Annual Report 2008

www.jerseyfsc.org

Jersey Financial
Services Commission

‘Jersey enjoys a reputation as a well-regulated international finance centre’.

Jersey is situated off the north-west coast of France, 14 miles from Normandy and 85 miles from the south coast of England.

Within its 45 square miles the Island has a population of around 90,000 and enjoys a reputation as a well-regulated international finance centre.

Jersey's allegiance is to the British Crown but it is not part of the United Kingdom. The Island is not part of the European Union, being neither a separate Member State nor an Associate Member.

Jersey has its own legislative assembly, called the States of Jersey, which comprises 53 elected members plus the President. Jersey has its own system of local administration, fiscal and legal systems, and courts of law.

Jersey has a ministerial system of government comprising a Council of Ministers led by a Chief Minister. Each Minister oversees the work of a Government Department. Further information on the workings of government in Jersey can be found on the States of Jersey Website, www.gov.je.

The Jersey Financial Services Commission (the **"Commission"**) is responsible for the regulation, supervision and, within its legal remit, the development of the financial services industry in the Island.

The Commission is a statutory body corporate, set up under the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**). The Commission Law provides for a Board of Commissioners to be the governing body of the Commission.

The Commission Law established the Commission as an independent body, fully responsible for its own regulatory decisions. The Commission is accountable for its overall performance to the States of Jersey through the Minister for Economic Development.

The Commission is also responsible, pursuant to powers granted to it under the Companies (Jersey) Law 1991, for appointing a person to exercise certain statutory responsibilities as the Registrar of Companies. The Commission has appointed the Director General of the Commission as the Registrar.

The Commission's key purpose is:

To maintain Jersey's position as an international finance centre with high regulatory standards by:

- reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers;
- protecting and enhancing the Island's reputation and integrity in commercial and financial matters;
- safeguarding the best economic interests of Jersey; and
- countering financial crime both in Jersey and elsewhere.

In support of its key purpose, the Commission aims to:

- ensure that all entities that are authorised meet fit and proper criteria;
- ensure that all regulated entities are operating within accepted standards of good regulatory practice;
- match international standards in respect of banking, securities, trust company business and insurance regulation, and anti-money laundering and terrorist financing defences;
- identify and deter abuses and breaches of regulatory standards; and
- ensure that the Commission operates effectively and efficiently, and is accountable to the Minister for Economic Development as prescribed in the Commission Law.

Non-Executive Commissioners

Colin Powell, CBE - Chairman

Colin Powell became Chairman of the Jersey Financial Services Commission in October 1999.

He has been Chairman of the Offshore Group of Banking Supervisors (**"OGBS"**) since 1981 and represents the OGBS at meetings of the Financial Action Task Force.

He is currently co-chair of the Basel Committee Cross-Border Banking Working Group and an advisor on international affairs to Jersey's Chief Minister's Department.

Before taking up his present position, he had posts as Economic Adviser and Chief Adviser to the States of Jersey between 1969 and 1999 and was responsible for advising on Jersey's economic development strategy, including its development as an international finance centre.

Jacqueline Richomme - Deputy Chairman

Jacqueline Richomme was first appointed as a Commissioner on 1 October 2001 and became Deputy Chairman in June 2007.

She studied law at the University of Durham and then at the College of Law, Chester and qualified as an English Solicitor in 1982.

She joined the Jersey law firm, Mourant du Feu & Jeune, in 1985 and subsequently qualified as a solicitor of the Royal Court of Jersey in 1988, becoming a partner of Mourant du Feu & Jeune shortly thereafter.

Her legal practice has covered all aspects of Jersey company, trust and limited partnership law, and she specialises in the provision of Jersey legal advice to investment funds and international finance transactions.

John Averty

John Averty joined the Board of Commissioners in December 2005.

He was born in Jersey and educated at Victoria College.

John is the Chairman and Chief Executive of the Guiton Group Ltd. The group publishes daily and weekly newspapers in the Channel Islands. It also has a technology division.

From 1969 to 1984 John served as a Member of the States of Jersey, initially as a Deputy and latterly on the Senatorial benches.

He is currently a non-executive director of a Jersey registered private bank.

John Boothman

John Boothman joined the Board of Commissioners in June 2006.

After graduating from Oxford University, John took up a position with Morgan Grenfell (Jersey) Limited in 1974. In 1993, he became managing director of Deutsche Morgan Grenfell (CI) Limited and subsequently of Deutsche Bank International Limited.

John retired from the bank in 2002 and is now the non-executive chairman of a private equity fund administration company; he also holds various other non-executive directorships.

Michael Clapham (until November 2008)

Michael Clapham was educated at Victoria College, Jersey and Wadham College Oxford. He has an M.A. in English.

He qualified as an Advocate of the Royal Court of Jersey in 1966.

He was Senior Partner of a long-established Jersey law firm for many years, which merged with another firm in 1995 to become the legal, fiduciary and corporate services group of Ogier & Le Masurier. He retired from the partnership in 2001 but remains with the firm as a consultant.

Michael was President of the Law Society of Jersey from 1997 to 2001 and was first appointed as a Commissioner on 1 December 2002.

Scott Dobbie, CBE (until November 2008)

Scott Dobbie has over thirty years' experience in stockbroking and investment banking and remains a senior advisor to Deutsche Bank. He was appointed as a Commissioner on 1 December 1999.

He was a Director of the United Kingdom's Securities and Futures Authority from 1993 to 2001, and served as a member of the Regulatory Decisions Committee of the UK Financial Services Authority from 2001 to 2005.

He is also Chairman of the Securities & Investment Institute, The Edinburgh Investment Trust plc and Standard Life European Private Equity Trust plc and a Director of Premier Oil plc and other companies.

Non-Executive Commissioners

Clive Jones

Clive Jones joined the Board of Commissioners on 23 October 2007. Clive is currently a company director, having retired in June 2007 from a career in international banking spanning 36 years.

Prior to his retirement from banking, Clive had been the Citigroup Country Officer for the Channel Islands, which involved being Chairman and Managing Director of Citibank (Channel Islands) Limited, as well as holding Directorships for all Citibank Companies within the Island.

He has previously held the posts of President of the Jersey Bankers Association, Chairman of the Jersey Finance Industry Association, and was one of the founding Board members of Jersey Finance Limited.

Clive is currently the Vice Chairman of Governors for Highlands College.

Advocate Debbie Lang (from December 2008)

Advocate Debbie Lang joined the Board of Commissioners on 30 November 2008. Debbie qualified as a Jersey Advocate in 1990 and is a member of the Jersey Law Society.

Debbie joined the law firm Bailhache Labesse (now Appleby) in 1984 where she was a partner from 1991 to 2005. She was appointed Managing Partner in 1998 and Managing Director of Bailhache Labesse Trustees Limited in 2000. Since leaving Bailhache Labesse in 2005, she has worked on strategic and management matters advising law firms and trust companies in Jersey and other offshore jurisdictions and holds a number of non-executive directorships. Debbie established a sole practitioner legal practice in 2008.

Debbie is currently a member of the Jersey Police Complaints Authority and the Jersey Youth Court Panel.

Frederik Musch

From 1986 to 1992, Frederik Musch held the position in the Dutch Central Bank of Deputy Executive Director in charge of banking supervision, and represented the Central Bank on the European Union's Banking Advisory Committee and the Basel Committee on Banking Supervision. He was a founding member of the Securities Board of the Netherlands.

From 1992 to 1998 he was Secretary General to the Basel Committee. In 1998 he became a founding Director with the Financial Stability Institute at the Bank for International Settlements in Basel, from which position he retired in 2001.

He was appointed as a Commissioner on 18 July 2001. He retired mid 2007 as Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers.

Sir Nigel Wicks

Sir Nigel Wicks is currently the Chairman of Euroclear, having previously been non-executive Deputy Chairman. He was a member of the British Civil Service for 32 years. He held the position of Second Permanent Secretary and Director of International Finance at HM Treasury from 1989 to 2000. He has held senior positions in the offices of British Prime Ministers, Harold Wilson, James Callaghan, and Margaret Thatcher. He was a member of the EU Committee of 'Wise Men' on European Securities Regulation (The Lamfalussy Group). He served as Chair of the Committee on Standards in Public Life between 2001 and 2004.

He joined the Board of Commissioners in July 2007.

Executive Commissioner

John Harris - Director General

John was appointed the Director General of the Commission on 6 November 2006 and subsequently joined the Board of Commissioners on 1 March 2007. He is a fellow of the Chartered Institute of Bankers.

From 2002 to 2006, he held the position of Director - International Finance in the States of Jersey Chief Minister's Department where he had responsibility for all aspects of the Government's policy on the maintenance and enhancement of Jersey's position as an international finance centre.

John spent 22 years working internationally for the for NatWest Bank Group and from 1998 to 2002 he was Chief Executive Officer for NatWest Offshore with responsibility for offices in Jersey, Guernsey, Isle of Man, Gibraltar, Cayman, Bermuda and the Bahamas.

‘There is now more general recognition internationally that Jersey is as compliant with international standards as most if not all G7 and G20 countries.’

This will be my last Chairman's Statement because I shall be retiring in September 2009 from the position of Chairman after 10 years, as statute requires. I have been extremely privileged to have been involved with the Commission over this period not only for what has been achieved but particularly for the enjoyment obtained through my association with an extremely dedicated and professional team of Commissioners, Executive Directors and Commission staff.

Much has happened over the past 10 years. The Commission greatly extended its regulatory reach through the licensing of trust and company service providers (**"TCSPs"**), and it has had to respond to (and in many cases contributed to) new international standards of financial regulation and anti-money laundering/combating the financing of terrorism (**"AML/CFT"**). However, few could have anticipated in 1998 that in 2008 the Commission would be faced with the need to respond to a global financial crisis on the scale that is now being experienced.

The finance industry which the Commission regulates has grown significantly over the past 10 years. Bank deposits grew from £103 billion to £206 billion between the end of 1998 and the end of 2008. Over the same period the value of collective investment funds under administration grew from £60 billion to £241 billion. Trust business also grew significantly. By way of contrast the number of companies incorporated was little different between the year 1998 and the year 2008. The impact of the growth of the finance industry, allied to the enhancement of international standards of financial regulation and of AML/CFT, is reflected in the number of staff employed by the Commission which increased from 26 full-time in 1998 to 102 full-time and 11-part time at the end of 2008.

However, in some respects nothing much has changed over the 10 years. To quote from the Chairman's Statement in the first Annual Report for 1998, *"In its first few months the Commission has been faced with a rapidly changing external environment. Initiatives have been launched by the British Government (in the form of the Edwards Review), by the Organisation for Economic Cooperation and Development (OECD), the European Union (EU) and the United Nations. Some of these initiatives have focussed on the tax regimes of offshore centres, some of them on regulation. Either way, the result has been that the position of offshore centres has come under the international spotlight. Jersey has been the subject of much comment - some of it, sadly, ill informed"*.

International Recognition

Offshore Finance Centres (**"OFCs"**) are again the centre of attention. The difference is that, through the work done by the Commission over the past 10 years in establishing a reputation for Jersey as an extremely well regulated international finance centre complying with the international standards, there is now more general recognition internationally that Jersey is as compliant with the international standards as most if not all G7 and G20 countries. There is now a much greater distinction being drawn between non-compliant and compliant jurisdictions, whether they are onshore or offshore, and the attention of the international community is being focussed rightly on the non-compliant jurisdictions.

Since 1998, there has been a comprehensive global review programme under the auspices of international organisations including the Financial Action Task Force (**"FATF"**) and the International Monetary Fund (**"IMF"**). There are few jurisdictions that have not now been assessed for their compliance with international standards. In 2008, the IMF undertook a review of Jersey's compliance with the international standards of financial regulation and AML/CFT. At the time of writing this report the results of that assessment have yet to be finalised and published, but there is every indication that the favourable picture presented when the IMF previously assessed Jersey in 2003 will be repeated. Jersey can expect to compare favourably with the G7 and G20 jurisdictions, and, given the Island's location, most importantly with members of the EU, particularly in the rating of compliance with the FATF's 40+9 Recommendations on AML/CFT.

At the end of 2008, the UK Chancellor of the Exchequer asked Michael Foot, formerly Head of Banking Supervision at the Bank of England and subsequently a Managing Director of the Financial Services Authority, to conduct an independent review of the long term opportunities and challenges facing Jersey, the other British Crown Dependencies and the British Overseas Territories as financial centres. The review will cover financial supervision and transparency; taxation in relation to financial stability, sustainability and future competitiveness; financial crisis management and resolution arrangements; and international cooperation. The Commission will contribute to that review in the same positive way that it has contributed to previous reviews of the Island's compliance with international standards. The reviewer will have the benefit of the reports of the IMF assessment carried out in October/November 2008 and, as noted above, the Commission expects the IMF report to show the Island in a favourable light.

International Regulatory Developments

However, the Commission cannot afford to rest on its laurels. It is clear that against the background of the current global financial crisis there will be a number of major changes in international financial regulation which will call for a response on the part of the Commission. In the past 10 years the Commission has often faced pressure from the finance industry wishing to ensure that the regulator, while meeting international standards, did not frustrate business initiatives. This was particularly so in the area of collective investment funds where that pressure was responded to by the Commission through the creation of the expert fund and unregulated fund vehicles. The emphasis over the past 10 years internationally has been very much one of moving from rule based to principle based supervision, and in applying a risk based approach, so that those considered to be of high risk were closely monitored through frequent on-site examinations, while those considered to be of low risk were far less frequently monitored. The global financial crisis, which shows no signs of abating, has found this regulatory approach to be wanting. The G20 Summit on Financial Markets and the World Economy held in Washington in November 2008 identified five agreed principles for reform:

- strengthening transparency and accountability;
- enhancing sound regulation;
- promoting integrity in financial markets;
- reinforcing international cooperation; and
- reforming international financial institutions.

Some of the key messages to come out of the G20 Summit - and a second Summit held in London in April 2009 reinforced them and sought their early implementation - were as follows:

- The appropriate bodies should review the differentiated nature of regulation in the banking, securities, and insurance sectors and provide a report outlining the issue and making recommendations on needed improvements. A review of the scope of financial regulation, with a special emphasis on the institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated, should also be undertaken;

- Authorities should ensure that financial institutions maintain adequate capital in amounts necessary to sustain confidence. International standard setters should set out strengthened capital requirements for bank structured credit and securitisation activities;

- Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their international controls and implement strengthened policies for sound risk management;

- Regulators should develop and implement procedures to ensure that financial firms implement policies to better manage liquidity risk, including the creation of strong liquidity cushions;

- International standard setting bodies, working with a broad range of economies and other appropriate bodies, should ensure that regulatory policy makers are aware and able to respond rapidly to evolution and innovation in financial markets and products;

- National and regional authorities should work together to enhance regulatory cooperation between jurisdictions on a regional and international level; and

- Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including cooperation and communication with each other and with appropriate authorities, developing comprehensive contact lists and conducting simulation exercises, as appropriate.

The Commission will need to respond to these international developments which will put greater pressure on the Commission's resources in ensuring the effective implementation of international standards through enhanced on-site examination programmes. The need for international cooperation will also call for even more time and effort to be applied to cooperative contact with other regulatory authorities. The Commission already has a good record of active engagement on regulatory matters with other jurisdictions. For example, it engages in visits to other regulators, particularly the UK Financial Services Authority, has 35 Memoranda of Understanding (**"MoUs"**) with regulators in other jurisdictions and is actively engaged in extending their number, and fully supports the concept of colleges of supervisors. A particularly close relationship exists between the Commission and its counterparts in Guernsey and the Isle of Man. It also responds to requests for international assistance on such matters as insider dealing.

The Basel Committee on Banking Supervision (the **"Basel Committee"**) is taking action to enhance the Basel II framework. For example, the Basel Committee has proposed that banks should be required to obtain comprehensive information about the underlying exposure characteristics and their externally rated securitisation positions, both within and across structures. Failure to obtain such information would result in higher capital requirements. The Basel Committee is also proposing to give enhanced guidance to address the flaws in risk management practices revealed by the financial crisis.

A particular aspect of banking supervision that the financial crisis has highlighted has been the relationship between home and host supervisors. In the past, international action has reflected the concern of home supervisors that poorly regulated foreign subsidiaries or branches would adversely affect the solvency of parent banks for whom they are responsible. The crisis has changed the focus and now the concern is more for host supervisors that the foreign subsidiaries and branches for which they are responsible, while solvent in themselves will be inevitably caught up in the failure of a parent bank. In this context it is still not sufficiently recognised that jurisdictions such as Jersey can make and are making a contribution to the solution of the crisis rather than being part of the problem. Funds drawn from all over the world are up-streamed to the parent bank, thereby making a significant contribution to filling a funding gap which otherwise may well fall to be met by the government of the country concerned and consequently by the tax payers.

As a result of the long-term pursuit of what is described as the 'top 500' policy on the licensing of banks, nearly all of the banks in Jersey are subsidiaries or branches of banks that the governments that have parental responsibility have indicated will not be allowed to fail. Notwithstanding this, depositors attach importance to there being a depositor protection scheme in place, something that is now also seen as an international requirement and such a scheme is to be implemented in 2009.

The Commission will continue to work closely with the international standard setters. In 2008 the Commission, either through the Chairman, the Director General or the Executive Directors, participated in the work of a number of international organisations either directly or through membership of the Offshore Group of Banking Supervisors and the Offshore Group of Insurance Supervisors. A contribution has been made to the work of the FATF, the International Organisation of Security Commissions (**"IOSCO"**), the International Association of Insurance Supervisors (**"IAIS"**) and the Basel Committee. Through the Registry, a leading role has also been played in the European Registries Forum, the European Business Register and related international initiatives.

The Commission considers that it has a role to play in assisting in the enhancement of standards as well as seeking third party endorsement of its own compliance with those standards. One particular area where the Commission has a considerable contribution to make is in the regulation of TCSPs. Typologies undertaken by the FATF, and the experience in individual countries such as the United States, have shown that the effective regulation of TCSPs is an essential element to effective AML/CFT adherence. The Commission remains eager to share its experiences with those jurisdictions that have yet to meet the same standards in this respect, and Commission staff have participated in IMF and FATF assessments where the Commission's experience in the regulation of TCSPs has been of particular value.

The Commission continues to be actively engaged in seeking to ensure that its standards are properly recognised. In May 2008, the European Union (**"EU"**) Committee on the Prevention of Money Laundering and Terrorist Financing agreed a list of equivalent Third Countries for the purposes of the relevant parts of the Third Money Laundering Directive. The list is a voluntary, non-binding measure that nevertheless represents the common understanding of Member States. It was a great disappointment to the Commission that this common understanding did not include Jersey in the list of Third Countries that are currently considered as having equivalent AML/CFT systems to the EU. However, the decision was left to individual Member States to decide whether they considered Jersey as equivalent. All EU Member States were contacted in this respect and a number of EU and European Economic Area Member States have accepted that Jersey has equivalent AML/CFT systems to the EU. Others however indicated that they would wish to defer a decision in this respect until they had had sight of the report of the IMF assessment undertaken at the end of 2008. Given the confident expectation that the results of that assessment will show that Jersey is the equal of if not better than a large number of EU Member States, there should then be no grounds for the EU Member States withholding Jersey from a list of equivalent Third Countries for the purposes of the relevant parts of the Third Money Laundering Directive.

While the Commission is not involved with the negotiation of tax information exchange agreements (**"TIEAs"**), this also has provided an opportunity for Jersey's standards to be recognised. As an example, with the signing of a TIEA with the Federal Republic of Germany, a political declaration was issued recognising Jersey's commitment to comply with international standards relating to AML/CFT regulation, and to participate in international efforts to combat financial and other crimes including fiscal crime. The Federal Republic was pleased to note that in 2003 the IMF found that the financial regulatory and supervisory system of Jersey generally complied well with international AML/CFT standards upon which independent assessments of equivalence were able to be based. The Federal Republic was also pleased to note that Jersey had invited the IMF to undertake a further evaluation to assess compliance with the current international standards. Subject to the outcome of that evaluation, the Federal Republic indicated that it would use its best endeavours to ensure that where EU Directives or Regulations included provisions referring to the position of Third Countries, particularly in relation to assessments of equivalence in compliance with EU standards and access to EU markets, Jersey would be treated as fairly and favourably as other Third Countries.

'I know that I will be passing on to my successor as Chairman a first class team of Board of Commissioners, Director General, Executive Directors and Commission staff generally.'

Investor Protection

With tighter regulation, particularly through more on-site examinations, individual cases continue to be identified where regulatory breaches have occurred and enforcement action is called for. This is also one of the outcomes of the financial crisis as investors focus more on the security of their assets, and seek to recover their funds.

In meeting its statutory obligations to protect the interests of investors, and the Island's reputation, the Commission will always engage actively in enforcement action, including seeking to recover funds for the benefit of the investors. However, there is no legal obligation placed on the Commission to compensate investors, and the Commission believes it is right that the States of Jersey should not place such an obligation on the Commission. As elsewhere, it is believed that investor compensation schemes, if established, should be operated and funded separately from the regulator, although the Commission is prepared to make its expertise and experience available if asked to do so.

The Commission's income comes almost exclusively from licence fees of one sort or another levied on the financial services industry in Jersey. Acting as a compensation scheme would be a fundamental change in the role of the Commission, as presently set out in the relevant legislation, and would require amendment to that legislation.

The taking of enforcement action is very important for the reputation of the Island as an international finance centre. Resident and non-resident investors must have confidence that the regulator will protect their interests, and Jersey should expect to be roundly criticised if those who breach regulatory laws are not brought to book simply on the grounds that the Commission could not meet the legal costs. The Commission maintains a level of reserves to help ensure that it is able to cover the costs of appropriate legal action. In the absence of such reserves enforcement action would only be possible if there was a levy on the industry or if the States were prepared to meet the costs of the legal action.

The protection of investors should not simply be about recovering money lost. The aim should be to avoid money being lost in the first place. This is the object of good regulatory standards and sound practices. However, it also calls for a programme of consumer education, particularly in relation to the interface between investors and financial advisers. The Commission is attaching great priority to the action required to ensure, as far as possible, that good and appropriate advice is professionally given by independent financial advisers and tied advisers, and that investors are not misled about the risks involved.

The Independence of the Commission

Another aspect of the Commission which has received further attention, against the background of the financial crisis, is the independence of the Commission from political influence. The Edwards review in 1998 was followed by the lodging of an amendment to the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**) to remove the requirement that the Chairman of the Jersey Financial Services Commission should be a member of the then Finance and Economics Committee. Quoting from the Edwards Review, the relevant Projet (P261/1998) stated:

"The substantive case is that the business of regulation is a professional task, requiring professional direction and impartial implementation. Regulators, like judges, need to be independent, impartial and professional, both in the reality and in the perception. It is difficult however, for politicians, even if they have the necessary professional backgrounds, to be visibly impartial in this way when their daily tasks include public arguments about political strategies and public responses to political pressures and critics.

It is also difficult for public figures to refuse to be drawn into discussion and controversy over particular regulatory decisions. For their own protection, therefore, it seems better that they should not serve on regulatory boards."

The independence of the Commission firmly established in 1998 has been an important feature of the Commission's role throughout the past 10 years, although there have been times when individual politicians have sought to challenge the position. However, while the Commission should be independent in its regulatory decision-making it must remain accountable to the States of Jersey. This is achieved by the presentation of an Annual Report to States Members, regular opportunities for States Members to be briefed on regulatory developments and, most particularly, through the good working relationship that the Chairman and Director General of the Commission have with the Minister for Economic Development (the **"Minister"**) and his officers. The latter is reflected in a MoU between the Commission and the Minister. This provides that the Ministerial power of direction set out in Article 12 of the Commission Law shall be general in nature and will not be used so as to influence particular cases (for example to require the Commission to grant or refuse a regulatory consent in relation to a particular person). The MoU states that any guidance or direction given by the Minister will generally relate to:

- matters of public policy that the Minister considers the Commission should take into account in carrying out its responsibilities in relation to the supervision and development of financial services in Jersey;
- matters relating to the economy, efficiency and effectiveness of the Commission;
- matters relating to the accountability of the Commission; or
- ensuring that the Commission adheres to what are generally accepted in Jersey and the United Kingdom as being principles of good corporate governance.

The MoU also indicates that the Minister recognises that Jersey is committed to complying with standards set by internationally recognised bodies and that it is in the public interest to honour such commitments. Accordingly he will not give any guidance or direction that could adversely affect the ability to do so.

The statutory obligations placed on the Commission include having regard for "the best economic interests of Jersey". The MoU accepts the Commission's interpretation with regard to "the best economic interests of Jersey", namely that:

- the Commission should have regard to any strategic plan or economic growth plan for Jersey approved by the States of Jersey from time to time;
- the Commission should take full account of the costs and other burden of regulation;
- subject to the need to maintain regulatory standards, the Commission should assist in the development of business; but
- the Commission should not compromise regulatory standards in order to allow a line of business which a section of the industry might find attractive.

The independence of the Commission is also reinforced by the appointments to the Board of Commissioners, who are both local and non-local, representing a wide range of interests in accordance with the statutory requirements. Thus the Board is made up of Commissioners who represent the providers of financial services, the users of financial services and the public interest. The independence of the Board, and the quality and range of experience available to the Commission, is considered to be particularly enhanced by the appointment of three non-local Commissioners each of international renown.

The integrity and standing of the Board of Commissioners is also enhanced by the process of appointment whereby the Code of Good Practice of the Jersey Appointments Commission (**"JAC"**) is followed. When appointments are recommended to the Minister for him to present to the States for approval, reference is also made to the fact that the appointment process has had the approval of the JAC.

Relationship with the finance industry (the **"Industry"**)

Of particular importance for the work of the Commission, and also for its relationship with Government, is the relationship between the regulator and those being regulated. It is not to be expected that all that the Commission does will be well received by those in the Industry, particularly those who find themselves at the receiving end of the Commission's enforcement actions. However, it is important that there should be a good appreciation of regulatory policies on the part of the Industry, and also a good understanding on the part of the regulator of the needs of Industry. The Commission recognises that regulation does impose a cost on regulated institutions. At the same time the ability of the Island to present a favourable picture to the outside world, particularly through third party assessments such as that undertaken by the IMF, is essential for the long-term future of Jersey as an international finance centre. While the actions of the Commission may sometimes appear to be frustrating the ability to take advantage of business opportunities today, those actions are designed to ensure that Jersey has a long term future as an international finance centre from which the institutions making up the Industry, their employees and the residents of the Island all stand to benefit.

There is a close working relationship between the Commission and the Industry through Jersey Finance Limited as well as by direct contact, and the Commission always seeks to engage in full and effective consultation on regulatory developments. The Board holds an Away Day in September each year to identify those matters on which it is agreed there should be further engagement with the Industry in the year ahead. These are confirmed through a subsequent meeting with Chief Executive Officers of financial institutions. In 2008, items discussed included the issues surrounding the declaration of beneficial ownership of Jersey incorporated companies, a review of the scope of regulation for TCSPs to ascertain whether the level of regulatory grip is still appropriate, and a survey of Industry to seek comments, compliments and complaints about the Commission's performance.

The Year Ahead

Looking to the year ahead the Commission will need to focus on the recommendations for action that come out of the IMF report. There will also be a need to respond to the global financial crisis and take account of the expected consequential regulatory measures emanating from international bodies such as the G20 and the international standard setting bodies of the Basel Committee, the IAIS, IOSCO and the FATF. There will also be the continuing work of participation in the review of the Crown Dependencies and Overseas Territories being undertaken by Michael Foot. Alongside this will be the ongoing activities of the Commission in on-site examinations, enforcement action and generally ensuring the effectiveness with which the international standards to which the Commission is committed are being applied.

I shall be sorry to leave the Commission in September 2009 at a time when no doubt there will be many challenges still to be confronted. However, in my capacity as Chairman of the Offshore Group of Banking Supervisors which I shall continue to hold for another year or two, I hope to continue to make a contribution towards Jersey's growing reputation internationally. Jersey as a finance centre should now be seen for what it is. That is, a centre that is as fully committed to and as compliant with international standards of financial regulation and AML/CFT as the G7 and G20 countries, and the EU Member States.

I should like to end this statement as I began by referring to the tremendous support that I have enjoyed as Chairman from my fellow Commissioners, the Executive Directors and the staff of the Commission generally who have been extremely ably led by the Director General, John Harris. As Chairman I could not have expected to be better served. In 2008 two Commissioners stepped down - Scott Dobbie and Michael Clapham - and I should like to take this opportunity of placing on record my appreciation for all that they did to contribute to the success of the Commission. However their successors, Alastair Clark, formerly of the Bank of England, and Advocate Debbie Lang also bring valuable experience and expertise to the Board. I know that I will be passing on to my successor as Chairman a first class team of Board of Commissioners, Director General, Executive Directors and Commission staff generally.

'The Commission took great strides towards the evident goal it shares with supervisors around the world of enhancing its supervisory capability and resourcing in times where this is in ever increasing demand.'

It is often said that it is difficult to generate a coherent strategic response in the midst of a crisis. In terms of defining a crisis, the global financial upheaval, which began in the latter stages of 2007 and accelerated noticeably in late 2008, must be the most severe in living memory. The challenges this has posed to the world economic system are already well documented and continue to unfold with the implications for Jersey potentially as significant as in any other financial centre.

Whilst the Island's economy, and the strong role that the financial services industry plays within it, appear currently to be reasonably resilient, with as yet no obvious structural deterioration in overall activity and employment, there has been a downturn in some activities such as company formations, funds and specialist transactions such as securitisations where world markets generally are in retreat. Thus it does seem likely that there will be the usual lag effect to take into account whereby Jersey feels the effects of the current recessionary climate later than its major economic neighbours and with many of the same challenges lying ahead.

In spite of this sombre outlook a clearly discernible strategic thread can be said to have run through the Commission's activities in 2008 in support of the Island's long held policies of international engagement, adherence to international standards, a robust and effective regulatory and supervisory approach, and a general investment in the development of the Commission's capabilities. I shall address each of these themes in turn, looking back at 2008 and using them to consider the way forward in the continuing crisis conditions that we will experience in 2009.

Adherence to International Standards

The Chairman's message has dealt with this to a very great extent. However, the major event of 2008 was the evaluation of Jersey by the International Monetary Fund (**"IMF"**) covering the Island's overall capabilities in anti-money laundering and combating the financing of terrorism (**"AML/CFT"**) and, of particular relevance to the Commission alone, the design and effectiveness of the supervisory regime when measured against relevant international standards of supervision for banking, insurance, securities and other financial services business. At the time of the production of this Annual Report, it appears clear that the outcome of this exercise will be favourable to Jersey, particularly when considered against similar evaluations of G7 and G20 jurisdictions.

Whilst a great deal of work was done both within the Commission and in the Island generally to prepare for the IMF visit, I would also single out for mention two other development areas where Jersey demonstrated its ability to embrace best practice international standards. The first of these was the completion in all of Jersey's 47 licensed deposit-takers, under Commission guidance, of the Basel II Capital Accord requirements after several years of development effort. Second, mention should be made of the continuing programme of high level engagement by the Commission in relevant international supervisory bodies, including the involvement of the Commission's Registry Division in a number of international initiatives, amongst which were European Union (**"EU"**) projects, the information sharing agreement with the European Business Register (**"EBR"**) and Jersey's continuing representation, through the Commission, on the board of the International section of the International Association of Commercial Administrators (**"IACA"**) which represents North American registries. I believe this level of involvement and integration of the Jersey Registry within the mainstream of international activity in this field represents a template for what the Commission believes should be the increasingly more general integration of the Island into wider international supervisory bodies with a level of representation consistent with Jersey's regular and consistent embrace of international standards.

Nature of Supervision

In 2008, the Commission also took great strides towards the evident goal it shares with supervisors around the world of enhancing its supervisory capability and resourcing in times where this is in ever increasing demand. The success of this is attested by the significant increase in on-site examinations of regulated entities from 155 in 2007 to 197 in 2008. This trend towards greater on-site supervision appears to be even more important than hitherto, given the shortcomings in regulatory practice identified globally in the current financial crisis, and it has certainly been a development objective of the Commission over recent years.
In addition to the quality and range of examinations conducted, there has also been an increasing focus on particular areas of perceived vulnerability. One example was the quality of investment advice in certain areas as demonstrated during the year by the "mystery shopping" exercise carried out on investment businesses, including independent financial advisers (**"IFAs"**), as a first step towards more comprehensive supervision.

This was in part driven by recent experience within the Island of inappropriate investment advice being given in certain cases and also the identification of a very low level of research and due diligence generally by some Jersey resident investors in taking on an investment product either unaligned to their risk profile or out of proportion to their overall wealth. In this respect the "mystery shopping" exercise can be seen as a first step by the Commission towards a greater level of activity in the field of consumer protection as well as an ongoing commitment to focus on the quality of investment advice generally, and these themes will be continued into 2009.

A further indication of supervisory development seen in 2008 was in the collective investment fund field, with the completion of the move from product regulation in the form of fund permits to a regulatory regime of all fund functionaries acting for any given vehicle. This move certainly tested the sufficiency of the Commission's supervisory resources dedicated to this activity in 2008 and revealed a need for further investment in such resources in the near future.
A comparison can be drawn with the trust and company service provider (**"TCSP"**) regulatory and supervisory regime, which has now been in force for several years and where a more embedded and mature supervisory capability is in place. This again demonstrated its effectiveness during 2008 with a focus on a small number of TCSPs with clear compliance and general conduct of business deficiencies necessitating enhanced supervisory activity and, in some cases, enforcement action. In addition, the supervision of the Island's banks by the Commission's Banking Division was enhanced during 2008, partly as a consequence of the general trend towards greater supervisory focus, but also in reaction to the circumstances of the financial crisis. This saw a reversal of the usual assumption that greater focus should be placed on subsidiaries rather than the parent company of major banking corporations given the greater likelihood of the former failing and contaminating the latter. In the circumstances of the October/November banking events, a greater degree of focus was necessary in terms of the potential for Jersey based banking operations to withstand the crisis independently of their parent groups and it is clear that valuable lessons for the future in this respect have been learned. Most particularly, Jersey was fortunate not to have a specific bank failure during 2008 as could be observed elsewhere.

Crisis Management

The financial crisis and particular focus on banks was also highly instructive for Jersey in terms of its crisis management capabilities which were tested beyond previous experience. Whilst the Island benefited from its traditional conservative bank licensing approach, which has tried to avoid approving banks that could be considered not systemically important in their home country, and thus would in times of crisis expect to be supported by their home country government, this did not wholly shield Jersey from negative impacts.
The fundamentals of the policy served the Island well during the events of the year but, at the same time, perhaps paradoxically, also revealed a certain vulnerability in respect of the lack of a depositor protection scheme for all banks in the Island. Whilst it could be argued that the licensing policy approach obviates the need for a specific depositor protection scheme in Jersey and indeed none was called upon at any time during 2008, it has become clear that bank depositors generally derive a degree of comfort from the scheme irrespective of the stability and soundness of the general banking system in the jurisdiction. For this reason, much discussion focussed on the introduction of a relevant and appropriate depositor protection scheme for Jersey during the year and this is expected to come to fruition in 2009. In support of these developments, specific comment in the preliminary IMF report on deposit protection arrangements suitable for Jersey, as well as the need for enhancements to the Island's overall contingency planning and macro-prudential monitoring capabilities, were also highly relevant and will be actioned.

Policy & Legislative Development

The priority focus of 2008 continued to be policy and legislative developments in the AML/CFT field, in particular revision to Schedule 2 of the Proceeds of Crime (Jersey) Law 1999, together with the Money Laundering (Jersey) Order 2008 coming into force alongside the Commission's publication of the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Financial Services Business regulated under the Regulatory Laws (the **"AML/CFT Handbook"**). These laws were subsequently supplemented by the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 and the Non-Profit Organizations (Jersey) Law 2008, which completed the necessary legislative capabilities for Jersey to reach the relevant international standards for AML/CFT in advance of the IMF visit.

A large number of discrete amendments were also made to the regulatory laws administered by the Commission and this added up to a substantial programme of legislative change promoted principally by the Commission during the year. By definition this meant a certain crowding out of other legislative initiatives, although the year did see further amendments to the Companies Law, the ongoing modernisation of which continues to be a necessity for both best practice and international competitiveness reasons.

However, in addition to legislative change, a critical element of the IMF review was always going to be an assessment of "effectiveness" in the form of the resourcing and implementation of mechanisms to apply the relevant legislation. A key development during 2008 in this respect was the formation of the Commission's Anti-Money Laundering Unit (the **"AML Unit"**), a task asked of it by Government. In this endeavour, the primary remit was the installation of a supervisory regime for AML/CFT purposes for those sectors identified as potentially vulnerable by the Financial Action Task Force's (**"FATF"**) 40+9 Recommendations but which fall outside mainstream financial services providers. In this respect the new AML Unit's focus on accountants, lawyers, dealers in high value goods, estate agents and other activities prescribed by the FATF Recommendations, including charities and non-profit organizations, necessitated a significant programme of communication and outreach together with the production of a comprehensive new suite of materials for registration and ongoing supervision. The building blocks laid down for the future by the AML Unit in this respect were an outstanding example of excellent preparatory work and determined implementation.

Enforcement

A further significant area of activity in 2008 was the Commission's greater use of enforcement powers, reinforcing a growing trend over recent years whereby the Commission is prepared, on the back of greater resourcing and expertise achieved in its staffing, to take enforcement action as a significant part of its statutory remit.

This greater emphasis on holding wrongdoers to account continued to be seen throughout 2008, culminating in the issuance of several public statements regarding the conduct of certain individuals and the issuance of directions preventing four individuals from obtaining employment in the finance industry without the prior consent of the Commission. In addition, a growing number of internet based scams seeking to induce the unwary to invest into ostensibly Jersey based investment schemes (where in fact no registration to provide financial services was held) were detected and deterred.

Self-evidently, the Enforcement area of the Commission's activity is the least popular, particularly with those most affected by it. Nonetheless, the Commission's use of its full range of enforcement powers in recent years not only serves the purpose of punishing wrongdoing and preventing future repetition, but also aims for a significant deterrent effect on certain sections of the regulated community where standards may not have reached the level to which the Island aspires. It also represents an essential complement to increasing levels of general supervisory activity in creating an ever more active and effective regulatory regime.

The other major enforcement activity of the year continued to be in the area of international co-operation with continuing exchanges of information with a number of countries where once again the focus could be seen to relate predominantly to insider dealing or market manipulation offences in those other countries. In a number of these cases the Commission's willingness to assist overseas investigators has been cited as a major factor in the successful conclusion of such cases and once again serves to underline the Island's commitment to international co-operation and the observance of standards.

‘The priority focus of 2008 continued to be policy and legislative developments in the AML/CFT field.’

Organisational Development

2008 was a year of major progress in this respect, most commonly and most notably in the field of the Commission's learning and development capability with a revival of a focus on technical and managerial training within the confines of availability given the pending IMF visit. This was supplemented by a significant programme of Business Breakfast Briefings for staff covering a range of disciplines delivered by external speakers, as well as training modules organised in conjunction with the UK Securities & Investment Institute and the United States Federal Bureau of Investigation, amongst others. Allied to technology improvements, particularly in respect of the Commission's primary supervision database project, which will come to fruition in early 2009, I am pleased to see that the overall working and developmental environment for individual members of the Commission staff has continued to progress and an ongoing commitment to this in 2009 will be observed.

Priorities for 2009

In terms of 2009, a summary of the focus is as follows:

IMF Findings - any necessary legislative action in respect of the IMF report will be taken forward together with any other necessary consequential development in the areas of policy, guidance or other instrument.

Maintenance and Development of Supervisory Activity - once again the focus will be on further enhancement of supervision in critical areas. These will include corporate governance within the funds arena, monitoring of exposures for banks and the quality of investment advice in conjunction with initiatives on consumer protection to continue to address issues identified in 2008. In addition, the Commission will focus on the consolidation of its AML/ CFT capability both within the AML Unit for non-financial services market participants as well as within the traditional supervisory divisions for regulated entities. Given the prevailing international climate towards supervisory resourcing in response to the financial crisis and the Commission's priorities for greater supervision, this will doubtless create pressures likely to lead for some additional staff to be recruited throughout the year.

Policy and Legislative Development - 2009 objectives include participation in the Single European Payment Area (**"SEPA"**) project, in addition to seeking to finalise arrangements with the EU for Jersey based auditors acting for companies listed for trading on European exchanges to continue to be recognised for this purpose following recent EU legislative changes. Further, there will be a focus on the intriguing new project of studying the introduction of a regime to license and supervise electronic money providers in tandem with further developments to the Companies (Jersey) Law 1991, refinement of the Control of Borrowing (Jersey) Order 1958, a look at amending the current Outsourcing Policy and the finalisation of a depositor protection scheme. In addition, there will be a review of the scope of TCSP regulation, which will take into account the Island's arrangements for recording and retaining the details of the underlying beneficial owners for all structures that are currently effected through the Company Registry.

Enforcement - in this area the focus will remain much as has been seen in 2008, although it can be expected that further activity will arise as a consequence of the current stressed economic circumstances.

Internal Organisation - consistent with progress made in 2008, the Commission will be seeking to develop further its investment in its staff by way of a targeted Senior Manager Development Programme focused on the development of leadership skills, the renewal of the Investors in People status in October 2009 and seeking to explore further benefits of technology through the Phase II development of its new supervision database and other related technologies.

Whilst the statement is made every year that the Commission is fortunate to have the services of its dedicated and talented staff members, and as Director General I have particularly benefited from this during my time in post to date, never has this been more true than in the circumstances of 2008. The preparation for the IMF review was a genuine team effort although certain contributions stand out. If, as expected, the results are generally at a high level and serve Jersey well reputationally in the international arena, this will be a testament to the efforts of the staff at the Commission, ably aided by their colleagues at the Island's Chief Minister's Department, Law Officers and Law Draftsmen, and at the Jersey Financial Crimes Unit. It was a truly exceptional example of hard work, dedication and teamwork, and I would like to record my sincere thanks and appreciation for the effort seen from all involved.

Without doubt the continuing international financial crisis will continue to weigh heavily on us all in 2009, and Jersey must work hard, at least in terms of those things within its control, not only to enhance its own supervisory and investigative capabilities in financial services so as to demonstrate an ability to keep pace with changing international standards, but also in seeking to inform and educate the world about its progress in regulatory matters to dilute a tendency towards undifferentiated and ill-informed international debate focusing on "Offshore Centres". I believe that given an opportunity to demonstrate its true capabilities and the "level-playing field" for which it has been asking for a long time, Jersey will be seen for what it is - a well-regulated and co-operative jurisdiction and an increasingly sophisticated and transparent financial centre. The Commission will certainly aim to play its part in this endeavour.

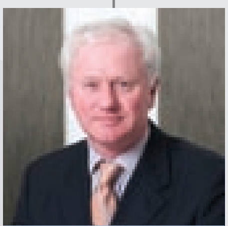
These thoughts lead me naturally to a reflection on a forthcoming event of great significance for the Commission in 2009, namely the retirement of our Chairman, Colin Powell, after a long, outstanding and exemplary career as a public servant and as a true international ambassador for Jersey, not least in his dual capacity as Chairman of the Commission and as the much respected Chairman of the Offshore Group of Banking Supervisors. In this latter role he has rightly been granted access to a number of international organisations to the benefit of the Island of Jersey as well as to a number of other small, financial services based jurisdictions worldwide.

It is often said that no-one is irreplaceable but by virtue of his ability, wide experience and consequent sound counsel, Colin Powell must come as close as it is possible to do to refuting that adage. In my role as Director General I shall miss all of those qualities and many more, and on behalf of all the staff at the Commission I would take this opportunity to wish him well for the future away from the Commission and to say that we all find it somewhat hard to imagine what a future without him will look like.

As we enter the increasingly difficult circumstances of 2009, we can reflect with pride on the Commission's achievements over the 10 years of its existence to date. We can equally conclude that for all its challenges and demands the past 12 months have seen us take significant strides, and we can reasonably conclude that we have created a sound platform for the future.

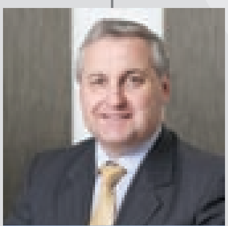
Helen Hatton
Deputy Director General

Mark Sumner
Director Banking and Insurance

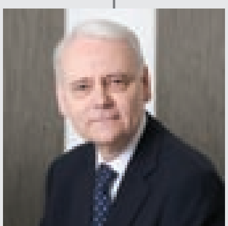


David Banks
Director Securities

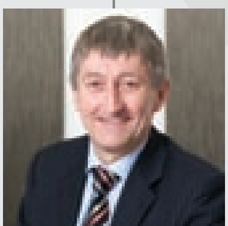
Debbie Sebire
Director Trust Company Business



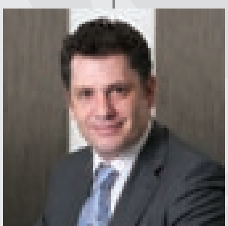
Barry Faudemer
Director Enforcement



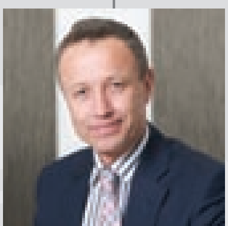
Richard Hands
Deputy Director Banking



David Hart
Deputy Director Insurance



Darren Boschat
Deputy Director Securities



Chris Cooke
Deputy Director TCB

Jamie Biddle
Deputy Director Enforcement

Nick Troy
Deputy Director AML Unit


John Harris
Director General
Gary Godel
Chief Operations Officer
Nigel Woodroffe
Chief Financial Officer
Annette Cullen
Director Human Resources
Julian Lamb
Director Registry
Andrew Le Brun
Director International & Policy
Shaun Roberts
Director I.C.T.
Chris Renault
Commission Secretary

‘One of the main priorities of 2008 was the preparation for the visit of the IMF.’

One of the Commission's aims is to *"match international standards in respect of banking, securities, trust company business and insurance regulation, and anti-money laundering and terrorist financing defences"*. Within the Commission, the International and Policy Division, the Supervisory Divisions and the Registry develop policy to ensure that this aim can be met.

Review of 2008

As highlighted in last year's annual report, one of the main priorities of 2008 was preparation for the visit of the International Monetary Fund (the **"IMF"**), which took place during October and November 2008. Preparations involved a number of elements.

The very detailed self-assessments that had been performed in 2007 against standards set by the Basel Committee on Banking Supervision (the **"Basel Committee"**), the International Association of Insurance Supervisors (the **"IAIS"**), the International Organisation of Securities Commissions (**"IOSCO"**) and the Financial Action Task Force (the **"FATF"**) were updated and finalised. All of the self-assessments were delivered to the IMF in advance of its visit to assist with the "off-site" element of the assessment. In addition to these self-assessments, a significant volume of other pre-visit reading material was prepared and submitted.

The Commission also coordinated the many logistical preparations for the IMF assessment, including arrangement of a significant number of meetings between the IMF and Government Agencies and Departments, and also with Industry and trade bodies. This element also included:

- finalising the action plan that had been prepared following the previous IMF assessment;
- running 15 seminars for Industry before the visit in order to explain changes to legislation and preparations for the IMF assessment; and
- providing the secretariat for the Island's Anti-Money Laundering and Countering the Financing of Terrorism Strategy Group (the **"AML/CFT Strategy Group"**).

One of the AML/CFT Strategy Group's main achievements in 2008 was to publish an Island strategy for combating money laundering and terrorist financing (**"AML/CFT"**).

The culmination of work done largely in 2007 was the revision in February 2008 of Schedule 2 of the Proceeds of Crime (Jersey) Law 1999 (the **"Proceeds of Crime Law"**), which defines what is meant by the term "financial services business".

The principal aim of the revision was to include many new activities, such as those conducted by lawyers and accountants, estate agents, and high value goods dealers. The effect of this was to extend the application of detailed requirements to prevent and detect money laundering that are set out in an Order issued under Article 37 of the Proceeds of Crime Law. This Order was itself substantially revised in February 2008 when the Money Laundering (Jersey) Order 2008 (the **"Money Laundering Order"**) came into force, introducing more detailed customer due diligence obligations at the time of establishing business relationships or conducting one-off transactions. Some of these obligations were further updated in November 2008 and some new requirements introduced at that time.

In conjunction with the Money Laundering Order coming into force, the Commission published the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Financial Services Business Regulated under the regulatory laws[1] (the **"AML/CFT Handbook"**). The AML/CFT Handbook sets additional AML/CFT regulatory requirements and also provides guidance to businesses in applying statutory and regulatory requirements.

Later in the year, two new laws were enacted, adding to the Island's armoury of AML/CFT legislation. These were the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008, which provides for the registration and oversight of persons that are subject to the Money Laundering Order; and the Non-Profit Organizations (Jersey) Law 2008, which provides for the registration of non-profit organizations (**"NPOs"**) and gives the Commission the responsibility for checking that NPOs are not assisting or being used to assist in the financing of terrorism. This work was undertaken by the Commission on behalf of Government.

In September 2008, the States of Jersey also adopted a second wave of amendments to the regulatory laws[1] that the Commission administers, providing for greater consistency in the powers and sanctions that are available to the Commission. These amendments came into force in January 2009.

[1] The four regulatory laws are:
- the Banking Business (Jersey) Law 1991;
- the Collective Investment Funds (Jersey) Law 1988;
- the Financial Services (Jersey) Law 1998; and
- the Insurance Business (Jersey) Law 1996.

Over and above preparations for the IMF visit and the amendments to the Island's AML/CFT and regulatory framework that are described above, the Commission continued to monitor developments in Europe, looking in particular at the effect of the introduction of the Statutory Audit Directive on auditors of Jersey companies that have securities admitted to trade on regulated markets in the European Union (the **"EU"**), and implementation of the Single Euro Payments Area (the **"SEPA"**).

The Commission's work on the impact on Jersey auditors of the EU's Statutory Audit Directive has involved a number of meetings with regulators and government departments in Guernsey and the Isle of Man. In addition, the Commission has met with officers of the Institute of Chartered Accountants of England and Wales and the UK's Professional Oversight Board - both of which it is proposed will play a key role in the Island's oversight of auditors of Jersey companies that have issued securities admitted to trade on regulated markets in the EU. Oversight proposals have been set out in a consultation paper, published in January 2009, which invites comments by the end of March 2009. The Commission outlined these proposals in December 2008 in Brussels to a meeting of EU and other oversight bodies that was organised by the European Commission (the **"EC"**).

The focus of the Commission's work on implementation of the SEPA, which also involved a number of meetings with regulators and government departments in Guernsey and the Isle of Man, as well as the European Payments Council (**"EPC"**), has been to determine and understand what the entry criteria would be, should Jersey resolve to apply for membership of the area. Whilst some of the criteria are subjective in nature, it appears that the EPC would be receptive to applications by Jersey, Guernsey and the Isle of Man for membership. In Jersey, such an application would, necessarily, require the introduction of new payment services legislation.

In addition, the Commission continued to support the application of Her Majesty's Treasury (**"HMT"**) to the EC to allow the UK - by agreement with Jersey - to be able to treat payments to and from Jersey as "domestic" payments. The UK's application has now been approved, which will allow Jersey individuals and businesses to continue to make payments using UK payment systems: discussions continue with HMT on the form and content of the agreement that will now be concluded. Similar discussions continue between HMT and Guernsey and the Isle of Man.

During 2008, the Commission entered into an updated Memorandum of Understanding (**"MoU"**) with the Financial Services Commission of Gibraltar, which supersedes the previous MoU dated October 1998 and takes account of the expansion in both regulators' supervisory remit in recent years. Discussions are being held with other regulators in relation to the Commission entering into further MoUs.

KEY TASKS FOR 2009:

Looking forward to 2009, much time and effort will be spent on considering and finalising the IMF reports on the Island's compliance with international standards set by the Basel Committee, the IAIS, IOSCO and the FATF, which are due to be published in the second quarter of 2009. A formal response will be formulated to any recommendations made by the IMF, which may require consequential actions to be taken. Where it is considered that any changes to legislation or regulatory requirements are appropriate, then the necessary resources will be made available to affect such changes.

Legislative and regulatory changes not completed in 2008 will be continued. In particular, the application of Schedule 2 of the Proceeds of Crime Law to investment fund products and insurance business will be reviewed, and sector specific sections added to the AML/CFT Handbook (including sections for funds and trust company business). Additional guidance will also be added to the AML/CFT Handbook as time permits. The Commission will continue to oversee the ongoing review of policy statements and guidance notes such that they remain up-to-date and relevant.

The Commission will continue to work on introducing a regime to oversee the work of some Jersey auditors and assist with the Island's application to join the SEPA, should this prove to be feasible and achievable. As already highlighted, it is likely that some changes to legislation will be necessary to support such an application.

Finally, the Commission will also look again at the possibility of introducing a regime to license and supervise electronic money providers and will consult on legislation to provide for greater consistency in the way that auditors are appointed under the regulatory laws.

The Supervisory Divisions are responsible for two of the Commission's five aims. These are *"to ensure all entities that are authorised meet fit and proper criteria"* and *"to ensure that all regulated entities are operating within accepted standards of good regulatory practice."*

Authorisations

One of the key objectives for 2008 was to complete the second phase of the transfer of regulation of fund functionaries from the Collective Investment Funds (Jersey) Law 1988 (**"CIF Law"**) to the Financial Services (Jersey) Law 1998 (**"FS(J)L"**). The first phase of this exercise was successfully completed in November 2007 bringing the new regime into full effect save in respect of changing the terminology from permits for unclassified funds to certificates. The second phase of this objective was successfully completed in early 2008. In addition, the requirement for consent under the Control of Borrowing (Jersey) Order 1958 (**"COBO"**) for certified collective investment funds was removed.

For insurance business, eight new Category A insurance business permits were issued whilst one was surrendered, leaving an increased total of 173 Category A permit holders. One new Category B insurance business permit was issued whilst one was surrendered, leaving a total of 13. In addition 13 general insurance mediation businesses were approved whilst six registrations were surrendered, bringing the total to 122. As in previous years, mergers and acquisitions in the Industry have led to the need for the submission of insurance transfer schemes. The Commission received five during the year for review, and subsequently three were approved by the Royal Court.

The numbers of trust and company service provider (**"TSCP"**) registrations have shown only modest growth, with any exits being compensated for by new applications.

Three banks gave up their registrations in 2008 and two registered for the first time, resulting in the number of Jersey deposit takers falling by one, to 47.

In September 2008, the Anti-Money Laundering Unit (the **"AML Unit"**) commenced the registration process for persons carrying on a business specified in Schedule 2 of the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008, where that person was not carrying on a business already regulated by the Commission under one or more of the four regulatory laws.[2]
In addition, non-profit organizations (**"NPOs"**) were registered under the Non-Profit Organizations (Jersey) Law 2008.

[2] The four regulatory laws are:
- the Banking Business (Jersey) Law 1991;
- the Collective Investment Funds (Jersey) Law 1988;
- the Financial Services (Jersey) Law 1998; and
- the Insurance Business (Jersey) Law 1996.

Examinations

The Commission has continued its focus on risk based supervision through on-site examinations and following up any necessary action arising out of those examinations.
The examination results have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers (**"CEOs"**), the Quarterly Newsletter and the Website. The Commission completed 197 examinations during 2008 against a target of 194 (including some examinations that were outsourced). There were 155 examinations during 2007.

The Commission conducts various types of examination. Focused examinations take place where the Commission wishes to examine specific aspects of a business; discovery examinations are to obtain information to improve the Commission's understanding of a business; and themed examinations are undertaken where the Commission has identified an aspect it wishes to examine in a particular Industry sector across a number of different institutions.

Total Examinations 2008

Division	Themed	Focused	Discovery	Total
TCB	27	7	19	53
Funds	17	2	0	19
IB	3	4	10	17
Banking	14	5	7	26
Insurance	0	0	16	16
AML Unit	0	66	0	66
Total	**61**	**84**	**52**	**197**

Examination activity was a significant feature of 2008. The main issues that have arisen from the on-site examination programme during 2008 are summarised below by each finance industry (the **"Industry"**) sector.

‘The Commission completed 197 examinations during 2008 against a target of 194 (including some examinations that were outsourced).’

Banking

The Banking Division conducted 26 examinations against a target of 25. The majority of these comprised a themed programme to assess banks' compliance with the revised anti-money laundering and combating the financing of terrorism (**"AML/CFT"**) requirements introduced in the early part of the year. A small number of focused examinations were carried out (where the Commission had specific concerns) plus visits to the Isle of Man and Middle East, where the Commission has intermediate home regulator responsibilities.

In view of the importance of this key risk area and the challenges that registered persons face in adopting adequate measures to address it, the Commission intends continuing with the AML/CFT examination programme through 2009, and perhaps beyond, until all banking groups have been assessed. Interim findings were published for Industry guidance in 2008 and will be added to as examinations continue.

Insurance

The Insurance Division reached its full complement in 2008 and, consequently, conducted all 16 of its planned on-site examinations. These comprised primarily discovery examinations, which enabled completion of the majority of outstanding risk models for insurance businesses and general insurance mediation businesses. These models aid the Commission in pursuing a risk-based approach to its supervisory activities.

Key findings arising out of the examinations included insufficient monitoring by the compliance function, inadequate solvency calculations and related documentation, and inadequate operating procedures. However, firms have responded positively to the Commission's recommendations and real improvements have been seen as a result.

Investment Business

The programme of on-site examinations progressed during 2008. The main issues arising from the on-site examinations were corporate governance, segregation of duties, compliance monitoring, evidence of a formal process for product/service acceptance, staff vetting procedures, including maintenance of a staff handbook, and financial resources, including adjusted net liquid asset (**"ANLA"**) calculations.

A number of investigations have been referred to the Enforcement Division, and the Investment Business Team has dealt with an increase in investment employee suspensions or dismissals for gross misconduct.

A "mystery shopping" exercise[3] on the suitability of the advice and sales processes provided to customers by regulated investment businesses was completed at the beginning of 2008 and the results published on the Commission's Website. Based on the information collected from the mystery shopping interviews, potential areas for improvement in the advice and sales processes to aid customer understanding emerged. The exercise also identified where the failure of such processes might result in inadequate or inappropriate advice for the customer.

Funds

As in previous years, the results of the on-site examination programme showed that some local functionaries were not performing the necessary due diligence checks on promoters and other parties in relation to new funds. Issues continued to arise regarding lack of knowledge of the structure of the funds and the attendant responsibilities.

Some corporate governance issues were also noted that typically related to a failure to demonstrate proper oversight of outsourced or delegated functions.

All internal procedures were updated and work progressed on completing the route planners that are used to plan and carry out on-site examinations.

Trust Company Business

The Trust Company Business Division's focus during 2008, in addition to the business-as-usual desk-based supervision, continued to be the momentum of the on-site examination programme and managing a number of cases where businesses were subject to heightened supervision. This included culpability reviews of principal persons, former principal persons or staff involved in matters giving rise to the need for such heightened supervision.

In 2008, 53 on-site examinations were conducted, of which 15 focused purely on a conduct of business review (essentially a thorough examination of the customer entity files), to ascertain the levels of competency and adherence to policies and procedures within the trust companies selected. Of these 15 examinations, common findings related to deficiencies in the new business acceptance procedures, including inadequate customer due diligence, lack of robust risk assessment procedures and failure to follow up on periodic review action points coupled with a general lack of compliance monitoring. In addition, 12 examinations focused on the levels of compliance with Section Two of the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for financial services businesses regulated under the regulatory laws.

[3] The Market Research Society defines "mystery shopping" or "mystery customer research" as: "The use of individuals trained to experience and measure any customer service process, by acting as potential customers and in some way reporting back on their experience in a detailed and objective way."

Particular emphasis was given to assessing the quality of the business risk assessment and strategy to counter money laundering and the financing of terrorism, prepared by the businesses examined. Results were mixed in this regard. Most businesses had given a great deal of thought to their business risk assessment and resulting strategy and had produced reference documents that clearly were assisting the business to counter this area of criminal activity. However there were instances where scant regard had been given, and the required assessment and strategy was either non-existent or not fit for purpose. This themed examination will continue into 2009.

During 2008, a number of TCSPs were and continue to be subject to heightened supervision. As a result of this heightened supervision, businesses have either fully remediated, continue to work closely with the Commission within the confines of formal directions whilst they remediate or exit, or are winding down their operations. As a result of these cases 22 individuals have been subject to review by the Commission to determine whether sanctions should be applied. The most serious regulatory sanction in these situations is the restriction of an individual's employment within the Industry. Other sanctions include directing that an individual shall not continue to be a principal or key person, or if the individual has already ceased to act in this capacity, the issuance of a formal letter to advise that certain matters would be taken into account should they apply for principal or key person status in the future. Alternatively, if the matter is serious but not warranting the actions already described, a formal written warning may be given which would form part of the individual's regulatory track record. Of the 22 individuals reviewed, the full range of sanctions described were applied to 16.

AML Unit

In the latter part of the year, the AML Unit conducted 66 on-site visits (110% of their target figure). Advice and guidance was offered on a majority of these visits, particularly on the issues of business risk assessment and the risk based approach, which were new concepts to many of these newly supervised businesses.

Regulatory Developments

One of the main activities in all the Supervision Divisions during 2008 was the preparation for the IMF visit, which included the completion of the review of the regulatory laws and associated Codes of Practice, policies and guidance notes relating to all sectors of the Industry.

Banking

The Commission has been mindful of the global financial crisis and its potential impact on Jersey's banks. Off-site supervision was heightened at an early stage, involving close monitoring of individual banks' financial position and dialogue was increased with both banks and home regulators.

Prudential reporting by banks, including the calculation of minimum capital requirements, was amended in line with the requirements of the Basel II capital accord at the beginning of the year. This represented the culmination of several years' development efforts and was facilitated by an enhanced on-line reporting system.

The change necessitated banks comprehensively assessing their overall risk profiles and associated wider capital requirements via the Pillar 2 process. This was a new approach which banks should be looking to fully incorporate into their planning and monitoring processes and generally improve upon in their second submissions in 2009. The Commission will be issuing guidance on lessons learned and best practice early in the year.

A number of planned amendments were made to the Banking Business (Jersey) Law 1991, these comprising the addition of some key regulatory powers consulted upon in 2006, spanning the issue of directions, the formal establishment of Codes of Practice and the appointment of a manager. Completion was delayed pending the inclusion of a second set of amendments which were needed across the regulatory laws to ensure greater consistency and human rights compliance

The Codes of Practice for Deposit-taking Business were amended to bring them in line with the Core Principles for Banking Supervision, following the revision of the latter by the Basel Committee on Banking Supervision in November 2006.

Securities

For both the Funds and Investment Business Teams there has been a significant amount of work undertaken in preparation for the IMF assessment resulting in four sets of law drafting instructions, three consultation papers and two position papers, in addition to a review of the Commission's internal procedures in these areas.

Funds Team

The major projects during 2008 were the completion of the migration of fund functionaries to regulation as fund services businesses under the FS(J)L. Concessions were made from the Codes of Practice for Fund Services Business in respect of managed entities, and a Guidance Note prepared for the class of fund services business called "manager of a managed entity" or "MoME" following consultation with Industry.

The unregulated funds regime was introduced in February, and the general partner and trustee exemptions introduced in August 2008. Where an unregulated fund is established as a unit trust or limited partnership, the trustee or general partner is no longer required to register under the FS(J)L for fund services business.

The Securities Information Unit was established in January 2008 to review accounts, compile statistics and manage various administrative processes for the Funds and Investment Business Teams such as vetting personal questionnaires.

In September 2008, the UK Financial Services Authority undertook a review of the recognised fund regime and found that it continued to meet equivalent standards to those in the UK.

Investment Business Team

The amended Codes of Practice for Investment Business (the **"IB Codes"**) came into force on 1 July 2008 and registered persons were given a three-month transitional period to come into full compliance.

Themed on-site examinations were undertaken in order to assess compliance with the revised IB Codes, and a self–assessment questionnaire was sent to all Class D registered persons (those registered to give investment advice only).

Following a review of the International Organisation of Securities Commissions (**"IOSCO"**) objectives and principles, the IB Team published the names of all investment business employees of registered persons on the Commission's Website. The plan to publish registration conditions will be merged with proposals to publish registration conditions across all the Supervision Divisions.

In terms of legislative developments, the Investment Business and Trust Company Business Accounts Orders were merged, which had the benefit of bringing both sectors to a higher standard of financial reporting.

Trust Company Business

As a response to the imminent introduction of the Foundations (Jersey) Law 2009, (this piece of legislation is currently with UK Privy Council for final sanction) the Commission initiated consequential amendments to the Financial Services (Jersey) Law 1998 to ensure that *"Acting or fulfilling the function of council member of a foundation"* is included as a class of trust company business and, as such, becomes a regulated activity.

The Codes of Practice for Trust Company Business will be amended in 2009 to reflect the above developments and to ensure that the required conduct of business standards with respect to this particular class of business is consistent with other commensurate TCSP activities.

Insurance

In January 2008, the Commission published Codes of Practice for General Insurance Mediation Business for the first time. A review of requirements for Motor Insurance Business was also undertaken and guidance for relevant insurers subsequently published.

A comprehensive assessment was undertaken of the regulatory requirements relative to the International Association of Insurance Supervisors (**"IAIS"**) Core Principles and necessary, identified changes were completed.

AML Unit

The AML Unit's busy first year commenced with providing those sectors new to regulation with the knowledge and skills they would require to achieve full compliance with relevant laws and regulation. The public face of this preparatory work was the high number of meetings and seminars with trade and industry bodies, backed by the publication of sector-specific AML/CFT Handbooks. Behind the scenes, staff were building the infrastructure to support the supervision they would be conducting, ranging from designing and implementing risk-modelling software to designing and publishing the various registration and notification forms, some of which have been issued in several languages.

Chief Operations Officer

Operations' major project in 2008 was its involvement in developing the new regulatory database, the Key Data Repository (**"KDR"**), that is due to go live at the end of March 2009. In addition, the small team concentrated on developing controls such as improvements in the supervisory risk model and reviewing supervisory procedures. Operations is also responsible for performing an internal audit function and carried out a programme of tests on key processes during the year.

Communication with Industry

The Commission has continued to communicate its strategic aims and objectives to Industry, providing feedback on best Industry practice, and the results of its examination programme. A series of workshop events were also held for Industry. In September 2008, communication and strategy were combined, at the start of the Commission's business planning cycle, with input from Industry on its priorities via the Chief Executive Officer Forum. The Commission also continued to publish its Quarterly Newsletter.

International Communication

The Commission continued its active involvement in international regulatory fora.

The Commission continued to contribute to international dialogue on supervisory standards and related issues, including its continuing involvement with the Offshore Group of Banking Supervisors.

The Insurance Division was active in both the Offshore Group of Insurance Supervisors and the International Association of Insurance Supervisors (the **"IAIS"**). The Commission submitted an application to become a signatory to the IAIS Multilateral Memorandum of Understanding on Cooperation and Information Exchange in November 2008.

The Securities Division maintained its international obligations by attending IOSCO meetings in Madrid, Quebec and Hong Kong, and dealing with inter-regulator enquiries. A further regulatory visit was made to Vienna.

KEY TASKS FOR 2009:

- The on-site examination programme will be maintained and, where appropriate, enhanced across all the Supervision Divisions to ensure the effectiveness of the implementation of the legal and regulatory frameworks, including the revised AML/CFT Handbook.
- Reviews will be undertaken of the Outsourcing Guide and the rules relating to recognised funds. Further amendments will be made to the Non-Domiciled Fund Guide and a review launched of the Control of Borrowing (Jersey) Order 1958.
- Codes of Practice for the fund vehicles themselves will be introduced together with an amalgamated Prospectus Order giving equal treatment to funds constituted as open-ended or closed-ended companies, limited partnerships and unit trusts.
- Competency requirements will be reviewed within the investment business sector, and the Commission will devise and implement a programme for consumer education, particularly in relation to improvements required in the interface between investors and financial advisers.
- There will be a repeat of the "mystery shopping" exercise for persons registered to conduct Classes C and D investment business, which will include the publication of findings.

The Enforcement Division is responsible for work relating to the aim of the Commission *"to identify and deter abuses and breaches of regulatory standards"*.

The Enforcement Division achieved full staffing in 2008 with a complement of six full time members of staff and one part time administrative assistant. The services of external experts, including lawyers, forensic accountants, compliance experts and forensic computer examiners were also called upon, at various times throughout the year, to support staff in the Division on specific investigations.

In 2008, the Enforcement Division worked on a total of 92 cases including 30 cases carried forward from 2007. 62 new investigations were opened and 59 cases were finalised during the year.

The Enforcement Division investigated 12 cases relating to the TCSP sector, but 11 of those cases were concerned mainly with overseas companies or individuals falsely claiming or holding out as being authorised to conduct financial services business in the Island.

During 2008, 104 notices were issued under the regulatory laws requiring the production of documents in order to assist the Enforcement Division in its investigations. 35 tape-recorded interviews with individuals were also undertaken using the compulsory powers available to the Commission.

The Enforcement Division required a registered person or an individual to comply with formal directions issued under the regulatory laws on six occasions. Following detailed investigations four individuals were issued with directions preventing them from obtaining employment in the finance industry (the **"Industry"**), without the consent of the Commission.

There were 11 Public Statements issued and published on the Commission's Website. Such statements have included warning members of the public of the dangers of scam Websites, or have related to the publication of directions in respect of individuals who are prevented from obtaining employment in the Industry.

Protecting investors

The Enforcement Division attaches a great deal of value to providing advice and guidance to firms and individuals, and will seek to work with regulated entities and individuals to rectify matters wherever possible. However, in circumstances where the Commission becomes aware that individuals may have acted with a serious lack of integrity or competence, for example by acting dishonestly, the case will be vigorously pursued.

Wrongdoers will, wherever possible, be held to account if they mislead investors or act dishonestly. Enforcement has adopted a more proactive stance in pursuing such cases and that level of commitment in this area will continue into 2009 with several such cases currently under consideration and investigation. This tougher approach will undoubtedly lead to more contested cases, and the evidence gathering skills of the Division have been developed to meet such challenges.

The use of Public Statements by the Commission continues to be an effective tool in alerting members of the public to criminals who seek to misuse the good name of Jersey to add an air of legitimacy to their fraud, whether by use of the internet or other media. Experience has shown that promptly countering such false claims, by issuing a Public Statement, acts as a warning to potential investors who have often been skilfully targeted after responding to bogus internet investment schemes or offers.

During the process of conducting regulatory investigations, the Commission has uncovered prima facie evidence of fraud and in three cases the matter was immediately referred to the Police. In all cases, the regulatory investigation continued and, in two of the three cases, the investigation was concluded during the year.

Working with the Industry

Giving feedback on generic trends, learning points or concerns is an important part of Enforcement's role. Presentations to the Industry have been regularly undertaken to raise awareness of emerging issues and to stress the importance of maintaining an effective compliance function in accordance with the regulatory laws, Orders, Codes of Practice and Guidance Notes. As an example, a detailed letter setting out such learning points was circulated to all Chief Executive Officers.

During the year, the Commission, in conjunction with the Police and Customs Joint Financial Crimes Unit, hosted a training event with the United States of America, Federal Bureau of Investigation, on the subject of mortgage fraud in the US. The event, which was also attended by money laundering reporting officers, provided a useful insight into trends and developments in the US and attracted positive feedback.

‘The Commission is committed to investigating cases fairly and collecting information and evidence in a sound and ethical manner.’

Investigating cases fairly, impartially and ethically

The Commission is committed to investigating cases fairly and collecting information and evidence in a sound and ethical manner. This includes interviewing those individuals who form the subject of the investigation and giving the subject of the investigation opportunity to provide the Commission with explanations and comments on findings. The process for considering cases was reviewed in 2008 to ensure adequate scrutiny of not only the content and conduct of investigations but also providing an independent evaluation of any proposed recommendations from those engaged in the investigation.

Those Enforcement cases which result in the recommendation of a sanction are considered by a Review Committee consisting of: the Director General; two directors, at least one of whom will not be connected to the case in question; and the Director of Enforcement. In addition to the Review Committee, all sensitive cases which may require the use of Enforcement powers or investigations that may warrant the issue of a Public Statement involving regulated persons are referred to the full Board of Commissioners. A guide to the Commission's Decision-Making Process is published on the Commission's Website.

International cooperation

The Commission frequently services requests for assistance from other regulatory authorities around the world provided they meet the statutory requirements set out under the regulatory laws, and meet requirements established under multi-lateral and bi-lateral Memoranda of Understanding to which the Commission is a party. In 2008 the Commission provided assistance to the regulatory authorities in the following jurisdictions:

- Austria;
- Malaysia;
- United States of America;
- United Kingdom;
- Hong Kong;
- Turkey;
- France;
- South Africa;
- Switzerland;
- Netherlands; and
- Spain.

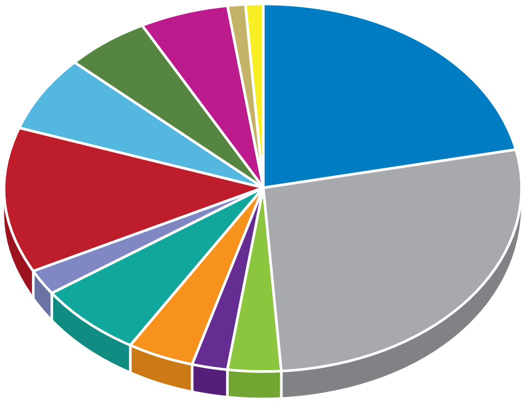
The focus of the majority of the requests for assistance related predominantly to insider dealing or market manipulation. The Commission has witnessed an increase in such requests which perhaps reflects the well-publicised focus by sister regulators, such as the Financial Services Authority, to clamp-down on such practices. The Commission will review evidence collated pursuant to such requests carefully with particular reference to the regulated entities' discharge of their obligations under local anti-money laundering legislation and relevant provisions of regulatory laws, regulations, Orders and Codes of Practice.

KEY TASKS FOR 2009:

- Review any findings in the International Monetary Fund report in relation to enhancing the effectiveness of Enforcement;
- Use Enforcement powers fairly, but ensure that those individuals who act with a lack of integrity or competency are subject to regulatory scrutiny and, if appropriate, regulatory sanction;
- Progress the introduction of legislation to recover the costs of Enforcement action from those found to have acted in breach of the regulatory requirements;
- Ensure the timely investigation of cases; and
- Provide feedback to the Industry of general trends and developments arising from Enforcement cases.

Enforcement Case Statistics

Percentage breakdown of Enforcement Division activity during the year ended 31 December 2008



Total Enforcement Cases during the period from 1 January to 31 December 2008

	Active 1 January 2008	New cases in year (to 31/12/08)	Total during year (to 31/12/08)	Total shown as percentage	Balance 31 December 2008
Financial Services (J) Law - Investment Business	5	15	20	21.7	11
Financial Services (J) Law - Trust Company Business	12	13	25	27.3	5
Financial Services (J) Law - General Insurance Mediation Business	1	2	3	3.3	1
Financial Services (J) Law Fund Services Business	0	2	2	2.2	2
Financial Services (J) Law Insider Dealing	0	4	4	4.3	1
Financial Services (J) Law Market Manipulation	2	4	6	6.5	1
Financial Services (J) Law Misleading Statements & Practices	0	2	2	2.2	0
Banking Business (J) Law	2	10	12	13.0	3
Collective Investment Funds (J) Law	3	3	6	6.5	5
Control of Borrowing Order	0	0	0	0.0	0
Companies (Jersey) Law	1	4	5	5.4	2
Company Securities (Insider Dealing) (J) Law	4	1	5	5.4	0
Insurance Business (J) Law	0	1	1	1.1	1
No specific law	0	1	1	1.1	1
Total	30	62	92	100	33

The Commission operates Jersey's Registry for companies, limited liability partnerships, limited partnerships and business names. The main ongoing work of the Registry is the incorporation of new entities and responding to enquiries concerning entities on its Registers. The Registry's work complements the Commission's aim to *"ensure that all entities it authorises meet fit and proper criteria"*.

The Registry incorporated 2,758 companies in 2008, a decrease of 31.9% compared with the previous year. The decrease shows the change in business activity as the global economy slips further into recession. However, the number of companies on the Register at the 31 December 2008 was 33,395 a fall of less than one per cent on the previous year.

Limited partnership formations during the year were 125 compared to 120 during 2007.

Nearly all other Registry registrations and processing, such as special resolutions and searches, have significantly increased. The filing of public company accounts increased by 78% compared to 2007. This increase is a result of the Registry's drive to improve public company filings.

The Registry adheres to published response time-scales, all of which were met in 2008, as shown in the table on page 42.

In December 2008, the Registry User Group met and discussed a number of issues such as the quality of service provided by the Registry, online services, business volumes flowing through the Registry, new products and fees. Sub-Groups were set up to review fees, the requirement to collect company beneficial ownership details centrally, the business to business (**"B2B"**) Registry environment and to continue to monitor the new draft Registration of Business Names (Jersey) Law 200- (the **"Business Names Law"**).

During 2008, the progression of the revised Business Names Law was again put on hold due to the large number of legislative developments required by the Commission in order to reflect changing international standards. This, though, did not stop the continued development of the automated disputes resolution system, which is a fundamental part of the new Business Names Law. A benefit from the delay has been to allow changes in the Companies (Jersey) Law 1991 and the Limited Partnerships (Jersey) Law 1994, and the development of a Foundations Law to be taken into account. Revised Jersey intellectual property rights laws, which continued to be developed in 2008, will need to be reviewed alongside the Business Names Law.

Automation and e-commerce projects

During 2008, the online search facility, online monitoring and the upgraded online filing system were launched. All systems have been embedded in a new Website format known as Easy Company Registry (**"ECR"**). Using the feedback from the users of the online filing system during 2006 and 2007 our web designers were tasked with making the look and feel user-friendly. The environment was short listed under the "best use of new media" category at the Chartered Institute of Marketing awards 2008.

Training

The Registry unveiled an ambitious training programme to help launch ECR. The programme, which is free and ongoing, is aimed at companies' owners, directors and secretaries who would benefit from the filing, searching, and monitoring of Jersey company documents. The monitoring aspect of ECR is also a useful tool for others wishing to keep informed of changes to a Jersey company, such as investors or other stakeholders including listing agencies and regulators. Registry employees needed to be specially trained to present the training programme.

‘Jersey continues to promote greater communication between registries globally.’

International Development of the Jersey Registry

The Director, Registry, has continued to enhance the profile of the Jersey Registry internationally, speaking at events such as the European Commerce Registries' Forum (**"ECRF"**) in Serbia. Jersey is also responsible for the management and enhancement of the ECRF Website. A local Website design firm continues to provide maintenance services to the new ECRF Website.

After entering into an information sharing agreement with the European Business Register (**"EBR"**) in 2006, basic Jersey company information was made available through the EBR network from May 2007. The EBR now has a membership of more than 22 European countries providing access to information on more than 24 million companies. The Director, Registry, attended and spoke at two EBR general meetings, and he also chaired the Corporate Governance Committee during the year. In May 2008, the Director, Registry, was elected to the Board of the EBR.

In May 2008, the Director, Registry, attended and spoke at the International Association of Commercial Administrators (**"IACA"**). IACA represents the company registries of the United States (**"US"**) and Canada. The Director, Registry, was again elected to be the chair of the international section of IACA and a director of the board. The US continues to review its disclosure requirements for the beneficial ownership of US companies and other global issues affecting registries.

Jersey continues to promote greater communication between registries globally. Contributions to Business Registries Interoperability Through Europe (BRITE), an EU funded research project, during 2008 have kept initiatives on cross border migration to the fore, ensuring that the Jersey Companies' Registry continues to be active internationally.

KEY TASKS FOR 2009:

- Maintain an efficient service to users of the Registry.
- Continue to provide a training programme to promote the ECR and develop Registry employees' knowledge and capabilities.
- Continue to progress the implementation of the Registry's new online environment, and commence work on B2B developments for Registry users.
- Deliver the revised Business Names Law and contribute to the development of Registry related legislation such as the new Foundation (Jersey) Law 200-, new limited partnership legislation and the introduction of Amendment No. 11 to the Companies (Jersey) Law 1991.
- Continue to enhance the profile of the Jersey Companies' Registry internationally.
- Prepare and hold the May 2009 General Meeting for the EBR in Jersey.

‘Maintaining the core values of excellence, professionalism, integrity, teamwork and respect for one another is very important...’

One of the aims of the Commission is to *"ensure the Commission operates effectively and efficiently…"*. A number of Divisions are responsible for ensuring that the Commission has in place the necessary information technology, human and physical resources to ensure that this aim is met.

Support Divisions - Information and Communications Technology (**"ICT"**), and Human Resources (**"HR"**)

ICT

During 2008, ICT continued its programme of effective communications with the Commission's Divisions to successfully conclude the OneSys Phase V online environment with the Registry and to advance the replacement for the Supervision database. Both of these are major projects, with changes to the user interfaces, underlying platforms and the technology with which the software works. Increased project management skills were required and an additional member of the Division now provides improved user communications for detailing the business needs of the Commission and managing the relationships with suppliers.

The Commission started the first implementation of the Microsoft Office SharePoint environment in 2008. This is a major change that will improve information management. This is in line with the ICT strategy and will, over the next few years, enable greater collaborative working, and the better presentation of information and intelligence to the Commission staff. This was further supported with the implementation of software to manage better the collation and presentation of intelligence material.

HR

The HR Division strives to achieve excellence and to provide a level of service that allows the Commission to operate effectively. Maintaining the core values of excellence, professionalism, integrity, teamwork and respect for one another is very important for the Division's work.

Using these core values, processes and procedures have been reviewed to ensure that the Commission can recruit, develop and retain staff. The calibre of personnel is of paramount importance and HR has the continuing challenge of ensuring that the Commission has the right technically qualified and motivated people at all times.

The roles at the Commission are demanding and our people need to be exceptional, which is why much time and effort is invested in both personal and professional development. Retention of staff is equally as important, so the Commission endeavours to provide an environment and culture that enriches careers by allowing individuals to contribute to the business and reach their full potential.

KEY TASKS FOR 2009:

ICT

- work with the Registry to increase B2B activity for filing documentation (OneSys VI);
- finalise the Supervision database replacement;
- conduct a full technology infrastructure review;
- achieve the ISO27001 Information Security Standard; and
- further develop the Microsoft Office SharePoint environment with internet services.

HR

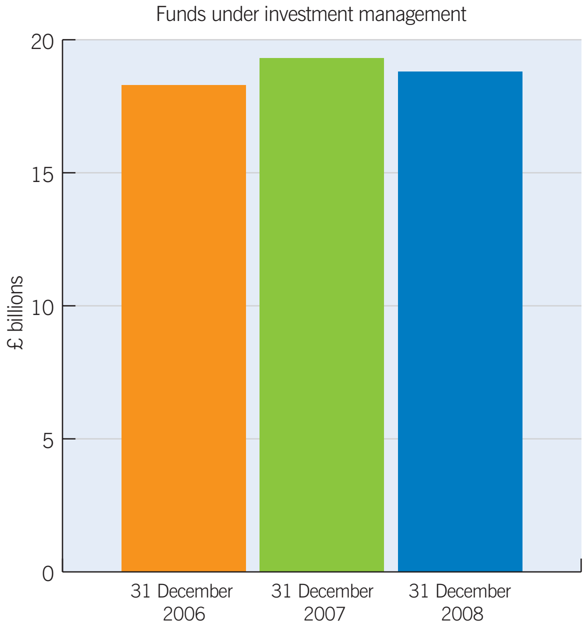
- implement a Senior Management Development Programme;
- gain Investors in People re-accreditation;
- continue with performance management;
- undertake employee benefit administration;
- conduct a policy and procedure assessment; and
- introduce training and enterprise initiatives.

Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998 = £18.8 billion.

The total number of clients of investment managers = 15,584

Date	Funds under management (£ billions)	Number of clients
31 December 2006	18.3	18,619
31 December 2007	19.3	17,629
31 December 2008	18.8	15,584



Insurance Business

Total number of insurance licences = 186 of which:

Category A = 173
Category B = 13

At 31 December 2008 there were 122 registered general insurance mediation businesses.

Companies

Registry Processing - performance against target

	All Companies %	Partnerships %	Searches %	Certification %	Business names %
Achieved	98.4	99.2	100	100	98.8
Target	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	90 achieved within 2 days

Registry Processing - items processed

Date	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2006	14,700	129,369	810	160	2,008
2007	14,900	178,125	713	120	1,999
2008	29,007	95,806	747	125	2,155

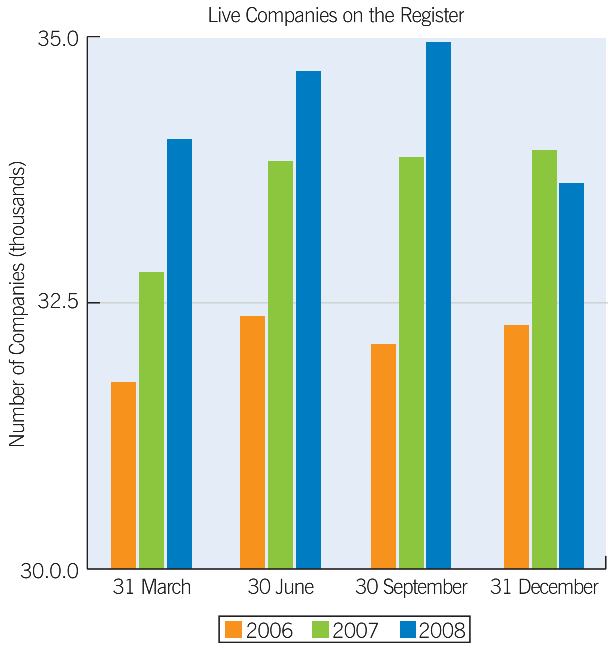
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2006	921	875	774	909	3,479
2007	830	1,549	873	798	4,050
2008	761	799	661	537	2,758

Live Companies on the Register

At 31 December 2008 (2007) there were 33,395 (33,683) live companies registered in Jersey.

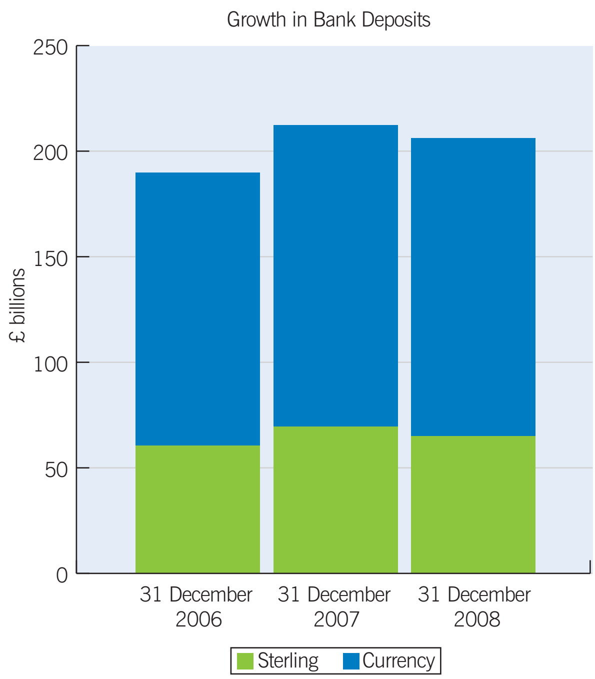
Date	31 March	30 June	30 September	31 December
2006	31,664	32,234	31,996	32,155
2007	32,617	33,587	33,624	33,683
2008	33,784	34,372	34,622	33,395



Banking

Banks and Bank Deposits - £ billions

Date	Number of banks	Sterling	Currency	Total
31 March 2006	46	56.991	131.003	187.995
30 June 2006	46	57.694	126.003	183.698
30 September 2006	45	59.275	128.282	187.557
31 December 2006	46	60.609	129.088	189.697
31 March 2007	46	63.481	135.104	198.585
30 June 2007	47	66.476	145.270	211.746
30 September 2007	48	69.614	149.912	219.526
31 December 2007	48	69.401	142.918	212.320
31 March 2008	47	68.838	141.090	209.928
30 June 2008	47	68.794	128.072	196.866
30 September 2008	47	69.392	127.584	196.975
31 December 2008	**47**	**65.050**	**141.030**	**206.080**

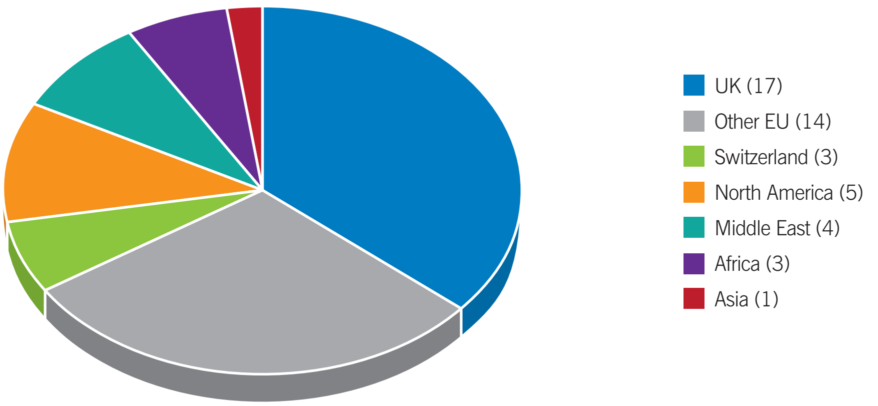


Banking

Analysis of Deposits - 31 December 2008 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	8.947	5.300	14.247
Jersey Financial Intermediaries etc	6.297	7.742	14.039
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	29.145	18.977	48.121
Subtotal	**44.389**	**32.018**	**76.407**
Other EU Members	3.799	17.773	21.573
European Non EU Members	5.661	53.202	58.863
Middle East	1.522	18.027	19.550
Far East	2.583	5.104	7.687
North America	2.516	8.864	11.380
Others, Unallocated non Jersey, UK etc	4.579	6.041	10.620
Subtotal	**20.662**	**109.012**	**129.673**
Overall total of deposits	**65.050**	**141.030**	**206.080**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	4.3%	2.6%	6.9%
Jersey Financial Intermediaries etc	3.1%	3.8%	6.8%
U.K., Guernsey & I.O.M. + unallocated Jersey,UK etc	14.1%	9.2%	23.4%
Subtotal	**21.5%**	**15.5%**	**37.1%**
Other EU Members	1.8%	8.6%	10.5%
European Non EU Members	2.8%	25.8%	28.6%
Middle East	0.7%	8.8%	9.5%
Far East	1.3%	2.5%	3.7%
North America	1.2%	4.3%	5.5%
Others, Unallocated non Jersey,UK etc	2.2%	2.9%	5.2%
Subtotal	**10.0%**	**52.9%**	**62.9%**
Overall total of deposits	**31.6%**	**68.4%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2008



Funds

Collective Investment Funds (Jersey) Law 1988 (the "CIF Law")
Control of Borrowing (Jersey) Order 1958 (the "COBO")

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2008

From 1 October 2003, the figures relating to the collective investment funds for which a permit was issued under the CIF Law for the function of distributor or similar minor function have been excluded. However, statistics are now collected on the private schemes administered in the Island, which, although not requiring a permit under the CIF Law, require consent under the COBO (such funds are termed "COBO Funds"). Funds regulated under the CIF Law are referred to herein as "CIFs".

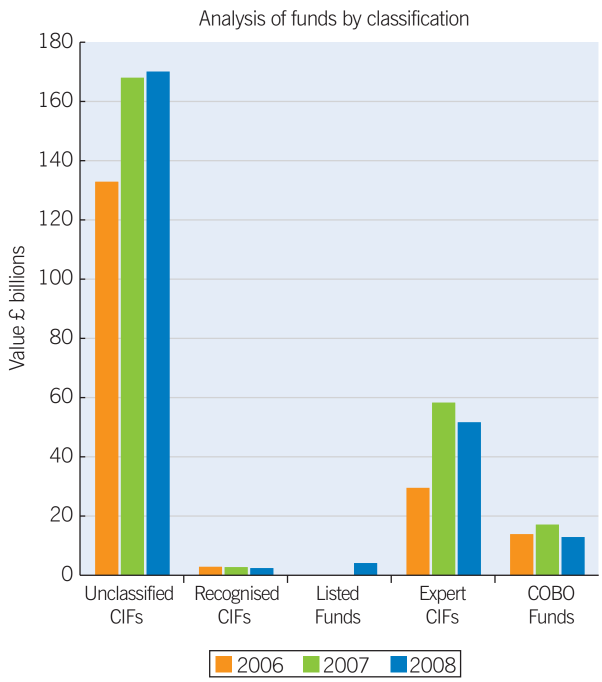
Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2006	179.111	1,157	2,658
31 December 2007	246.150	1,311	2,934
31 December 2008	241.172	1,472	3,129

Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	98.642	527	658
CIFs	Open	129.635	712	2,214
	CIF Sub Total:	**228.277**	**1,239**	**2,872**
COBO Funds	Closed	8.524	190	197
COBO Funds	Open	4.371	43	60
	COBO Sub Total:	**12.895**	**233**	**257**
	Total:	**241.172**	**1,472**	**3,129**

Analysis by Class - 31 December 2008

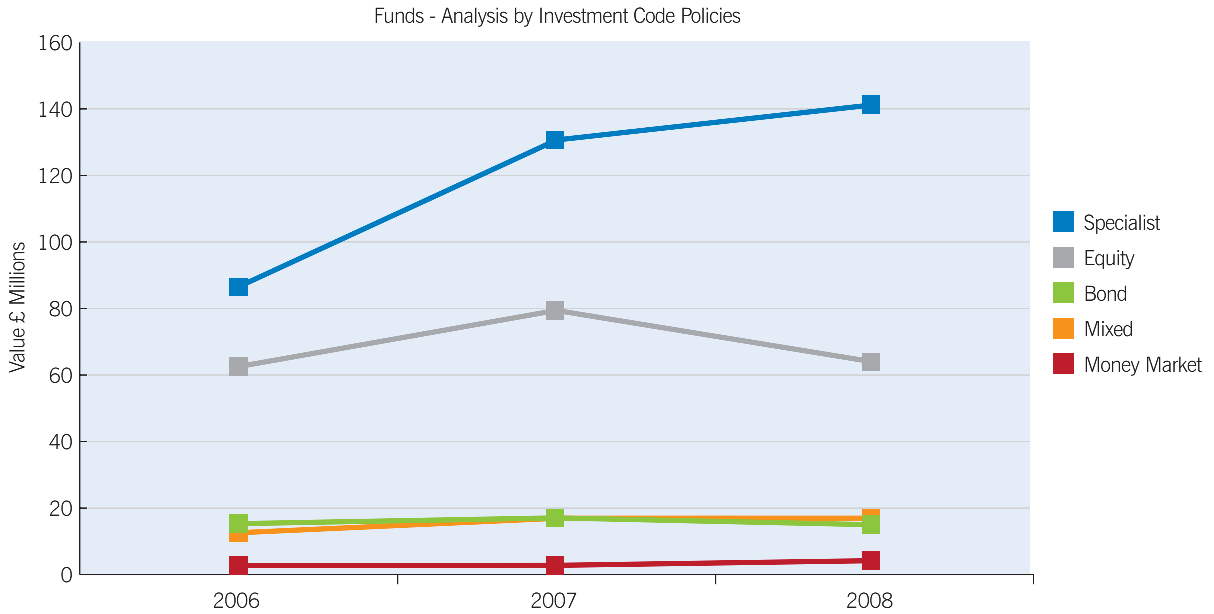
Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	170.100	798	2,150
Recognised CIFs	2.408	10	56
Listed Funds	4.112	23	23
Expert CIFs	51.657	408	643
CIFs Sub Total	**228.277**	**1,239**	**2,872**
COBO Funds	12.895	233	257
CIFs & COBO Funds Total	**241.172**	**1,472**	**3,129**

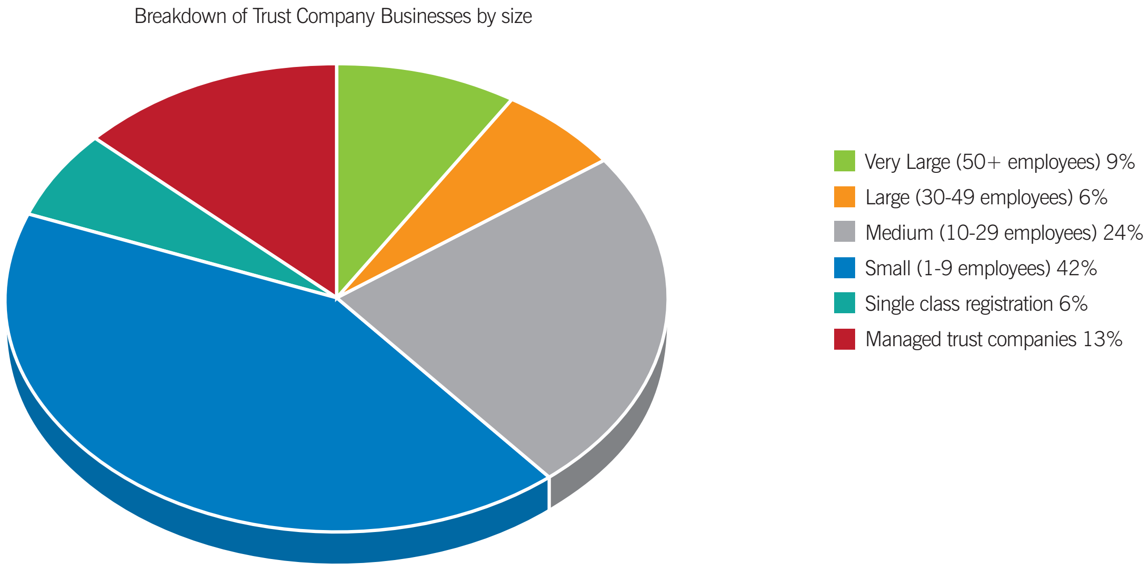


Funds

CIFs & COBOs - Analysis By Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	5	67	904	923	4,762
B02 - Bond-UK Debt	3	14	88	75	1,442
B03 - Bond-US Debt	1	15	160	416	1,740
B04 - Bond-Europe	1	24	226	339	1,830
B05 - Bond-Other	4	59	303	596	4,989
Sub Total Bond	**14**	**179**	**1,681**	**2,349**	**14,763**
E01 - Equity-UK	25	31	756	583	8,777
E02 - Equity-Europe (Including UK)	16	33	499	624	9,810
E03 - Equity-Europe (Excluding (UK)	12	11	589	439	3,444
E04 - Equity-US (North America)	10	29	451	809	3,070
E05 - Equity-Japan	4	10	53	237	422
E06 - Equity-Far East (Including Japan)	7	9	3	22	1,356
E07 - Equity-Far East (Excluding Japan)	3	14	86	162	847
E08 - Equity-Global Emerging Markets	9	7	64	103	1,032
E09 - Equity-Global Equity	32	148	1,605	2,242	20,282
E10 - Equity-Other	55	83	1,726	2,064	14,809
Sub Total Equity	**173**	**375**	**5,832**	**7,285**	**63,849**
X01 - Mixed-Equity and Bond	41	252	994	2,462	17,085
Sub Total Mixed	**41**	**252**	**994**	**2,462**	**17,085**
M02 - Money Market-US Dollar	1	14	329	279	848
M03 - Money Market-Euro	0	10	656	423	2,170
M04 - Money Market-Swiss	0	4	30	17	280
M05 - Money Market-Other	0	3	8	4	36
Sub Total Money Market	**1**	**31**	**1,023**	**723**	**3,334**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	49	1	99	1	3,899
S02 - Specialist-Venture Capital/Private Equity - Other	233	12	570	62	25,334
S03 - Specialist-Real Property	175	44	275	756	22,797
S04 - Specialist-Derivatives	19	10	1	16	162
S05 - Specialist-Traded Endowment Policies	23	16	297	592	1,104
S06 - Specialist-Hedge/Alternative Investment Funds	429	777	4,626	10,528	70,128
S07 - Specialist-Other	83	178	2,335	4,192	17,788
Sub Total Specialist	**1,011**	**1,038**	**8,203**	**16,147**	**141,212**
Grand Total	**1,240**	**1,875**	**17,733**	**28,966**	**240,243**


Funds - Analysis by Investment Code Policies
Value £ Millions
160
140
120
100
80
60
40
20
0
2006
2007
2008
Specialist
Equity
Bond
Mixed
Money Market


Breakdown of Trust Company Businesses by size
Very Large (50+ employees) 9%
Large (30-49 employees) 6%
Medium (10-29 employees) 24%
Small (1-9 employees) 42%
Single class registration 6%
Managed trust companies 13%

‘The Commission is committed to achieving high standards of corporate governance and, to this end, regards the Combined Code on Corporate Governance issued by the United Kingdom’s Financial Reporting Council as the model of best practice that the Commission should follow.’

FINANCIAL STATEMENTS

Fee income, at approximately £15.3 million, was some £700,000 higher than in 2007. The increase came primarily from funds business and from the additional income received to cover costs arising from the establishment of the Anti-Money Laundering Unit (the **"AML Unit"**) within the Commission.

Bank deposit interest received was £28,000 less than in 2007 as a result of the decrease in interest rates during the latter part of the year.

Under the provisions of Article 18 of the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**), the Commission paid a financial contribution of £4.4 million to the States of Jersey Treasury in 2008. After taking this payment into account, the net income available to the Commission for its own expenditure was £11.5 million compared to £11.1 million in 2007.

However, this is the final year in which a financial contribution will be made to the States of Jersey in this way. Under an amendment to the Commission Law that came into force with effect from 1 January 2009, a proportion of the companies annual return fee will be payable to the States of Jersey in lieu of the previous annual financial contribution.

Staff costs increased as a consequence of the increasing scope of regulation, including the establishment of an AML Unit. The Commission has been increasing staff numbers to a level that is sufficient for it to be able to properly carry out its functions.

Expenditure on accommodation decreased in 2008 compared with the previous year, but in 2007 the Commission had taken a lease on new premises, a move that incurred additional one-off costs.

Expenditure on computer systems continued, in order to improve administrative efficiency, and the level of spend represents the maintenance costs for all systems (hardware and development costs are capitalised and depreciated over three years) and an increase in software licence fees for new staff.

During the year, in order to maintain an appropriate level of on-site examinations of regulated businesses, the Commission continued the practice that it began in 2005 of employing external professional firms to provide advice and assistance, particularly the performance of some themed examinations on behalf of the Commission.

Expenditure on business travel was scaled back as a consequence of the work required to prepare for the International Monetary Fund (**"IMF"**) visit. It is expected that travel, particularly to overseas regulatory authorities and to international standard-setting organisations, can be restored in 2009 now that the IMF visit has been completed.

The amount spent on investigations during the year fell to £462,000 from £882,000 the year before. The decrease was achieved partly by the increased use of in-house staff to handle these cases rather than by the employment of external service professionals, and partly because individual cases have not yet incurred the level of cost that may be anticipated. During the year, the Commission has continued its efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Overall, the level of operating expenses was similar in 2008 to that in 2007, at £10.8 million so, after accounting for the increased income, the net result for the year was an operational surplus of £710,000 and a consequent rise in reserves to £5.7 million. The Commission's policy in respect of its accumulated reserve is to build up such a reserve equal to one quarter's operating expenditure plus the average of one year's cost of investigations and litigation, in order to meet contingencies.

The auditors, PKF (UK) LLP, who were appointed in accordance with Article 21 of the Commission Law, have indicated their willingness to continue in office.

The Commissioners are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Commission Law requires the Commissioners to prepare financial statements for each financial year. Under that law the Commissioners have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable Jersey law. The financial statements are required to give a true and fair view of the state of affairs of the Commission and of the surplus or deficit of the Commission for that year. In preparing these financial statements the Commissioners 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 financial statements; and
- prepare the financial statements on the ongoing concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commissioners are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the financial statements comply with the Commission Law. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Commissioners are responsible for the maintenance and integrity of the financial information included on the Commission's Website. Legislation in Jersey governing the preparation and dissemination of the financial statements and other information included in Annual Reports may differ from such legislation in other jurisdictions.

For and on behalf of the Board of Commissioners
C. Renault
Commission Secretary
5 May 2009

PO Box 267
14-18 Castle Street
St Helier
Jersey
Channel Islands
JE4 8TP

We have audited the financial statements of the Jersey Financial Services Commission for the year ended 31 December 2008 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Minister for Economic Development in accordance with Article 21(3) of the Financial Services Commission (Jersey) Law 1998. Our audit work has been undertaken so that we may state to the Minister for Economic Development those matters that we are required to state in the auditors' 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 Economic Development for our audit work, for this report, or for the opinions that we have formed.

Respective responsibilities of Commissioners and Auditors

The Commissioners' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Jersey law and United Kingdom accounting standards are set out in the statement of Commissioners' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

In addition, we report to you if, in our opinion, the Commission has not kept proper accounting records and if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Director General's Statement, the reports on the Commission's supervisory approach, policy developments, enforcement, operations and the Registry, and the statement on corporate governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commissioners in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission'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 financial statements 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with applicable Jersey law and United Kingdom Generally Accepted Accounting Standards, of the state of the Commission's affairs as at 31 December 2008 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Bristol
United Kingdom

5 May 2009

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Income:					
Regulatory fees	4 (a)		9,026		8,228
Registry fees	4 (b)		6,283		6,381
Profit on sale of tangible fixed assets			-		1
Bank deposit interest received			541		569
Total income			15,850		15,179
Contribution to States of Jersey			4,400		4,100
Net income			11,450		11,079
Operating expenses:					
Staff salaries, social security and pension contributions	5	7,338		6,938	
Operating lease expenditure		436		466	
Other premises costs		277		362	
Computer systems costs		468		350	
Legal and professional services		423		455	
Investigations and litigation	6	462		882	
Public relations costs		48		35	
Travel costs		180		186	
Staff training		250		155	
Recruitment costs		66		63	
Other operating expenses		241		265	
Auditors' remuneration		14		13	
Depreciation of tangible fixed assets	7	537		606	
Total operating expenses			10,740		10,776
Excess of income over expenditure			710		303
Accumulated reserve brought forward			4,987		4,684
Accumulated reserve carried forward			5,697		4,987

Statement of total recognised gains and losses
There were no recognised gains or losses other than those detailed above.

Historical cost equivalent
There is no difference between the net surplus for the year stated above and its historical cost equivalent.

Continuing operations
All the items dealt with in arriving at the net surplus in the income and expenditure account relate to continuing operations.

The notes on pages 56 to 60 form an integral part of these financial statements.

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed Assets:					
Tangible assets	7		1,186		1,171
Current Assets:					
Fee income receivable		1		5	
Sundry debtors		50		32	
Prepayments		260		235	
Cash at bank and in hand	8	8,450		7,733	
		8,761		8,005	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	3,863		3,424	
Creditors and provisions	9	387		765	
		4,250		4,189	
Net Current Assets			4,511		3,816
Total Assets less Current Liabilities			5,697		4,987
Represented by:					
Accumulated reserve			5,697		4,987

The notes on pages 56 to 60 form an integral part of these financial statements.

The financial statements on pages 53 to 60 were approved by the Board of Commissioners, and signed on their behalf on 5 May 2009 by:

G C Powell CBE
Chairman

J A Richomme
Deputy Chairman

		2008		2007
	£000	£000	£000	£000
Reconciliation of net income to net cash inflow from operating activities				
Net income for the year		710		303
Profit on sale of tangible fixed assets		-		(1)
Interest received		(541)		(569)
Depreciation charges		537		606
(Increase) in debtors and prepayments		(39)		(73)
Increase in creditors		61		416
Net cash inflow from operating activities		728		682

Cash Flow Statement

	£000	£000	£000	£000
Net cash inflow from operating activities		728		682
Returns on investments and servicing of finance				
Interest received		541		569
Capital expenditure				
Payments to acquire tangible fixed assets	(552)		(1,255)	
Receipts from sale of tangible fixed assets	-	(552)	1	(1,254)
Increase/(Decrease) in cash		717		(3)

Reconciliation of net cash flow to movement in net funds

	2008 £000	2007 £000
Increase/(Decrease) in cash in the year	717	(3)
Net funds at 1 January	7,733	7,736
Net funds at 31 December	8,450	7,733

1. Accounting policies

a) The financial statements have been prepared under the historical cost convention, and in accordance with generally accepted accounting practice in the United Kingdom.

A summary of the more important accounting policies is set out below.

b) Income is accounted for during the period to which it relates, and expenditure is accounted for on an accruals basis.

c) Fixed assets are stated at cost less depreciation.
Depreciation on tangible fixed assets is calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives.
Computer equipment is depreciated over three years.
Computer software costs are written off as incurred to the Income and Expenditure Account, except for purchases in respect of major systems. In such cases, the costs are depreciated over three years.
Office furniture, fittings and equipment are depreciated over five years.

d) Foreign currency transactions during the year have been translated at the rates of exchange ruling at the dates of the transactions.
Any profits or losses arising from such translations into Sterling are accounted for in the Income and Expenditure Account.

e) Costs incurred as the result of investigations and litigation, and any cost recoveries, are accounted for in the year when the obligation exists at the balance sheet date.

f) All leases are operating leases, and the annual rentals are charged to operating expenses on a straight line basis over the term of the lease. The value of the rent free period that was granted upon the Commission's occupation of its current premises has been accounted for over the term of the lease.

g) The contribution to the States of Jersey is shown as a deduction from total income in order to reflect clearly the amount available to fund the activities of the Commission.

h) Pension costs included in staff salaries represent the actual costs incurred during the year.

2. Related party transactions

Whilst there are transactions on an arms length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions. However, Jacqueline Richomme is a Commissioner and also a partner of Mourant du Feu & Jeune. Similarly, Frederik Musch is a Commissioner and was also the Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers Belgium for part of the year. During the year, the Commission used Mourant du Feu & Jeune and PricewaterhouseCoopers to provide certain legal and professional services. Costs incurred were £293,000 (2007 - £70,000) and £87,000 (2007 - £42,000) respectively. These were contracted on an arms length basis, and are not considered to be significant in the context of the business of the parties.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Jersey) Law 1961, as amended.

4. Income

	2008	2007
	£000	£000
a) Regulatory fees		
Banking	**1,365**	1,321
Funds	**3,246**	2,886
Insurance companies	**559**	516
General insurance mediation	**70**	88
Investment business	**1,137**	1,112
Trust companies	**2,299**	2,305
Anti-money laundering unit	**340**	-
Money services business	**10**	-
	9,026	8,228

b) Registry fees

Registry fees comprise income derived from the operation of the Companies Registry, the Business Names Registry, the Registry of Limited Partnerships and the Registry of Limited Liability Partnerships.

c) Regulatory fees received in advance

	2008	2007
	£000	£000
Banking	**1,366**	1,430
Funds	**1,608**	1,216
Insurance companies	**472**	391
General insurance mediation	**2**	-
Investment business	**382**	379
Trust companies	**33**	8
	3,863	3,424

5. Staff salaries, social security and pension contributions

	2008	2007
	£000	£000
Staff salaries	**6,165**	5,899
Commissioners' fees	**233**	201
Social security payments	**255**	229
Pension contributions	**467**	416
Permanent health and medical insurance	**138**	128
Other staff-related costs	**80**	65
	7,338	6,938

The average number of staff employed during the year was 106 (2007 - 100)

6. Investigation and litigation costs

As part of its regulatory responsibilities the Commission carries out investigations and enters into legal actions from time to time, the costs of which may be significant. The costs of each investigation or legal action may arise over a number of years, and are accounted for in the year when the obligation exists at the balance sheet date.

In a few cases, some or all of the Commission's costs may be recoverable although not necessarily in the same financial year as the expenditure. In such cases the recovery is recognised when received.

Net costs incurred during 2008 amounted to £462,000 (2007 - £882,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	Computer Equipment	Total
	£000	£000	£000
Cost of assets at 1 January 2008	466	2,488	2,954
Additions during year	22	530	552
Disposals during year	-	(1,120)	(1,120)
Cost at 31 December 2008	488	1,898	2,386
Depreciation at 1 January 2008	62	1,721	1,783
Charged during year	96	441	537
Eliminated on disposals	-	(1,120)	(1,120)
Depreciation at 31 December 2008	158	1,042	1,200
Net book value at 31 December 2008	330	856	1,186
Net book value at 31 December 2007	404	767	1,171

8. Financial instruments

The Commission's accumulated financial reserves are invested in bank deposit accounts. In order to mitigate the credit risk and the market risk, these deposit accounts are maintained with six different banks.

9. Creditors and provisions

	2008	2007
	£000	£000
General expense creditors	86	496
Accruals	282	269
Provisions	19	-
	387	765

Accruals contain an amount of £198,000 (2007 - £213,000) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

10. Financial commitments

The Commission has entered into an agreement through JFSC Property Holdings No.1 Limited (note 13) to lease premises for the Commission's occupation.

	2008	2007
	£000	£000
The annual rentals payable under this operating lease are:		
For a period of more than five years	**490**	490

The rentals payable under this operating lease are subject to periodic review.

11. Contingent liabilities

At the balance sheet date the Commission had no contingent liabilities.

12. Commissioners' remuneration

		2008	2007
		£	£
Fees paid to Commissioners were as follows:			
Colin Powell	Chairman	**47,000**	45,000
Richard Pirouet	Deputy Chairman (retired 31 May 2007)	**n/a**	10,000
Jacqueline Richomme	(appointed Deputy Chairman 15 June 2007)	**25,000**	21,271
John Averty		**19,000**	18,000
John Boothman		**19,000**	18,000
Michael Clapham	(retired 30 November 2008)	**17,417**	18,000
Scott Dobbie	(retired 30 November 2008)	**26,583**	27,500
John Harris		**nil**	nil
Clive Jones	(appointed 23 October 2007)	**19,000**	3,452
Deborah Lang	(appointed 30 November 2008)	**1,583**	n/a
Frederik Musch		**29,000**	27,500
Sir Nigel Wicks	(appointed 20 July 2007)	**29,000**	12,375

John Harris is the Director General of the Commission. During the year he was paid no fees as a Commissioner, but received total remuneration of £252,000 for the year (2007 - £225,000) in his capacity as Director General.

13. Interest in wholly-owned companies

The Jersey Financial Services Commission has two wholly owned companies, JFSC Property Holdings No.1 Limited and JFSC Property Holdings No.2 Limited.

JFSC Property Holdings No.1 Limited has entered into an agreement on behalf of the Commission to lease premises for the Commission's occupation. Consequently, the Commission has entered into an agreement with JFSC Property Holdings No.1 Limited whereby the Commission will be responsible for all expenditure associated with the lease. The company holds no assets or liabilities and therefore has not been consolidated in the financial statements.

JFSC Property Holdings No.2 Limited is dormant, and has not been consolidated in the financial statements.

14. Pension costs

a) Staff initially employed by the Commission before 1 January 1999 are members of the Public Employees Contributory Retirement Scheme (PECRS) which, whilst a final salary scheme, is not a conventional defined benefit scheme because the employer is not responsible for meeting any ongoing deficit in the scheme. The assets are held separately from those of the States of Jersey. Contribution rates are determined by an independent qualified actuary so as to spread the costs of providing benefits over the members' expected service lives.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £84,000 (2007 - £91,000). The decrease is due to staff retirement. The Commission has adopted Financial Reporting Standard 17 "Retirement Benefits" (**"FRS17"**). Because the Commission is unable to readily identify its share of the underlying assets and liabilities of PECRS under FRS 17, contributions to the scheme have been accounted for as if they are contributions to a defined benefit scheme.

The contribution rate paid by the Commission during the year was 13.6% of salary, and this rate is expected to continue to be payable during 2009.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2004. The main purposes of the valuation are to review the operation of the scheme, to report on its financial condition, and to confirm the adequacy of the contributions to support the scheme benefits

The conclusion of the latest published valuation is that there is a deficiency in the scheme assets at the valuation date of £17.4 million. Because the scheme is accounted for as if it is a defined contribution scheme, no account has been taken of the Commission's share of this deficiency.

In addition to this, as at the date of the valuation, 31 December 2004, there was also a debt of £123 million due to the scheme from the States of Jersey that relates to the period pre-1987. The Committee of Management of PECRS advised the Commission that its share of the pre-1987 debt was approximately £1.5 million, and the Commission settled this liability during 2005.

Copies of the latest Annual Accounts of the scheme, and of the States of Jersey, may be obtained from the States Treasury, Cyril Le Marquand House, The Parade, St Helier JE4 8UL.

b) Staff initially employed by the Commission after 1 January 1999 are members of the Jersey Financial Services Commission Staff Pension Scheme, which is a defined contribution scheme whose assets are held separately from those of the Commission. The administration of the scheme is carried out by independent administrators, and the Commission has appointed independent managers for the management of the investments.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £383,000 (2007 - £325,000). The increase is due to rising staff numbers.

Particulars of the scheme may be obtained from The Pension Scheme Secretary, Jersey Financial Services Commission, PO Box 267, 14-18 Castle Street, St Helier JE4 8TP.

Introduction

The Commission is committed to achieving high standards of corporate governance and, to this end, regards the Combined Code on Corporate Governance (the **"Code"**) issued by the United Kingdom's Financial Reporting Council as the model of best practice that the Commission should follow.

The Code is primarily designed for listed companies and some of the provisions in it (principally the provisions on shareholder relations) are therefore not applicable to a public body carrying out regulatory functions such as the Commission. The Commission complies with the provisions of the Code to the extent that compliance is proportionate and consistent with the Commission's responsibilities as a regulator.

The Commission publishes a section on Corporate Governance on its Website covering the following areas: Matters Reserved for the Board; Delegation of Powers; Conflicts of Interest; and Chairman and Director General - Division of Responsibilities.

Constitution of the Commission

The Commission is a statutory body corporate established under Article 2 of the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**). The governing body comprises a Board of Commissioners. The Board of Commissioners is responsible for setting the strategic aims of the Commission and ensuring that the necessary financial and human resources are in place for the Commission to meet its objectives.

Functions of the Commission

The functions of the Commission are set out in Article 5 of the Commission Law that states that the Commission shall be responsible for:

(a) the supervision and development of financial services provided in or from within Jersey;

(b) providing the States of Jersey, any Minister of the States or any other public body with reports, advice, assistance and information in relation to any matter connected with financial services;

(c) preparing and submitting to the Minister for Economic Development (the **"Minister"**) recommendations for the introduction, amendment or replacement of legislation appertaining to financial services, companies and other forms of business structure; and

(d) such functions in relation to financial services or such incidental or ancillary matters -

(i) as are required or authorised by or under any enactment; or

(ii) as the States may, by Regulations, transfer.

Constitution of the Board

Article 3(1) of the Commission Law requires the Board to consist of a Chairman and not less than six other Commissioners.

Currently, the Board consists of a Chairman, Deputy Chairman and eight other Commissioners. One Commissioner is the Director General of the Commission; all other Commissioners are non-executive. Six of the Commissioners live in Jersey, two in the United Kingdom, and one in Belgium.

Article 3(3) of the Commission Law requires the Commissioners to include:

(a) persons with experience of the type of financial services supervised by the Commission;

(b) regular users on their own account or on behalf of other, or representatives of those users, of financial services of any kind supervised by the Commission; and

(c) individuals representing the public interest.

The Board is satisfied that the Commissioners meet these requirements. The current membership of the Board is shown in the chapter entitled 'The Commissioners'.

The roles of the Chairman and Chief Executive (Director General) are split and their respective responsibilities are distinct. The Chairman is responsible for the running of the Board's business and the Director General has executive responsibility for the running of the Commission's day-to-day business.

The Deputy Chairman of the Board is considered by the Board to be its *de facto* 'Senior Independent Director' as described in the Code.

Vacancies that arise on the Board are filled through the use of an open and transparent process. The Board follows the procedures recommended by the Jersey Appointments Commission - a body set up by the States of Jersey to overview all public sector appointments. A vacancy is advertised and once a suitable candidate is identified a recommendation is made to the Minister. Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States of Jersey. If the Minister is satisfied with the Commission's recommendation, the Minister will take an appropriate proposition to the States for debate.

On appointment, a Commissioner will receive an induction to the work of the Board and each Division of the Commission. This includes an opportunity to meet senior staff in each Division.

Under the provisions of the Commission Law, Commissioners are appointed for terms not exceeding three years and, upon expiry of their term of office, are eligible for reappointment.

The Board established a Nomination Committee in November 2005 to lead the process for making recommendations on the appointment of Commissioners.

Operation of the Board

The Board usually meets at least ten times a year and will hold additional meetings when circumstances require it. In advance of each meeting, Commissioners are provided with comprehensive briefing papers on the items under consideration. The Board is supported by the Commission Secretary who attends and minutes all meetings of the Board.

During 2008 the Board of Commissioners met ten times. Attendance was as follows:

Colin Powell	10/10
Jacqueline Richomme	10/10
John Harris	10/10
John Averty	9/10
John Boothman	9/10
Michael Clapham	8/9
Scott Dobbie	9/9
Clive Jones	9/10
Debbie Lang	1/1
Frederik Musch	7/10
Sir Nigel Wicks	10/10

Article 11 of the Commission Law empowers the Board of Commissioners to delegate any of its powers to the Chairman, one or more Commissioners, or an officer of the Commission. However, the Board has decided to retain to itself those powers that could have a highly significant effect on the achievement of its key purposes or on the finances or reputation of the Commission.

In particular, in relation to licensing decisions, the Board has retained those powers, which relate to:

- the authorisation of all new business applicants under the Banking Business (Jersey) Law 1991; and
- the refusal of an application or the revocation of a permit, registration, etc., under the four regulatory laws (except in certain limited circumstances, for example where the revocation of a permit, registration or similar is at the request of the registered person).

The Board has adopted a policy statement that sets out in detail which powers the Board has retained to itself and those powers that it has delegated to the Executive of the Commission. The full text of the policy statement can be viewed on the Commission's Website.

On an annual basis, the Board holds an Away Day. This event, which is also attended by the Director General, Deputy Director General and Divisional Directors, is an opportunity for the Board to conduct a frank evaluation of its performance during the year and discuss possible changes to its *modus operandi*. The Away Day also provides an opportunity to discuss strategic issues for the year ahead.

The Board maintains a rolling three-year business plan and an annual budget. In the last quarter of each year, the Executive of the Commission prepares a draft business plan and budget incorporating, amongst other things, any strategic issues raised by the Board at its annual Away Day. The draft business plan and budget is considered by the Board in December of each year. The Commission publishes an abridged version of the detailed internal Business Plan used by the Commission's staff for comprehensive planning and monitoring purposes.

The Board monitors performance against the objectives set in the business plan by reviewing regular reports from each Divisional Director. These reports are considered at the Board's regular meetings at which the relevant Director is present and available to answer any questions that Commissioners may have. Performance against budget is monitored by the presentation of quarterly management accounts to the Board and *ad hoc* financial presentations as and when appropriate.

The Board monitored key risks during 2008 in compliance with the guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Board maintains a Risk Management Schedule that identifies the risks faced by the Commission and the controls that are in place to keep each risk within an acceptable level. Risks are identified by Division and regular reports submitted to the Board to enable it to ensure that appropriate controls remained in place.

Committees of the Board

The Board has established three committees; an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appoints the members of those Committees.

Audit Committee

The key duties of the Audit Committee are:

- to review the working of the system for internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning effectively;
- to report to the Board on the effectiveness of internal control;
- to monitor and review the effectiveness of any internal audit work carried on by the internal audit function, in the context of the Commission's overall risk management system;
- to review and assess the internal audit function's annual work plan;
- to review all reports on the Commission from the internal audit function and monitor the Executive's responsiveness to the findings and recommendations;
- to meet with the officer most immediately responsible for internal audit work, at least once a year, without the presence of the Executive, to discuss their remit and any issues arising from the internal audits carried out;
- to approve the Commission's Security Policy and to consider any reports submitted by the Director, Information, Communications and Technology, and the Senior Manager, Facilities Management ; and
- to review the Commission's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

Whilst the Audit Committee's terms of reference include the consideration of the annual appointment of the external auditor, the actual appointment of the auditor is a matter reserved to the Minister under Article 21(3) of the Commission Law.

The members of the Audit Committee during 2008 were Scott Dobbie (Chairman until 30 November 2008), John Averty (Chairman from 30 November 2008), John Boothman and Sir Nigel Wicks (from 30 November 2008).

The Audit Committee met three times during 2008.

The Audit Committee's full Terms of Reference can be obtained from the Commission's Website.

Nomination Committee

The key duties of the Nomination Committee are:

- to regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Commissioners and the Director General in the course of its work, taking into account the challenges and opportunities facing the Commission, and what skills and expertise are therefore needed on the Board in the future; and
- to ensure that the Chairman of the Board conducts an annual evaluation of the performance of the Board, its committees, and individual Commissioners.

All members of the Board of Commissioners are members of the Nomination Committee.

The Nomination Committee met four times during 2008.

Having served three and two terms of office respectively, Commissioners Scott Dobbie, CBE, and Advocate Michael Clapham retired on 30 November 2008. One new Commissioner, Advocate Debbie Lang, was appointed to fill the locally based vacancy and joined the Commission on 30 November 2008. The UK-based vacancy was filled by Alastair Clark, CBE, who was appointed on 20 January 2009. The Board held an Away Day with the Executive in September 2008 and the Chairman reported on the annual evaluation of the performance of the Board, its Committees, and individual Commissioners at the Nomination Committee meeting held in November 2008.

The Nomination Committee's full Terms of Reference can be obtained from the Commission's Website.

Remuneration Committee

The key duties of the Remuneration Committee are:

- to set the remuneration level of the Director General;
- to agree the budgetary level of the annual pay review taking account of a market remuneration analysis provided by the Director, Human Resources;
- to agree, having received the recommendations of the Director General, Directors' remuneration;
- to consider and agree any variations to the structure of the remuneration package that may be proposed from time to time; and
- to review from time to time the fees paid to the non-executive Commissioners and, after consulting with the Commissioners on any proposed change, shall request the Chairman of the Commission to put the proposal to the Minister for his consideration and comment, following which the Minister shall advise the Board of the appropriate level of fees to be set.

The members of the Remuneration Committee during 2008 were Jacqueline Richomme (Chairman), Colin Powell, Michael Clapham (until November 2008) and Clive Jones (from 30 November 2008).

The Remuneration Committee met twice during 2008.

The Remuneration Committee's full Terms of Reference can be obtained from the Commission's Website.

The procedures followed by the Commission ensure that the setting of remuneration packages for Commissioners is formal and transparent. No Commissioner is involved in deciding their own remuneration.

Accountability arrangements

Whilst the Commission is an independent body, it is accountable for its overall performance to the States of Jersey through the Minister.

As part of its accountability arrangements, the Commission's Business Plan, Budget and Annual Report are presented to, and discussed with, the Minister. Under Article 21(2) of the Commission Law, the Minister is required to lay a copy of the Annual Report before the States not later than seven months after the close of each financial year.

Under powers granted by Article 12 of the Commission Law, the Minister may, after consulting the Commission and where the Minister considers that it is necessary in the public interest to do so, give to the Commission guidance or give in writing general directions in respect of the policies to be followed by the Commission. The Commission has a duty in carrying out its functions to have regard to any guidance and to act in accordance with any directions given to it by the Minister.

The Minister and the Commission have entered into a Memorandum of Understanding to clarify the circumstances and the manner in which the powers granted under Article 12 of the Commission Law would be exercised. The text of the Memorandum can be obtained from the Commission's Website.

www.jerseyfsc.org

Jersey Financial Services Commission