



Policy for Financial Reserves

Version 1.0

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1.0 Introduction

1.1 The Gibraltar Investor Compensation Scheme ('GICS') financial reserves are generated from accumulated surpluses from its income and expenditure account across previous financial years.

1.2 GICS is fully funded by the financial services industry. Participating firms authorised by the Gibraltar Financial Services Commission ('GFSC') pay annual fees to GICS, which funds the cost of running the GICS service. GICS' main expenditure relates to staffing and insurance costs. Managing future risks around income and expenditure is essential to ongoing sustainability and success particularly in the event of a participant defaulting.

1.3 The proposed GICS policy below is designed to be consistent with international requirements in this area, set by recognised regulatory bodies such as The International Organisation of Securities Commissions.

2.0 Statement of Purpose

2.1 The purpose of the Reserve Fund is to help to ensure the long-term financial stability of the GICS and position it to respond to varying economic conditions and changes affecting the scheme's financial position.

2.2 The Gibraltar Investor Compensation Board ('GICB') will maintain a cash reserve to achieve the following objective(s):

- To enable GICS to sustain operations through non-payment and delays in receipt of invoice income;
- To create an internal line of credit to manage cash flow and maintain financial flexibility;
- To pay for one-off, non-recurring expenses that will be required in the event of a default, such as resourcing costs, legal expenses and IT fees; and
- To promote public confidence in the long-term sustainability of the scheme by preventing chronic cash flow crises that can diminish its reputation and force the GICB to make expensive short-term, crisis-based decisions.

2.3 These deliberations will be undertaken by GICB, based on financial information produced by the Secretariat. This safeguard should provide additional comfort to stakeholders that the GICS is being run in a financially sound, stable and proportionate manner.

3.0 Reserves Strategy

3.1 To comply with the Scheme's mandate, financial management and forward financial planning is essential. Funding that the GICS receives is provided to meet the Scheme's aims and activities. The GICB must adequately manage the level of reserves to mitigate risk, prevent excessive or insufficient reserves being held.

3.2 The Scheme intends to set aside an initial target level equating to 12 months¹ admin expenditure (excluding insurance costs) introduced over a 5 year period (Reserve Fund currently circa £40k)

3.3 In the intervening years, if the forecasted balance in the general fund reserve falls below the expected level, the GICB will adopt an operational budget with a projected surplus sufficient to rebuild the general fund to its targeted level over a prescribed number of years.

3.4 An ideal minimum rolling contingency reserve is to be maintained to the value of three month's operating costs.

3.5 The ideal minimum rolling reserve balance is to be held to fund future capital expenditure in the event of a participant firm defaulting.

3.6 The reserve value is held to meet the cyclical long term operational needs of the Scheme and in the case of unforeseen circumstances. Where unforeseen circumstances occur, reserve expenditure is to be review and approved by the GICB.

4.0 Procedure for Utilisation of Reserves

4.1 The GICB will identify and confirm that the proposed spending of any funds is consistent with the purpose of the reserve. As part of this process, the GICB must:

- 1) Analyse the reason for the required spending of funds held in financial reserves;
- 2) Assess the availability of any other sources of funds before using reserves;
- 3) Evaluate the timeframe during which the funds will be required; and
- 4) Determine how the fund reserve will be replenished.

4.2 The Board must authorise the spending of financial reserves brought forward. Once the decision is ratified by the Board, the GICS secretariat will proceed with the agreed actions.

4.3 The GICB is responsible for ensuring that financial reserves are maintained and used appropriately, in accordance with the spirit of this policy. Upon approval for the spending of reserves, the Secretariat will maintain records of the use of funds.

5.0 Disclosures / Publication

5.1 The GICB will publish its Reserves Policy on the GICS website.

6.0 Review

6.1 The Reserve Policy will be reviewed and adjusted in response to internal and external factors and as required.

¹ 12 months operating expenses (circa £50k) is set aside to stabilise the GICS's finances by providing a cushion against unexpected events.