

Appendix 10

Accounts for the year ended 31 March 1995

1

Annual Report
1994/95

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Registered Number 1920623



Report of the directors for the year ended 31 March 1995

The directors present herewith the audited accounts for the year ended 31 March 1995 for The Securities and Investments Board (SIB).

Principal activities

SIB, which was incorporated as a company limited by guarantee on 7 June 1985, was formed in order to secure the protection of investors by the establishment and maintenance of high standards in the United Kingdom financial services industry. It became a designated agency under the Financial Services Act 1986 (FSA) on 19 May 1987 and as such its principal activity is the development and administration of the system of regulation in the United Kingdom of investment business.

Review of SIB's activities

In carrying out its responsibilities under the FSA, SIB's main activities during the year were as follows:

- overseeing the regulatory system;
- assessing on a continuing basis the recognition of the self regulating organisations and other recognised bodies;
- exercising statutory powers of investigation and enforcement;
- developing regulatory policy in the light of experience, of evolving markets and business practice, of international developments and of changing statutory requirements;
- maintaining the integrity of, and access to, the central register;
- authorising and recognising collective investment schemes and developing the relevant regulations and supervising firms directly regulated by SIB.

The main activities for the future are expected to be similar.

Financial position

SIB is the designated agency under the FSA and as such is subject to a range of statutory duties. It receives no public money for the performance of its functions, and raises its income principally through fees levied by it on those whom it recognises, authorises or permits. SIB's fees are designed to recover its costs, taking one year with another. The FSA provides that fees shall be paid by regulated firms and organisations, that SIB may retain any fees payable to it and that such fees shall be applicable for meeting the costs of SIB in discharging its functions under any delegation order and for any purposes incidental thereto.

In the light of these powers, the directors consider that SIB is a going concern and the accounts have been prepared on this basis.

SIB's net costs for the year, after recoveries, amounted to £20.4 million, compared with £17.7 million for the previous year, the main increases relating to pension transfer work and increased enforcement expenditure. Costs for the year were £0.8 million less than fees receivable which, added to the surplus brought forward of £2.9 million leaves a surplus at 31 March 1995 of £3.7 million. The directors have decided to use £1.6 million of this surplus to reduce fees overall to recognised bodies for 1995/96.

Fixed assets

The movements in fixed assets during the year are set out in note 9 to the accounts.

Directors

The directors of SIB during the year were:

Andrew Large (Chairman)
Viscount Runciman of Doxford CBE (Deputy Chairman)
Lord Alexander of Weedon QC (Deputy Chairman)
Rosalind Gilmore CB
Professor Robert Jack CBE (appointed 1 November 1994)
John Kennedy
Dr Oonagh McDonald
Lord Stewartby
Leonard Warwick
Brian Williamson CBE
Andrew Winckler
John Young CBE
Norman Lessels CBE (retired 31 July 1994)

Under the terms of the Memorandum and Articles of Association, all the directors are members of SIB and have each undertaken to guarantee the liabilities of SIB up to an amount not exceeding £1.

Directors' responsibilities in respect of the accounts

Company Law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the income and expenditure of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

The directors consider that SIB complies with the operative provisions of the Code of Best Practice as set out by the Cadbury Committee. SIB's auditors, Ernst & Young, have confirmed that, in their opinion; with respect to the Directors' Statement on going concern on page [2], the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and such statement is not inconsistent with the information of which they are aware from their audit work on the accounts; and the directors' other statement above appropriately reflects SIB's compliance with the other paragraphs of the Code specified for their review. They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of SIB's corporate governance procedures nor the ability of SIB to continue in operational existence.

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to members at the Annual General Meeting.



By Order of the Board
T E Allen, Secretary

• 1995

4-7-95

Report of the auditors to the members of The Securities and Investments Board

We have audited the accounts on pages ⁶ to ¹⁴, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page ⁹.

Respective responsibilities of directors and auditors

As described on page ³ the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1995 and of its income and expenditure for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Chartered Accountants
Registered Auditor

London, ^{4 July} 1995

Income and expenditure account for the year
ended 31 March 1995

	Notes	1995 £'000	1994 £'000
Administrative costs	2	(21,322)	(18,627)
Cost recoveries	3	774	694
Net administrative costs		(20,548)	(17,933)
Interest receivable less corporation tax	4	148	200
Net costs for year		(20,400)	(17,733)
Fees receivable	8	21,231	17,147
Surplus/(deficit) on ordinary activities for year		831	(586)
Accumulated surplus at beginning of year		2,886	3,472
Accumulated surplus at end of year		3,717	2,886

No statement of total recognised losses and gains has been prepared since all such movements are dealt with in the income and expenditure account.

Balance sheet - 31 March 1995

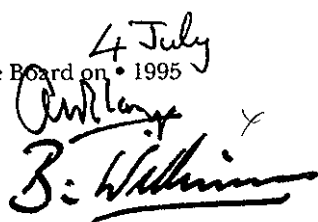
	Notes	1995		1994	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9		1,402		2,030
Current assets					
Debtors and prepayments	10	4,740		1,366	
Cash at bank		1,032		2,739	
		5,772		4,105	
Current liabilities					
Creditors: amounts falling due within one year	11	(2,936)		(2,206)	
Net current assets			2,836		1,899
Total assets less current liabilities			4,238		3,929
Provision for liabilities and charges	12		(521)		(1,043)
			3,717		2,886
Capital and reserves					
Accumulated surplus on income and expenditure account			3,717		2,886

Approved by the Board on 4 July 1995

A M B Large

R B Williamson

Directors



Cash flow statement for the year
ended 31 March 1995

	Notes	1995 £'000	1994 £'000
Net cash outflow from operating activities		(1,237)	(35)
Returns on investment and servicing of finance			
Interest received		197	266
Taxation			
Corporation tax paid		(67)	(59)
Net cash (outflow)/inflow from operating activities and returns on investment	14	(1,107)	172
Investing activities			
Payments to acquire tangible fixed assets	9	(600)	(623)
Decrease in cash balance	15	(1,707)	(451)

Notes to the accounts - 31 March 1995

1 Principal accounting policies

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. A summary of the principal accounting policies is set out below:

a. Income and expenditure account

The format of the income and expenditure account on page 6 has been modified from the format specified in the Companies Act 1985 to show costs before fees levied to cover those costs. It is considered that the format best represents the nature of SIB's activities which involve carrying out its statutory obligations and levying fees to meet costs consequent upon those obligations.

b. Fees receivable

These represent the fees to which SIB was entitled during the financial year.

c. Tangible fixed assets

Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets on a straight line basis over the expected useful economic lives of the asset concerned. The principal annual rates used for this purpose are:

	%
Leasehold improvements	20
Furniture and equipment	20
Computer equipment	33 1/3
Motor vehicles	25

d. Recognition of expenses

All costs incurred to the end of the year are included in the accounts, but no provision is made for the costs of completing current work. Recoveries of costs are accounted for on receipt. Where proceedings are taken against SIB, full provision is made for expected legal and associated costs.

e. Pension scheme payments

Payments made to the scheme are charged annually in these accounts as part of employment costs.

2 Administrative costs

Administrative costs include:

	1995 £'000	1994 £'000
Employment costs (note 7)	8,498	7,715
Operating lease rentals		
Leasehold premises	2,177	2,167
Other operating leases	225	301
Depreciation (note 9)	1,210	1,152
Auditors' remuneration	15	15
Fees paid to SIB's auditors or their associates in connection with non-audit work	92	51

3 Cost recoveries

	1995 £'000	1994 £'000
Proceeds from the sale of extracts of the Central Register	358	372
Proceeds from the sale of publications	416	322
	774	694

4 Interest receivable less corporation tax

	1995 £'000	1994 £'000
Interest receivable from bank	197	266
Corporation tax payable (note 5)	(49)	(66)
	148	200

5 Taxation

Corporation tax is payable on interest receivable. The charge for the year is:

	1995	1994
	£'000	£'000
Corporation tax for year at 25% on interest receivable	49	67
Adjustment to prior year	-	(1)
	<u>49</u>	<u>66</u>

6 Directors' emoluments

Directors emoluments for the year, including pension contributions (and including emoluments for 3 executive directors (1994: 2 executive directors)), were:

	1995	1994
	£'000	£'000
Fees for services as directors	158	156
Remuneration as executives	738	615
	<u>896</u>	<u>771</u>

Included in remuneration as executives are the costs of pensions contributions amounting to £222,000.

Emoluments of the Chairman during the year, including estimated money value of other benefits but excluding pension contributions, were:

	1995	1994
	£	£
Basic salary	170,000	170,000
Other compensation and benefits	10,408	49,824
	<u>180,408</u>	<u>219,824</u>

Because of the legislation relating to individuals changing employment the pension benefits of the executive directors have been funded separately from the principal SIB pension scheme. Costs of contributions paid or payable by SIB during the year in relation to pension provision for the Chairman were £91,540 (1994: £70,196). Other

compensation and benefits include further costs related to pension arrangements, including medical and disability insurance and (for 1994) additional salary to enable the Chairman to make a contribution to a personal pension plan.

Numbers of directors (including the Chairman) whose emoluments (excluding pension contributions) were within the ranges:

	1995	1994
£Nil - £5,000	1	3
£5,001 - £10,000	1	6
£10,001 - £15,000	6	7
£15,001 - £20,000	-	2
£20,001 - £25,000	2	-
£25,001 - £30,000	1	-
£30,001 - £35,000	1	-
£35,001 - £40,000	-	1
£40,001 - £45,000	1	-
£45,001 - £50,000	-	1
£50,001 - £55,000	1	-
£55,001 - £60,000	-	1

The Treasury and the Governor of the Bank of England acting jointly appoint and remove the directors of SIB. Fees payable to directors are determined by the Governor. The Deputy Chairmen are responsible for approving, in liaison with the Governor, all matters concerning the remuneration and benefits, including pension benefit, payable to or in respect of the service of any person as Chairman, and approving, after consultation with the Chairman, all matters concerning the remuneration and benefits, including pension benefit, payable to or in respect of the service of any person as Chief Executive or as an Executive Director. The fee payable to each Deputy Chairman was set at £34,000 per annum with effect from 1 January 1995 (the previous fee, set in January 1992 was £32,500 per annum). The fee for a non executive Board member was set at £14,000 per annum (previously £13,500 per annum). These fees cover all duties as directors, including membership of Board committees.

7 Employee information

a. At 31 March 1995, SIB had 204 employees (1994: 183) including executive directors and staff seconded from other organisations. The average number of employees during the year was:

	1995	1994
Supervision and Policy	95	94
Enforcement	36	23
Operations	35	44
Central departments	27	27
	193	188

b. Employment costs of all employees (including executive directors and secondees) were:

	1995 £'000	1994 £'000
Aggregate gross wages and salaries, together with costs of seconded staff	6,797	6,219
Employer's national insurance contributions	608	570
Employer's pension contributions	1,093	926
	8,498	7,715

c. The principal pension scheme operated by SIB offers employees a choice between defined benefits and the pension secured by the individual pension account built up from contributions. It is non-contributory and contracted out of the state scheme. The cost of employer's contributions for the period was £851,000 (1994: £742,000).

The scheme was last valued at 1 January 1994 by a professionally qualified independent actuary on both a going concern and a discontinuance basis, the required rates of contribution payable being determined by the actuary. It was assumed that the invest-

ment returns would be 8% per annum and that the average rate of increase in pensionable salaries would be 6% per annum. The valuation showed that the market value of the scheme's assets was £6,377,000, and that in the opinion of the actuary, the liabilities of the scheme exceeded these assets by £153,000 at that date. The actuary estimated that the contribution rate required by SIB to cover liabilities as they accrue (including the deficit at 1 January 1994) was the contributions payable to members' individual accounts in accordance with the terms of the scheme plus 7.5% of members' pensionable salaries and the cost of the insurances of death-in-service benefits, subject to review at future actuarial valuations, and this contribution rate has been adopted by SIB.

Contributions totalling £42,000 (1994: £14,000) were made to personal pension schemes in connection with employees who were not members of the SIB pension scheme.

The pension scheme for the Chairman and Chief Executive is funded, non contributory, not contracted out and provides defined benefits on retirement from SIB. Pension contributions are assessed in accordance with the advice of a professionally qualified actuary and the costs of employer's contributions are accrued over the period until retirement. The cost of employer's contributions for the period was £200,000 (1994: £170,000). Contributions of £135,000 (1994: £103,000) were accrued at 31 March 1995.

8 Fees receivable

	1995 £'000	1994 £'000
Application, notification and periodical fees	21,231	17,147

SIB's policy is to break even, taking one year with another with the retention of a surplus sufficient to provide a contingency against unbudgeted resource requirements. Fees are set for the coming year so as to recover only the budgeted costs for that year. Any over or under-recovery relating to recognised bodies is dealt with, after SIB's accounts have been audited, by crediting the surplus or making an additional charge to the bodies concerned in the following year. Fees for 1994/95 took account of rebates to recognised bodies totalling £1,496,000 relating to accumulated over-recoveries at 31 March 1994.

9 Tangible assets

	Leasehold improvements £'000	Computer equipment £'000	Furniture, equipment & vehicles £'000	Total £'000
Cost				
At 1 April 1994	3,658	1,386	858	5,902
Additions	153	200	247	600
Disposals	-	(40)	(30)	(70)
At 31 March 1995	3,811	1,546	1,075	6,432

Depreciation

At 1 April 1994	2,532	837	503	3,872
Charge for year	747	302	161	1,210
Disposals	-	(40)	(12)	(52)
At 31 March 1995	3,279	1,099	652	5,030

Net book value

At 31 March 1995	532	447	423	1,402
At 31 March 1994	1,126	549	355	2,030

10 Debtors and prepayments

	1995 £'000	1994 £'000
Trade debtors	3,758	387
Other debtors	20	110
Prepayments	962	869
	4,740	1,366

11 Creditors: amounts falling due within one year

	1995 £'000	1994 £'000
Trade creditors	23	7
Corporation Tax	49	66
Other taxation and social security	239	213
Accruals	2,625	1,920
	2,936	2,206

In the course of its enforcement activities SIB has given indemnities to certain provisional liquidators and trustees. Provision has been made in these accounts for costs incurred by such liquidators and trustees to 31 March 1995 and estimated to be recoverable from SIB under such indemnities.

On occasion claims (some for substantial sums) are made or threatened against SIB in respect of allegations arising out of its activities. In the opinion of SIB, no further provision for costs is required in the accounts, either in relation to any claims made or threatened or in relation to legal costs of defending SIB against claims.

12 Provision for liabilities and charges

	1995 £'000	1994 £'000
Provision for future costs on 3 Royal Exchange Buildings		
Provision at 1 April	1,043	1,847
Expenditure during year, set off against provision	(628)	(880)
Rents receivable	106	76
Provision at 31 March	521	1,043

In December 1990 SIB vacated premises at 3 Royal Exchange Buildings which are held on a lease expiring on 28 September 1995; these premises are sublet at rents which are materially lower than that paid by SIB. The provision at 31 March 1995 represents the directors' estimate of the excess of future costs of the property over future income.

13 Funds held non-beneficially

At 31 March 1995 SIB held cash amounting to approximately £138,000 relating to a restitution action taken by SIB pending a hearing before the Court as to its disposition. The cash was held in a segregated account and was not included in SIB's balance sheet.

14 Cash flow

The income and expenditure account on page 6 is prepared on an accruals basis and reflects all costs and revenues relating to the financial year in question, whereas the cash flow statement on page 8 reflects cash movements only. The statement set out below relates cash flows to items shown in the income and expenditure account.

	Notes	1995 £'000	1994 £'000
Net cash (outflow)/inflow from operating activities and returns on investment		(1,107)	172
Items not affecting cash flow but which relate to the year:			
Depreciation	9	(1,210)	(1,152)
Items affecting cash flow, but which do not affect the income and expenditure account.			
Net outgoings on			
3 Royal Exchange Buildings	12	522	804
Timing adjustments relating to			
Trade debtors		3,371	(136)
Other debtors and prepayments		3	37
Trade creditors		(16)	140
Corporation tax		17	(7)
Other creditors and social security		(749)	(444)
Surplus/(deficit) on ordinary activities per income and expenditure account		831	(586)

15 Movement in cash balance

	1995 £'000	1994 £'000
Cash at 1 April	2,739	3,190
Cash at 31 March	1,032	2,739
Decrease in cash balance	1,707	451

16 Lease commitments

SIB has entered into non-cancellable operating lease arrangements in respect of office equipment and motor vehicles. The total annual rent payable under these leases in the year to 31 March 1996 is £116,000. Of this amount £83,000 is in respect of leases which expire within two to five years the remainder being in respect of leases which expire within one year. There are no assets held under finance leases.

In December 1990 SIB vacated premises at 3 Royal Exchange Buildings which are held on a lease expiring on 28 September 1995. SIB pays all insurance, maintenance and repairs on this property and rent of £550,000 per annum against which are set rents and services charges received.

SIB leases premises at Gavrelle House, 2/14 Bunhill Row. The lease runs for 25 years from 16 July 1990 and the rent payable is subject to negotiation at 16 July 2000 and at five yearly intervals thereafter. The annual rent payable is approximately £2.1 million per annum. SIB pays insurance, maintenance and repairs of the property it occupies.

17 Capital expenditure

SIB has entered into contracts for capital expenditure totalling £40,000 which are not provided for in the accounts.

No amounts have been authorised but not yet contracted.

Statement of allocation of costs for the year ended 31 March 1995

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Introduction

SIB sets fees by reference to categories of body, firm or scheme at levels which so far as possible reflect SIB's costs applicable to the respective categories. Costs are allocated annually according to the method set out in note 1 on page 118. Fees charged take account of any over or under recovery of costs in prior years.

The statement of allocation of costs for the year ended 31 March 1995, and the notes thereto, are set out on pages 117 and 118. The auditors' report on this allocation is set out on page 119.

Statement of allocation of costs for the year ended 31 March 1995

	Cumulative surplus/ (deficit) 1 April 1994	Net costs for year	Fees for year	Cumulative surplus/ (deficit) 31 March 1995
<i>Categories of registrants</i>	£'000	£'000	£'000	£'000
Self-regulating organisations				
FIMBRA/LAUTRO/PIA	388	6,016	5,603	(25)
IMRO	137	3,455	2,790	(528)
SFA	120	2,816	3,452	756
	645	12,287	11,845	203
Professional bodies	156	1,434	2,232	954
Exchanges and clearing houses	695	2,780	1,803	(282)
	1,496	16,501	15,880	875
Directly regulated firms	608	2,771	3,910	1,747
Collective investment schemes	782	1,128	1,441	1,095
	2,886	20,400	21,231	3,717

Notes to the statement of allocation of costs - 31 March 1995

1 Method of allocation

The FSA provides that fees shall be paid by regulated firms and organisations, that SIB may retain any fees payable to it and that such fees shall be applicable for meeting the costs of SIB in discharging its functions under any delegation order and for any purposes incidental thereto.

SIB's fees are set by reference to costs applicable to categories of firms or bodies or individual bodies (fee payers). SIB staff are required to keep a record of their time and these records are used to allocate the costs of staff time to specific activities or projects in addition to, wherever possible, individual fee payers. Some other costs (eg external consultancy and enforcement costs) are allocated similarly. Where costs cannot be directly attributed to a fee payer, they have been allocated on the basis of allocative keys that attribute costs of individual projects to relevant fee payers. Overheads that cannot be specifically allocated are allocated pro rata to time costs.

2 Net costs for year

	£'000
These comprise:	
Administrative costs	21,322
Cost recoveries	(774)
Interest receivable	(148)
	<hr/>
	20,400

Report of the auditors to the directors of The Securities and Investments Board

We report on the costs to be recovered by The Securities and Investments Board shown in the statement of allocation of costs for the year ended 31 March 1995 on pages [17 and 18].

We have reviewed the basis on which the costs of The Securities and Investments Board have been allocated to the various categories of registrants.

In our opinion the costs of The Securities and Investments Board have been properly allocated between specific registrants in accordance with the method set out in note 1.



ERNST & YOUNG
Chartered Accountants
Registered Auditor

London, [4 July] 1995

PRIVATE AND CONFIDENTIAL

The Directors
Securities and Investments Board
Gavrelle House
2-14 Bunhill Row
London
EC1Y 8RA

4 July 1995

CSD2/SDP/TMR

Dear Sirs/Madam

**REPORT BY THE AUDITORS TO SECURITIES AND INVESTMENTS BOARD ON
CORPORATE GOVERNANCE MATTERS**

In addition to our audit of the accounts we have reviewed the directors' statement on page 4 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Cadbury Committee in note 14 to the Code of Best Practice. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the company's corporate governance procedures nor on the ability of the company to continue in operational existence.

Opinion

With respect to the directors' statements on going concern on page 2, in our opinion the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 4 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.



Ernst & Young
Chartered Accountants
City