer Satisfaction

In dispute resolution, there are two parties to every complaint who benefit from CIFO's performance of our impartial role, the complainant and the financial services provider. Following our first full year of operation, CIFO surveyed both complainants and providers to obtain their feedback on our performance and to highlight areas where we need to improve. The one theme that consistently featured in complainant feedback was CIFO's reliance upon written material in evaluating complaints rather than direct and frequent contact with complainants. There was a clear desire for a more engaged and empathetic approach given the stressful situations that complainants are experiencing when they refer unresolved complaints to our office. CIFO is working with all staff to promote more proactive communication with complainants and to keep them better apprised of the ongoing status of their complaint with our office.

The one consistent theme raised by financial services providers was a desire for faster resolutions. Given CIFO's small team of case handlers and the volume of complaints being referred to CIFO, speed of resolution is an issue that is difficult to resolve without additional resources. Financial Service Providers can assist with addressing this challenge by focussing on a few specific areas. Excellent internal complaint handling, client record-keeping, and early engagement with CIFO when complaints are referred can contribute significantly to reducing the time required by CIFO to resolve a complaint.

Informal External Review

To ensure that CIFO's performance meets professional standards of excellence after our first full year of operation with a new team, we engaged two highly experienced financial ombudsman practitioners to conduct an independent review of CIFO's operation. One reviewer brought experience in banking complaints, the other experience in investment and insurance complaints. The external review included a thorough assessment of a number of actual CIFO case files, CIFO procedures, and on-site observation of staff handling of complainant calls and case files.

The external review noted the progress made to date establishing the new office and highlighted a number of areas to address to promote consistent excellence in case file handling. The external reviewers made suggestions regarding the tone of written communication, the need to supplement the receipt of written submissions with more verbal contact with the parties to the complaint, the timing and consistency of initial responses to complainants, and the provision of updates to complainants throughout the review process. One additional issue raised by the external review was the need to identify, and develop effective means to deal with, vulnerable complainants requiring special handling.

To address these issues, both reviewers have been engaged to conduct training in the form of master classes for CIFO staff to reinforce desired procedures and enhance skills.

Adoption of, and Assessment Against, Performance Standards

The Ombudsman Association (OA) has prepared draft standards to guide its members in the pursuit of excellence in Ombudsman practice. It is expected that these draft standards will be approved by the OA membership sometime in 2017. As an OA member, CIFO will assess its compliance with these standards and indicate where it meets or does not meet each standard, and if not, explain why. If the draft standards are finalised in 2017, CIFO will note its performance against these standards in its 2017 Annual Report.

CIFO Board Review in Q4 of 2017

In the fourth quarter of 2017, CIFO will reach the two year mark in its operation. CIFO's Board of Directors intends to conduct a review of CIFO's operation in Q4 to ensure that CIFO's operations are well-prepared to meet future challenges. All stakeholders are asked to provide their views to the Board of Directors on CIFO's mandate and the office's performance against the mandate. Views can be sent to the attention of the Board at CIFO's office by post or by email to Ombudsman@ci-fo.org.

Transparency of Governance
CIFO is taking several steps to ensure the continued transparency of our operation. The expenses of the Chairman and Directors as well as those of the Principal Ombudsman are posted to CIFO's website at https://www.ci-fo.org/wp-content/uploads/2016/07/CIFO-Board-of-Directors-and-Principal-Ombudsman-Expenses-2016.pdf. Chairman and Director remuneration and attendance record at Board of Director meetings is provided in this Annual Report. Minutes of Board of Director meetings are posted on CIFO's website at https://www.ci-fo.org/about/governance/board-minutes/.

Transparency of Operation
In addition to the provision of annual audited financial statements, CIFO will be publishing final determinations on its website starting in 2017. We also plan to publish more case studies to illustrate significant complaint issues arising from our reviews of complaints. This will provide a clear picture of the nature of complaints referred to CIFO and how they are handled to achieve a resolution based on what would be fair in the circumstances. CIFO will continue its current practice of publishing quarterly complaint statistics. Effective 1 January 2018, published determinations will name the financial service providers involved. Complainants' names are not published.

Attendance at Board Meetings

Regular in-person meetings of the Board of Directors were scheduled throughout 2016. Additional meetings were held by conference call as required. All directors were in attendance for every one of the 8 meetings of the Board of Directors held in 2016.

DIRECTORS' ATTENDANCE AT 2016 BOARD MEETINGS

	No. of meetings held	No. of meetings attended	No. of meetings absent	Attendance rate
David Thomas (Chair)	8	8	0	100%
John Curran	8	8	0	100%
Debbie Guillou	8	8	0	100%
John Mills	8	8	0	100%

DIRECTOR REMUNERATION 2016

David Thomas (Chair)	£34,500
John Curran	£6,000
Debbie Guillou	£9,000
John Mills	£6,000

THE FOUR MEMBERS OF THE CIFO BOARD OF DIRECTORS ARE:

Left to right: John Mills, Deborah Guillou, David Thomas & John Curran.

David Thomas (chairman) is also a member of the Regulatory Board of the worldwide Association of Chartered Certified Accountants. He was formerly: a lawyer in private practice and a member of the Council of the Law Society (England and Wales); Banking Ombudsman (UK); principal ombudsman with the Financial Ombudsman Service (UK); and a director of the Legal Ombudsman (England and Wales). He has advised on financial consumer protection in more than 30 countries.

Deborah Guillou is a qualified accountant and chief executive of the Medical Specialist Group in Guernsey. She was formerly: head of Generali International; chief financial officer of Generali Worldwide Insurance; a senior finance manager at Investec Asset Management; finance director at Guernsey Electricity; and an accountant with Fairbairn International.

John Mills CBE was formerly a senior civil servant in the UK and in Jersey. He was lately a board member of the Jersey Financial Services Commission and vice-chairman of the Port of London Authority. He is currently deputy chairman of Ports of Jersey Ltd, and undertakes several honorary roles in the Island including chairing the Investment Committee of the Public Employees Pension Scheme and sitting as a Tax Commissioner of Appeal.

John Curran is chairman of Guernsey Mind (the mental health charity). He was formerly: the chief executive of the Channel Islands Competition & Regulatory Authorities; director general of the Office of Utility Regulation (Guernsey); and manager of the Operations Division of the Commission for Communications Regulation (Ireland).

INTERNATIONAL ENGAGEMENT

Given the international nature of the financial services sector in the Channel Islands, it is not surprising that CIFO has formed relationships with various international bodies active in the area of Ombudsman practice, dispute resolution, and financial services.

Visits to CIFO by International Guests

The unique nature of CIFO as a small-scale, statutory office covering complaints involving virtually all aspects of financial services in two separate jurisdictions makes our office a reference point of interest for those considering implementation of their own financial Ombudsman scheme. CIFO was proud to welcome study tours to the Channel Islands from Malawi and Nigeria during the past year. They were given an opportunity to understand how our new mandate forms an important part of the broader legal and regulatory framework to protect financial consumers and enhance the reputation of the Channel Islands and its financial sectors.

The International Network of Financial Services Ombudsman Schemes (INFO Network)

CIFO is a proud member of the INFO Network whose membership includes about 60 financial sector bodies around the world engaged in dispute resolution for financial services consumers. The INFO Network focuses on professional development and mutual support amongst member schemes. Details on the network can be seen at:
http://www.networkfso.org/index.html

CIFO's Principal Ombudsman has been involved in the elected Committee providing governance for this international professional body, serving on the Committee since 2010 and, since 2013 as elected Chairman, then re-elected in 2015 for a further two-year term. In September of 2017 at the Annual General Meeting of the INFO Network, CIFO's Principal Ombudsman will conclude his term of service, both on the Committee and as Chairman.

EU Financial Dispute Resolution Network (FIN-NET)

FIN-NET is the European Union's network of financial dispute resolution schemes and helps consumers resolve cross-border complaints involving financial services. Details on the network can be seen at:
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/consumer-financial-services/financial-dispute-resolution-network-fin-net_en

While the Channel Islands are not members of the European Union (EU), the importance of the European market for the Channel Islands' financial sector, the extensive regulatory framework being established for the provision of financial services into the EU, and the proportion of complainants referred to CIFO who are resident outside the Channel Islands, make this EU body highly relevant for CIFO. As one of two Official Observers and Affiliate Members of the FIN-NET network (the other being the Swiss Banking Ombudsman), CIFO is invited to attend the semi-annual meetings of FIN-NET. CIFO is also in touch with individual FIN-NET member schemes periodically to refer complaints better resolved by those schemes and to accept referral of complaints from FIN-NET member schemes that fall within CIFO's remit to resolve.

Ombudsman Association

In 2016, CIFO became a member of the Ombudsman Association (formerly the British and Irish Ombudsman Association or BIOA). Details on this association can be seen at:
http://www.ombudsmanassociation.org/index.php

This professional body of Ombudsman practitioners seeks to promote and support the development of Ombudsman schemes and provides opportunities to engage in professional development and policy advocacy in the area of dispute resolution. Through this body, financial sector Ombudsman schemes interact with other Ombudsman practitioners involved in dispute resolution across a broad range of sectors where alternative dispute resolution offers a compelling value proposition to society.

UK Financial Ombudsman Service (UK FOS)

Given the deep connections of the Channel Islands with the UK and the number of UK-based financial service providers offering services in or from the Channel Islands, it is not surprising that CIFO receives a significant number of complaints involving UK residents or UK-based financial service providers. It has proven very helpful to have a close working relationship with our counterpart scheme in the UK, the Financial Ombudsman Service (UK FOS). CIFO regularly refers complainants to UK FOS when the subject matter of a complaint falls within their remit and CIFO accepts referrals from UK FOS of complaints which fall within CIFO's remit. CIFO has also benefitted from training opportunities for our staff and visits by UK FOS experts, both kindly offered by our UK colleagues to support the successful establishment of our new mandate in the Channel Islands.


BURTON
Monsoon
ROLEX

APPENDIX 1
2016 AUDITED FINANCIAL STATEMENTS

Office of the Financial Services Ombudsman (Jersey)

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - JERSEY

OFSO INFORMATION

Directors	David Thomas - Chairman John Curran Deborah Guillou John Mills
Administration office	Channel Islands Financial Ombudsman No 3 The Forum Grenville Street St. Helier Jersey JE4 9QG
Independent auditors	KPMG Channel Islands Limited 37 Esplanade St. Helier Jersey JE4 8WQ
Accountants	Grant Thornton Limited Kensington Chambers 46/50 Kensington Place St. Helier Jersey JE1 1ET
Principal Ombudsman	Douglas Melville

CONTENTS

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

The Chairman presents his statement for the year.

The Channel Islands Financial Ombudsman (CIFO) is the joint operation of the Office of the Financial Services Ombudsman (OFSO) established by the Financial Services Ombudsman (Jersey) Law 2014 and the equivalent body established by law in the Bailiwick of Guernsey. OFSO's financial statements reflect the fact that it is part of the joint operation.

In particular, a Memorandum of Understanding between the States of Jersey and the States of Guernsey provides that the operating expenses of the joint operation are to be divided equally between the two bodies until the end of 2018. These shared operating expenses are raised by levies on the financial sectors in each Bailiwick, supplemented by case fees.

The OFSO Board seeks to maintain an operating reserve sufficient to allow for unforeseeable volatility in complaint numbers and to cover operating costs until the next set of levy payments are received towards the middle of the following year. This is reflected in the cash position at the end of 2016. Any adjustment in the cash required is achieved in setting the levies for the following year.

Maintenance of a prudent reserve helps the OFSO Board to smooth fluctuations from year to year, by increasing or reducing reserves accordingly. For 2016 the Board planned a reduction in reserves, by budgeting for a deficit between revenue and expenditure. The deficit of £21,252 in the accounts is broadly in line with the budget.

Increased accountancy and audit expenses allocated to 2016 were largely associated with the complexity of the developing funding arrangements. But these were offset by careful management of other expenditure during the year. So the level of reserves remains within the prudent parameters set by the OFSO Board.

David Thomas
Chairman

Date
29 March 2017

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Financial Services Ombudsman (Jersey) Law 2014 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Office of the Financial Services Ombudsman Jersey ("OFSO") at the end of the year and of the profit or loss of the OFSO for that year. In preparing these financial statements the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. In preparing these financial statements, the OFSO is required to:

- keep proper accounts and proper records in relation to the accounts;
- prepare accounts in respect of each financial year and a report on its operations during that year; and
- submit the accounts and report to the Minister for Economic Development, Tourism, Sport and Culture (the 'Minister') not later than 4 months after the end of each financial year.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the OFSO's transactions and disclose with reasonable accuracy at any time the financial position of the OFSO and enable them to ensure that the financial statements comply with the Financial Services Ombudsman (Jersey) Law 2014. They are also responsible for safeguarding the assets of the OFSO and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the website where OFSO's financial statements are published and for the preparation and dissemination of the financial statements. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal activity

The OFSO's primary function is to ensure that complaints about financial services are resolved:

(a) independently, and in a fair and reasonable manner,

(b) effectively, quickly, with minimum formality, and so as to offer an alternative to court proceedings that is more accessible for complainants, and

(c) by the most appropriate means, whether by mediation, referral to another forum, determination by an Ombudsman or in any other manner.

Results

The Statement of Income and Retained Earnings for the year is set out on page 6.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Directors

The directors who served during the year were:

David Thomas - Chairman
John Curran
Deborah Guillou
John Mills

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the OFSO's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the OFSO's auditors are aware of that information.

Independent Auditors

The auditors, KPMG Channel Islands Limited, will be proposed for reappointment.

This report was approved by the board on 29 March 2017 and signed on its behalf.

Deborah Guillou

Director

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the Minister for Economic Development, Tourism, Sport and Culture of the States of Jersey (the 'Minister')

We have audited the financial statements of the Office of the Financial Services Ombudsman - Jersey (the "Body Corporate") for the year ended 31 December 2016 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Minister in accordance with Schedule 2 Article 2(4)(1)(5)(a) of the Financial Services Ombudsman (Jersey) Law 2014.Our audit work has been undertaken so that we might state to the Minister 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 Minister, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are 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 Auditing Practices Board's Ethical Standards for Auditors.

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 Body Corporate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Statement and the Directors' Report 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 material misstatements or inconsistencies we consider the implications for our report.

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the Minister for Economic Development, Tourism, Sport and Culture of the States of Jersey (the 'Minister') - continued

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Body Corporate's affairs as at 31 December 2016 and of its deficit for the year ended;

- have been properly prepared in accordance with UK Accounting Standards including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland; and

- have been prepared in accordance with the Financial Services Ombudsman (Jersey) Law 2014.

Lesley Averell

Lesley Averell
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

29 March 2017

The maintenance and integrity of the Channel Islands Financial Ombudsman website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since the date the audit report was signed on 29 March 2017.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	2015 £
Revenue	3	**325,380**	*600,099*
Gross profit		**325,380**	*600,099*
Administrative expenses	4	**(345,042)**	*(218,812)*
Operating (loss)/profit		**(19,622)**	*381,287*
Interest receivable and similar income		**324**	*788*
Interest payable and expenses	5	**(1,914)**	*(3,345)*
(Deficit)/surplus and total other comprehensive (expense)/income		**(21,252)**	*378,730*
(Deficit)/surplus after tax		**(21,252)**	*378,730*
Retained earnings at the beginning of the year		**340,569**	*(38,161)*
(Deficit)/surplus for the year		**(21,252)**	*378,730*
Retained earnings at the end of the year		**319,317**	*340,569*

All amounts relate to continuing operations.

The notes on pages 9 to 18 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note		2016 £		2015 £
Fixed assets					
Intangible assets	6		**7,670**		*4,082*
			7,670		*4,082*
Current assets					
Unbilled income	7	**23,600**		-	
Debtors	8	**838**		*113,888*	
Cash at bank and in hand	9	**322,272**		*452,977*	
		346,710		*566,865*	
Current liabilities					
Creditors	10	**(35,063)**		*(230,378)*	
Net current assets			**311,647**		*336,487*
Total assets less current liabilities			**319,317**		*340,569*
Net assets			**319,317**		*340,569*
Capital and reserves					
Accumulated surplus	12		**319,317**		*340,569*
			319,317		*340,569*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 March 2017.

Deborah J Guillou

Director

The notes on pages 9 to 18 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £	2015 £
Cash flows from operating activities		
(Loss)/profit for the financial year	**(21,252)**	*378,730*
Adjustments for:		
Amortisation of intangible assets	**880**	*320*
Interest payable	**1,914**	*3,345*
Increase in unbilled income	**(23,600)**	-
Decrease/(increase) in debtors	**113,050**	*(113,888)*
Increase/(decrease) in creditors	**4,685**	*(7,783)*
Net cash generated from operating activities	**75,677**	*260,724*
Cash flows from investing activities		
Purchase of intangible fixed assets	**(4,468)**	*(4,402)*
Net cash from investing activities	**(4,468)**	*(4,402)*
Cash flows from financing activities		
New secured loans	-	*200,000*
Repayment of loans	**(200,000)**	-
Interest paid	**(1,914)**	*(3,345)*
Net cash used in financing activities	**(201,914)**	*196,655*
Net (decrease)/increase in cash and cash equivalents	**(130,705)**	*452,977*
Cash and cash equivalents at the beginning of the year	**452,977**	-
Cash and cash equivalents at the end of year	**322,272**	*452,977*
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	**322,272**	*452,977*
	322,272	*452,977*

The notes on pages 9 to 18 form part of these financial statements.

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland as issued in September 2015 ('FRS 102').

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the OFSO's accounting policies (see note 2).

1.2 Going Concern

The OFSO continues to adopt the going concern basis in preparing its financial statements for the following reasons:

- All statutory aspects of the mandate are finalised making the OFSO mandatory ;
- There is statutory ability to levy industry to cover operating costs;
- There is a strong cash position and at least six-months' operating expenses held in an operating reserve;
- Operational momentum including case files and associated case fee income tracking to plan;
- There is a Memorandum of Understanding in place between the regulators of OFSO Jersey and OFSO Guernsey.

1. Accounting policies (continued)

1.3 Revenue

The intent under-pinning the design of the OFSO's funding regime is to charge on a basis that is transparent, fair and simple to administer in the first few years of OFSO's operation. Once sufficient data is available on complaint volumes, the funding basis will be reviewed with a view to making the contributions from financial services providers, by island and by sector, more proportionate to their share of OFSO's workload. Case fees are charged on a fixed basis irrespective of the time and other costs incurred relating to the specific case.

The Financial Services Ombudsman (Case-fee and Levy) (Jersey) Regulations 2015 provide for OFSO to prescribe schemes for case fees and levies to be paid by certain financial services providers in respect of the expenses of OFSO.

Sources of revenue

The principal sources of revenue are:

Annual levy

The detail regarding the levies is set out in the Financial Services Ombudsman Levy Scheme (Jersey) 2016 (the '2016 Jersey Levy Scheme').

OFSO's levies are payable by 'Registered Providers', as defined in the Financial Services Ombudsman (Case-Fee and Levy) (Jersey) Regulations 2015. Broadly these are providers that are required to register with the Jersey Financial Services Commission ("the Commission") or are licensed or hold a certificate or permit under the regulatory laws as specified. Data on registered providers is provided by the Commission to OFSO, as set out in the Financial Services Ombudsman (Jersey) Law 2014.

The 2016 levy was payable per sector of activity for which, on 4 January 2016, a provider was registered with or held a licence, permit or certificate from the Commission, unless the Registered Provider was entitled to zero-rating in accordance with the 2016 Jersey Levy Scheme. Levy notices were sent out in May and July 2016 and Registered Providers were required to pay to OFSO the levy as specified in the levy notice, unless they certified as zero-rated in accordance with the procedure specified in the levy notice.

The 2016 levies raised the funding required for the operation of OFSO in 2016. In setting the amount to be raised in levies the OFSO board considered the maintenance of a prudent level of reserves in view of various operational uncertainties. These uncertainties include about the number and nature of complaints that may be expected and the implication for operating costs; about the number of Registered Providers that would certify as zero-rated; and, the time it would take for levy payments to be made. The calculation of the levy amounts took into account best estimates of the numbers of Registered Providers that would certify entitlement to zero-rating.

1. Accounting policies (continued)

Case fees

Case fees are set in the Financial Services Ombudsman Fee Scheme (Jersey) 2015. Each financial services provider must pay to OFSO a case fee for each complaint against the provider that is referred to OFSO, unless, in the opinion of an ombudsman:
- on receipt of the complaint, it is apparent that it is not eligible or should be rejected; or
- at any time, the complaint is rejected as frivolous or vexatious.

The amount of the case fee is:
- nil for Community Savings Limited;
- £200 for any Registered Provider that has paid the levy; and
- £600 for any other provider.

Recognition bases

Levy income

Levy income is recognised in the period to which the levy relates.

Case fee income

Case fee income is recognised when it is billable. A complaint become billable once it has completed the initial jurisdictional checks and has not been rejected as ineligible or for other reasons in accordance with the legislation.

Ordinarily, OFSO will invoice any case fees annually in arrears. For Registered Providers that are subject to the annual levy, OFSO will invoice any case fees for the preceding year in conjunction with the levy for the current year.

If any provider accumulates 10 or more case fees since the previous case fee invoice (or since OFSO opened for business) OFSO may issue an interim case fee invoice.

1.4 Intangible assets

Intangible assets comprise primarily of OFSO's website and brand and its bespoke complaint management system (CMS). These assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Website & Brand	-	5	years
Complaint management system	-	5	years

The board's policy is to only capitalise items over £1,000.

Intangible asset amortisation commences upon commissioning of the asset in question. Amortisation of the CMS began in January 2017 when OFSO started using the system for all new complaints received.

1. Accounting policies (continued)

1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts (if applicable) that are repayable on demand and form an integral part of the OFSO's cash management.

1.6 Financial instruments

Financial instruments are classified as basic or other financial instruments in accordance with Section 11 and 12 of FRS 102. Basic financial instruments include unbilled income, debtors, cash and cash equivalents, a loan and other creditors. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or are settled.

(ii) Financial liabilities

Creditors include loans payable and accrued expenses and are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

(iii) Offsetting

No financial assets and liabilities have been offset at the balance sheet date.

(iv) Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

1.7 Taxation

The income of the OFSO is not subject to Income Tax under the Income Tax (Jersey) Law 1961.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

1.8 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings.

1.9 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.10 Pensions

The OFSO provides membership of an outsourced defined contribution plan for its employees. A defined contribution plan is a pension plan under which the OFSO pays fixed contributions into a separate entity. Once the contributions have been paid the OFSO has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown within creditors as a liability in the Balance Sheet. The assets of the plan are held separately from the OFSO in independently administered funds.

1.11 Interest income

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

1.12 Borrowing costs

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the year in which they are incurred.

1. Accounting policies (continued)

1.13 Operating Lease

Rentals under operating leases are charged to the Statement of Income and Retained Earnings on a straight line basis over the term of the lease.

1.14 Expenses

Expenses are accounted for on an accrual basis. Operating expenses incurred are shared equally between the two offices, OFSO Jersey and OFSO Guernsey.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

Recoverability of unbilled income and debtors are the key areas of judgement.

In assessing unbilled income recoverability, management have considered each entity's awareness of OFSO's case fee schemes and whether the entity to be billed is still in operation.

In assessing debtor recoverability management have considered any certifications regarding zero rating, whether the entity is still in operation and whether the entity is still a Registered Provider (see Note 1.3).

3. Analysis of revenue

An analysis of revenue is presented below:

	2016	*2015*
	£	*£*
Case fees	**36,200**	-
Levies	**289,180**	*600,099*
	325,380	*600,099*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

4. Administrative expenses

	2016	*2015*
	£	*£*
Directors remuneration	**27,750**	*28,125*
Staff salaries	**145,038**	*47,409*
Employer social security	**7,279**	*1,837*
Staff pension costs	**13,629**	*5,323*
Staff training	**4,632**	*-*
Hotels, travel and subsistence	**9,098**	*9,254*
Consultancy	**-**	*43,025*
Computer costs	**12,271**	*3,697*
Legal and professional	**18,647**	*14,971*
Auditor's remuneration	**28,061**	*10,663*
Accountancy fees	**20,439**	*7,238*
Bad debts	**7,092**	*7,092*
Provision for bad debts	**12,600**	*-*
Rent and rates	**12,230**	*5,288*
Insurances	**10,750**	*9,099*
Recruitment	**5,319**	*5,687*
Relocation costs	**-**	*14,725*
Other	**10,207**	*5,379*
	345,042	*218,812*

5. Interest payable and similar charges

	2016	*2015*
	£	*£*
Loan interest payable	**(1,914)**	*(3,345)*
	(1,914)	*(3,345)*

6. Intangible assets

	Website and Brand £	Complaint Manage-ment system £	Total £
Cost			
At 1 January 2016	4,402	-	4,402
Additions	-	4,468	4,468
At 31 December 2016	4,402	4,468	8,870
Amortisation			
At 1 January 2016	320	-	320
Amortisation for the year	880	-	880
At 31 December 2016	1,200	-	1,200
Net book value			
At 31 December 2016	3,202	4,468	7,670
At 31 December 2015	4,082	-	4,082

Amortisation in respect of the complaint management system had not been charged during the year as the system was still in development at the year end.

7. Unbilled income (Net of provision)

	2016 £	*2015 £*
Case fees (see note 1.3)	23,600	-
	23,600	-

8. Debtors (Net of provisions)

	2016 £	*2015 £*
Trade debtors	213	*113,100*
Other debtors	625	*788*
	838	*113,888*

9. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	**322,272**	*452,977*
	322,272	*452,777*

The OFSO Jersey and Office of the Financial Ombudsman Guernsey share one bank account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects OFSO Jersey's share of the balance.

10. Creditors: Amounts falling due within one year

	2016 £	2015 £
States of Jersey loan	**-**	*200,000*
Trade creditors	**344**	*4,774*
Other creditors	**8,410**	*5,319*
Accruals and deferred income	**26,309**	*20,285*
	35,063	*230,378*

The States of Jersey Loan bore interest at a rate of 4% per annum and was repaid on 29 March 2016.

11. Financial instruments

	2016 £	2015 £
Financial assets		
Financial assets measured at amortised cost	**346,710**	*566,865*
	346,710	*566,865*
Financial liabilities		
Financial liabilities measured at amortised cost	**(35,063)**	*(230,378)*
	(35,063)	*(230,378)*

12. Accumulated Surplus

The accumulated surplus includes all current and prior period retained profits and losses.

The Financial Services Ombudsman (Jersey) Law 2014 states that OFSO may, in accordance with any guidelines set by the Minister for Treasury and Resources;
(a) accumulate a reserve of such amount as it considers necessary, and
(b) invest that reserve and any of its other funds and resources that are not immediately required for the performance of its functions.

13. Other financial commitments

OFSO Jersey entered into a serviced offices licence agreement with Vantage Innovation Limited on 20th July 2015. The commencement date of the agreement is 3rd August 2015 and it has a fixed period of 29 months from this date. OFSO Jersey entered into two further serviced offices licence agreements with Vantage Innovation Limited during the year, one has a commencement date of 1st June 2016 and has a fixed period of 19 months from this date. The second has a commencement date of 28th November 2016 and is fixed until 31st December 2017. The breakdown of the commitments which have been allocated to OFSO Jersey are as follows:

	2016	*2015*
	£	*£*
Due within 1 year	**20,034**	*8,940*
Due 2 – 5 years	**-**	*8,940*
	20,034	*17,880*

14. Related Party Transactions

During the year board remuneration of £17,250 (2015: £18,000) was paid to David Thomas, the chairman and £10,500 (2015: £10,125) was paid to the non-executive directors. No amounts were outstanding at the year end.

The principal ombudsman is considered to be key management personnel. Total remuneration in respect of the principal ombudsman is £70,583 (2015: £40,834).

15. Post balance sheet events

For the period from 1 January 2017 to the date of signing these financial statements there were no material events that require disclosure and/or adjustments for in these financial statements.

DETAILED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £	*2015* *£*
Revenue	**325,380**	*600,099*
Gross profit	**325,380**	*600,099*
Less: overheads		
Administration expenses	**(345,042)**	*(218,812)*
Operating profit/(loss)	**(19,662)**	*381,287*
Interest receivable	**324**	*788*
Interest payable	**(1,914)**	*(3,345)*
Profit/(Loss) for the year	**(21,252)**	*378,730*

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Revenue

	2016	*2015*
	£	*£*
Operational levies - banking	**146,506**	*194,711*
Operational levies - other	**142,674**	*174,052*
Start-up levies	**-**	*231,336*
Case fees	**36,200**	*-*
	325,380	*600,099*

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Administration expenses

	2016 £	2015 £
Directors remuneration	27,750	28,125
Staff salaries	145,038	47,409
Employer social security	7,279	1,837
Staff pension costs – defined contribution schemes	13,629	5,323
Hotels, travel and subsistence	9,098	9,254
Consultancy	-	43,025
Staff training	4,632	-
Computer costs	12,271	3,697
Legal and professional	18,647	14,971
Auditor's remuneration	28,061	10,663
Accountancy fees	20,439	7,238
Bad debts	7,092	7,092
Provision for bad debts	12,600	-
Rent and rates	12,230	5,288
Insurances	10,750	9,099
Recruitment	5,319	5,687
Relocation costs	-	14,725
Entertainment	(84)	584
Case related consultancy/costs	1,088	-
Printing and stationery	2,073	1,509
Postage	347	14
Telephone and fax	552	254
General office expenses	3,516	134
Trade subscriptions	638	117
Bank charges	702	1,027
Amortisation - website & brand	880	320
Exchange (gain)/loss	(1)	-
Administration	496	1,420
	345,042	218,812

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Interest receivable

	2016 £	2015 £
Other interest receivable	97	788
Bank interest received	227	-
	324	788

Interest payable

	2016 £	2015 £
Loan interest payable	(1,914)	(3,345)
	(1,914)	(3,345)

APPENDICES

APPENDIX 2
2016 AUDITED FINANCIAL STATEMENTS

Office of the Financial Services Ombudsman (Bailiwick of Guernsey)

OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN - GUERNSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

OFSO INFORMATION

Directors	David Thomas - Chairman John Curran Deborah Guillou John Mills
Administration office	Channel Islands Financial Ombudsman No 3 The Forum Grenville Street St. Helier Jersey JE4 9QG
Independent auditors	KPMG Channel Islands Limited 37 Esplanade St. Helier Jersey JE4 8WQ
Accountants	Grant Thornton Limited Kensington Chambers 46/50 Kensington Place St. Helier Jersey JE1 1ET
Principal Ombudsman	Douglas Melville

CONTENTS

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

The Chairman presents his statement for the year.

The Channel Islands Financial Ombudsman (CIFO) is the joint operation of the Office of the Financial Services Ombudsman (OFSO) established by the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 and the equivalent body established by law in Jersey. OFSO's financial statements reflect the fact that it is part of the joint operation.

In particular, a Memorandum of Understanding between the States of Guernsey and the States of Jersey provides that the operating expenses of the joint operation are to be divided equally between the two bodies until the end of 2018. These shared operating expenses are raised by levies on the financial sectors in each Bailiwick, supplemented by case fees.

The OFSO Board seeks to maintain an operating reserve sufficient to allow for unforeseeable volatility in complaint numbers and to cover operating costs until the next set of levy payments are received towards the middle of the following year. This is reflected in the cash position at the end of 2016. Any adjustment in the cash required is achieved in setting the levies for the following year.

Maintenance of a prudent reserve helps the OFSO Board to smooth fluctuations from year to year, by increasing or reducing reserves accordingly. For 2016 the Board planned a reduction in reserves, by budgeting for a deficit between revenue and expenditure. The deficit of £65,781 in the accounts is somewhat larger than budgeted.

Increased accountancy and audit expenses allocated to 2016 were largely associated with the complexity of the developing funding arrangements. But these were partly offset by careful management of other expenditure during the year. So the level of reserves remains within the prudent parameters set by the OFSO Board.

David Thomas
Chairman

Date

29 March 2017

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Office of the Financial Services Ombudsman Guernsey ("OFSO") at the end of the year and of the profit or loss of the OFSO for that year. In preparing these financial statements the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. In preparing these financial statements, the OFSO is required to:

- keep proper accounts and proper records in relation to the accounts;
- prepare accounts in respect of each financial year and a report on its operations during that year; and
- submit the accounts and report to the Committee for Economic Development of the States of Guernsey (the 'Committee') not later than 4 months after the end of each financial year.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the OFSO's transactions and disclose with reasonable accuracy at any time the financial position of the OFSO and enable them to ensure that the financial statements comply with the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014. They are also responsible for safeguarding the assets of the OFSO and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the website where OFSO's financial statements are published and for the preparation and dissemination of the financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal activity

The OFSO's primary function is to ensure that complaints about financial services are resolved:

(a) independently, and in a fair and reasonable manner,

(b) effectively, quickly, with minimum formality, and so as to offer an alternative to court proceedings that is more accessible for complainants, and

(c) by the most appropriate means, whether by mediation, referral to another forum, determination by an Ombudsman or in any other manner.

Results

The Statement of Income and Retained Earnings for the year is set out on page 6.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Directors

The directors who served during the year were:

David Thomas - Chairman
John Curran
Deborah Guillou
John Mills

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the OFSO's auditors are unaware, and

- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the OFSO's auditors are aware of that information.

Independent Auditors

The auditors, KPMG Channel Islands Limited, will be proposed for reappointment.

This report was approved by the board on 29 March 2017 and signed on its behalf.

John Frederick Mills

Director

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the Committee for Economic Development of the States of Guernsey (the 'Committee')

We have audited the financial statements of the Office of the Financial Services Ombudsman - Guernsey (the "Body Corporate") for the year ended 31 December 2016 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Committee in accordance with Schedule 2,1(4)(a) of the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014. Our audit work has been undertaken so that we might state to the Committee 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 Committee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are 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 Auditing Practices Board's Ethical Standards for Auditors.

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 Body Corporate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Statement and the Directors' Report 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 material misstatements or inconsistencies we consider the implications for our report.

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the Committee for Economic Development of the States of Guernsey (the 'Committee') - continued

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Body Corporate's affairs as at 31 December 2016 and of its deficit for the year ended;
- have been properly prepared in accordance with UK Accounting Standards including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014

Lesley Averell
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

29 March 2017

The maintenance and integrity of the Channel Islands Financial Ombudsman website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since the date the audit report was signed on 29 March 2017.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors shall remain responsible for establishing and controlling the process for doing so, and for ensuring that the financial statements are complete and unaltered in any way.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	*30 Jan 2015 - 31 Dec 2015* *£*
Revenue	3	**286,000**	*597,388*
Gross profit		**286,000**	*597,388*
Administrative expenses	4	**(350,271)**	*(274,866)*
Operating (loss)/profit		**(64,271)**	*322,522*
Interest receivable and similar income		**404**	*214*
Interest payable and expenses	5	**(1,914)**	*(3,345)*
(Deficit)/surplus and total other comprehensive (expenses)/income		**(65,781)**	*319,391*
(Deficit)/surplus after tax for the year/period		**(65,781)**	*319,391*
Retained earnings at the beginning of the year/period		**319,391**	-
(Deficit)/surplus for the year/period		**(65,781)**	*319,391*
Retained earnings at the end of the year/period		**253,610**	*319,391*

All amounts relate to continuing operations.

The notes on pages 9 to 18 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note		2016 £		2015 £
Fixed assets					
Intangible assets	6		**7,670**		*4,082*
			7,670		*4,082*
Current assets					
Unbilled income	7	**11,400**		*118,830*	
Debtors	8	**1,232**		*44,119*	
Cash at bank and in hand	9	**268,371**		*422,189*	
		281,003		*585,138*	
Current liabilities					
Creditors	10	**(35,063)**		*(269,829)*	
Net current assets			**245,940**		*315,309*
Total assets less current liabilities			**253,610**		*319,391*
Net assets			**253,610**		*319,391*
Capital and reserves					
Accumulated surplus	12		**253,610**		*319,391*
			253,610		*319,391*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 March 2017.

Deborah J Trulla

Director

The notes on pages 9 to 18 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £	2015 £
Cash flows from operating activities		
(Loss)/profit for the financial year/period	**(65,781)**	*319,391*
Adjustments for:		
Amortisation of intangible assets	**880**	*320*
Interest payable	**1,914**	*3,345*
Decrease/(Increase) in unbilled income	**107,430**	*(118,830)*
Decrease/(Increase) in debtors	**42,887**	*(44,119)*
(Decrease)/increase in creditors	**(9,766)**	*44,829*
Net cash generated from operating activities	**77,564**	*204,936*
Cash flows from investing activities		
Purchase of intangible fixed assets	**(4,468)**	*(4,402)*
Net cash from investing activities	**(4,468)**	*(4,402)*
Cash flows from financing activities		
Loan drawdowns	**-**	*225,000*
Repayment of loans	**(225,000)**	*-*
Interest paid	**(1,914)**	*(3,345)*
Net cash used in financing activities	**(226,914)**	*221,655*
Net (decrease)/increase in cash and cash equivalents	**(153,818)**	*422,189*
Cash and cash equivalents at the beginning of the year/period	**422,189**	*-*
Cash and cash equivalents at the end of year/period	**268,371**	*422,189*
Cash and cash equivalents at the end of year/period comprise:		
Cash at bank and in hand	**268,371**	*422,189*
	268,371	*422,189*

The notes on pages 9 to 18 form part of these financial statements.

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland as issued in September 2015 ('FRS 102').

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the OFSO's accounting policies (see note 2).

1.2 Going Concern

The OFSO continues to adopt the going concern basis in preparing its financial statements for the following reasons:

- All statutory aspects of the mandate are finalised making the OFSO mandatory;
- There is statutory ability to levy industry to cover operating costs;
- There is a strong cash position and at least six-months' operating expenses held in an operating reserve;
- Operational momentum including case files and associated case fee income tracking to plan;
- There is a Memorandum of Understanding in place between OFSO and the Financial Services Commission.

1. Accounting policies (continued)

1.3 Revenue

The intent under-pinning the design of the OFSO's funding regime is to charge on a basis that is transparent, fair and simple to administer in the first few years of OFSO's operation. Once sufficient data is available on complaint volumes, the funding basis will be reviewed with a view to making the contributions from financial services providers, by island and by sector, more proportionate to their share of OFSO's workload. Case fees are charged on a fixed basis irrespective of the time and other costs incurred relating to the specific case.

The Financial Services Ombudsman (Case-fee and Levies) (Bailiwick of Guernsey) Order 2015 provide for OFSO to prescribe schemes for case fees and levies to be paid by certain financial services providers in respect of the expenses of OFSO.

Sources of revenue

The principal sources of revenue are:

Annual levy

The detail regarding the levies is set out in the Financial Services Ombudsman Levy Scheme (Bailiwick of Guernsey) 2016 (the '2016 Guernsey Levy Scheme').

OFSO's levies are payable by 'Registered Providers', as defined in the Financial Services Ombudsman (Case Fee and Levies) (Bailiwick of Guernsey) Order 2015. Broadly these are providers that are required to register with Guernsey Financial Services Commission ("the Commission") or are licensed under the regulatory laws as specified. Data on registered providers is provided by the Commission to OFSO, as set out in the Financial Services Ombudsman (Bailiwick of Guernsey) Law 2014.

The 2016 levy was payable per sector of activity for which, on 4 January 2016, a provider was registered with or held a licence from the Commission, unless the Registered Provider was entitled to zero-rating in accordance with the 2016 Guernsey Levy Scheme. Levy notices were sent out in May and July 2016 and Registered Providers were required to pay to OFSO the levy as specified in the levy notice, unless they certified as zero-rated in accordance with the procedure specified in the levy notice.

The 2016 levies raised the funding required for the operation of OFSO in 2016. In setting the amount to be raised in levies the OFSO board considered the maintenance of a prudent level of reserves in view of various operational uncertainties. These uncertainties include about the number and nature of complaints that may be expected and the implication for operating costs; about the number of Registered Providers that would certify as zero-rated; and, the time it would take for levy payments to be made. The calculation of the levy amounts took into account best estimates of the numbers of Registered Providers that would certify entitlement to zero-rating.

1. Accounting policies (continued)

For the investment sector in Guernsey, levy notices were sent to fund service providers of Class A funds and certain entities licensed to carry on the restricted activities of advising, managing or dealing in connection with a category 2 controlled investment under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 ('the category 2 licensees'). While the Financial Services Ombudsman Levy and Establishment Levy Scheme (Bailiwick of Guernsey) 2015 gave an automatic zero-rating to Category 2 investment activities of General Partners, the data held by the Commission does not allow for identification of all such licensees. Some filtering of the category 2 licensees had been carried out based on the data held by the Commission and in respect of the identification of the category 2 licensees as general partners, where it was possible. Subsequent discussions with industry stakeholders, the Commission and the Commerce and Employment Department identified that, due to certain limitations in the data held and in accordance with the wishes of certain industry stakeholders, an amended process should be used to first clearly identify all category 2 licensees into those that are liable to pay the levy and those that could not generate an eligible complaint and therefore should be zero-rated. As a result of the discussion, in October 2015, the levy notices sent to category 2 licensees were withdrawn.

The Financial Services Ombudsman Levy and Establishment Levy Scheme (Bailiwick of Guernsey) 2015 was amended in December 2015 to enable the further identification process. Using more targeted data on licensees provided by the Commission, category 2 licensees, or their managing administrators, were invited in January and February 2016 to complete a certification process to identify either as liable for CIFO levies or certify eligibility for zero-rating. Levy notices were then sent in March 2016 only to those identified as liable to pay the levy.

Case fees

Case fees are set in the Financial Services Ombudsman Fee Scheme (Bailiwick of Guernsey) 2015. Each financial services provider must pay to OFSO a case fee for each complaint against the provider that is referred to OFSO, unless, in the opinion of an ombudsman:

- on receipt of the complaint, it is apparent that it is not eligible or should be rejected; or
- at any time, the complaint is rejected as frivolous or vexatious.

The amount of the case fee is:

- £200 for any Registered Provider that has paid the levy; and
- £600 for any other provider.

Recognition bases

Levy income

Levy income is recognised in the period to which the levy relates.

Case fee income

Case fee income is recognised when it is billable. A complaint become billable once it has completed the initial jurisdictional checks and has not been rejected as ineligible or for other reasons in accordance with the legislation.

Ordinarily, OFSO will invoice any case fees annually in arrears. For Registered Providers that are subject to the annual levy, OFSO will invoice any case fees for the preceding year in conjunction with the levy for the current year.

If any provider accumulates 10 or more case fees since the previous case fee invoice (or since OFSO opened for business) OFSO may issue an interim case fee invoice.

1. Accounting policies (continued)

1.4 Intangible assets

Intangible assets comprise primarily of OFSO's website and brand and its bespoke complaint management system (CMS). These assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Website & Brand	-	5	years
Complaint management system	-	5	years

The board's policy is to only capitalise items over £1,000.

Intangible asset amortisation commences upon commissioning of the asset in question. Amortisation of the CMS began in January 2017 when OFSO started using the system for all new complaints received.

1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts (if applicable) that are repayable on demand and form an integral part of the OFSO's cash management.

1.6 Financial instruments

Financial instruments are classified as basic or other financial instruments in accordance with Section 11 and 12 of FRS 102. Basic financial instruments include unbilled income, debtors, cash and cash equivalents, a loan and other creditors. There are no other financial instruments in these financial statements.

(i) Financial assets

Unbilled income and debtors are recognised initially at the transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

Financial assets are derecognised when the contractual rights to cash flows from the asset expire or are settled.

1. Accounting policies (continued)

(ii) Financial liabilities

Creditors include loans payable and accrued expenses and are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

(iii) Offsetting

No financial assets and liabilities have been offset at the balance sheet date.

(iv) Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

1.7 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings.

1.8 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1. Accounting policies (continued)

1.9 Pensions

The OFSO provides membership of an outsourced defined contribution plan for its employees. A defined contribution plan is a pension plan under which the OFSO pays fixed contributions into a separate entity. Once the contributions have been paid the OFSO has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown within creditors as a liability in the Balance Sheet. The assets of the plan are held separately from the OFSO in independently administered funds.

1.10 Interest income

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

1.11 Borrowings costs

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the period in which they are incurred.

1.12 Taxation

The income of the OFSO is not subject to Income Tax under the Income Tax (Guernsey) Law 1975.

1.13 Unbilled income

Income is recognised in the year it relates to. Any income relating to the current year but unbilled at the year end is recognised as unbilled income.

1.14 Operating Lease

Rentals under operating leases are charged to the Statement of Income and Retained Earnings on a straight line basis over the term of the lease.

1.15 Expenses

Expenses are accounted for on an accrual basis. Operating expenses incurred are shared equally between the two offices, OFSO Jersey and OFSO Guernsey.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

Recoverability of unbilled income and debtors are the key areas of judgement.

In assessing unbilled income recoverability, management have considered each entity's awareness of OFSO's case fee schemes and whether the entity to be billed is still in operation.

In assessing debtor recoverability, management have considered certifications regarding zero-rating, whether the entity is still in operation and whether the entity is still a Registered Provider (see Note 1.3).

3. Analysis of revenue

An analysis of revenue is presented below:

	2016 £	*30 Jan 2015 – 31 Dec 2015* *£*
Case fees	**12,600**	*-*
Levies	**273,400**	*516,351*
Establishment levies	**-**	*81,037*
	286,000	*597,388*

4. Administrative expenses

	2016 £	*30 Jan 2015 – 31 Dec 2015* *£*
Directors remuneration	**27,750**	*28,125*
Staff salaries	**145,038**	*47,408*
Employer social security	**7,279**	*1,837*
Staff pension costs	**13,629**	*5,323*
Staff training	**4,632**	*-*
Hotels, travel and subsistence	**9,098**	*9,254*
Consultancy	**-**	*43,024*
Computer costs	**12,271**	*3,697*
Legal and professional	**18,647**	*14,971*
Auditor's remuneration	**28,061**	*10,663*
Accountancy fees	**20,439**	*7,238*
Bad debts	**23,721**	*3,654*
Provision for bad debts	**1,200**	*-*
Rent and rates	**12,230**	*5,288*
Insurances	**10,750**	*9,099*
Recruitment	**5,319**	*5,687*
Relocation costs	**-**	*14,725*
Pre-incorporation expenses	**-**	*59,493*
Other	**10,207**	*5,380*
	350,271	*274,866*

5. Interest payable and similar charges

	2016 £	*30 Jan 2015 – 31 Dec 2015* *£*
Loan interest payable	**1,914**	*3,345*
	1,914	*3,345*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

6. Intangible assets

	Website and Brand £	Complaint Management system £	Total £
Cost			
At 1 January 2016	4,402	-	4,402
Additions	-	4,468	4,468
At 31 December 2016	4,402	4,468	8,870
Amortisation			
At 1 January 2016	320	-	320
Amortisation for the year	880	-	880
At 31 December 2016	1,200	-	1,200
Net book value			
At 31 December 2016	3,202	4,468	7,670
At 31 December 2015	4,082	-	4,082

Amortisation in respect of the complaint management system had not been charged during the year as the system was still in development at the year end.

7. Unbilled income (Net of provision)

	2016 £	*2015 £*
Case fees (see note 1.3)	11,400	-
Unbilled income	-	*118,830*
	11,400	*118,830*

In 2015, the levy income from Category 2 licensees not billed at the period end is shown as unbilled income.

8. Debtors (Net of provisions)

	2016 £	*2015 £*
Trade debtors	607	*44,119*
Other debtors	625	-
	1,232	*44,119*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

9. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	268,371	422,189
	268,371	422,189

The OFSO Guernsey and Office of the Financial Ombudsman Jersey share one bank account under the account name "The Offices of the Financial Services Ombudsman - CI". The above balance reflects OFSO Guernsey's share of the balance.

10. Creditors: Amounts falling due within one year

	2016 £	2015 £
States of Guernsey loan	-	225,000
Trade creditors	344	4,774
Other creditors	8,410	18,270
Accruals and deferred income	26,309	21,785
	35,063	269,829

The loan was unsecured and was repaid on 31 March 2016.

11. Financial instruments

	2016 £	2015 £
Financial assets		
Financial assets measured at amortised cost	281,003	585,138
	281,003	585,138
Financial liabilities		
Financial liabilities measured at amortised cost	(35,063)	(269,829)
	(35,063)	(269,829)

12. Accumulated Surplus

The accumulated surplus includes all current and prior period retained profits and losses.

The establishing law states that OFSO may, in accordance with any guidelines set by the States, Treasury and Resources Department-
(a) accumulate a reserve of such amount as it considers necessary, and
(b) invest that reserve and any of its other funds and resources that are not immediately required for the performance of its functions.

13. Other financial commitments

OFSO Jersey entered into a serviced offices licence agreement with Vantage Innovation Limited on 20th July 2015. The commencement date of the agreement is 3rd August 2015 and it has a fixed period of 29 months from this date. OFSO Jersey entered into two further serviced offices licence agreements with Vantage Innovation Limited during the year, one has a commencement date of 1st June 2016 and has a fixed period of 19 months from this date. The second has a commencement date of 28th November 2016 and is fixed until 31st December 2017. The breakdown of the commitments which have been allocated to OFSO Guernsey are as follows:

	2016	*2015*
	£	*£*
Due within 1 year	**20,034**	*8,940*
Due 2 – 5 years	-	*8,940*
	20,034	*17,880*

14. Related Party Transactions

During the year board remuneration of £17,250 (2015: £18,000) was paid to David Thomas, the chairman and £10,500 (2015: £10,125) was paid to the non-executive directors. No amounts were outstanding at the year end.

The principal ombudsman is considered to be key management personnel. Total remuneration in respect of the principal ombudsman is £70,583 (2015: £40,834).

15. Post balance sheet events

For the period from 1 January 2017 to the date of signing these financial statements there were no material events that require disclosure and/or adjustments for in these financial statements.

DETAILED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £	*30 Jan 2015 - 31 Dec 2015* *£*
Revenue	**286,000**	*597,388*
Gross profit	**286,000**	*597,388*
Less: overheads		
Administration expenses	**(350,271)**	*(274,866)*
Operating profit/(loss)	**(64,271)**	*322,522*
Interest receivable	**404**	*214*
Interest payable	**(1,914)**	*(3,345)*
Profit/(Loss) for the year	**(65,781)**	*319,391*

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Revenue

	2016	*30 Jan 2015 – 31 Dec 2015*
	£	*£*
Establishment levies	**-**	*81,037*
Operational levies - banking	**146,502**	*158,137*
Operational levies - other	**126,898**	*128,740*
Start-up levies	**-**	*229,474*
Case fees	**12,600**	*-*
	286,000	*597,388*

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Administration expenses

	2016 £	30 Jan 2015 31 Dec 2015 £
Directors remuneration	27,750	28,125
Staff salaries	145,038	47,408
Employer social security	7,279	1,837
Staff pension costs – defined contribution schemes	13,629	5,323
Hotels, travel and subsistence	9,098	9,254
Consultancy	-	43,024
Computer costs	12,271	3,697
Legal and professional	18,647	14,971
Auditor's remuneration	28,061	10,663
Accountancy fees	20,439	7,238
Rent and rates	12,230	5,288
Insurances	10,750	9,099
Recruitment	5,319	5,687
Relocation costs	-	14,725
Pre-incorporation expenses	-	59,493
Staff training	4,632	-
Entertainment	(84)	584
Case related consultancy/costs	1,088	-
Printing and stationery	2,073	1,509
Postage	347	14
Telephone and fax	552	254
General office expenses	3,516	134
Trade subscriptions	638	117
Bank charges	702	1,027
Difference on foreign exchange	(1)	1
Bad debts	23,721	3,654
Provision for bad debts	1,200	-
Amortisation - website & brand	880	320
Administration	496	1,420
	350,271	274,866

SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Interest receivable

	2016 £	*2015* *£*
Other interest receivable	177	*214*
Bank interest receivable	227	*-*
	404	*214*

Interest payable

	2016 £	*2015* *£*
Loan interest payable	(1,914)	*(3,345)*
	(1,914)	*(3,345)*

Fairness of **outcome...**
Fairness of **process...**

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