ANNUAL REPORT 2013

Jersey Financial Services Commission

R.78/2014

Contents

The Island of Jersey

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 98,000 and enjoys a reputation as a well-regulated international finance centre.

Jersey is closely connected with the London markets. Not only is it just 45 minutes flying time from London, but there are significant institutions to be found in both locations, and significant flows of business between the two centres.

Jersey is a Dependency of the Crown 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 51 elected members plus the President of the Assembly. 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. Further information on the workings of government in Jersey can be found on the States of Jersey Website, www.gov.je.

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

The Jersey Financial Services Commission

The Jersey Financial Services Commission (the **"Commission"**) is the Island's unitary financial services regulator.

The Commission is an independent 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 is accountable for its overall performance to the States of Jersey through the Chief Minister.

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.

Regulated Businesses

- Banking
- Fund services
- General insurance mediation
- Insurance
- Investment
- Trust and company service providers
- Designated non-financial businesses and professions, which includes accountants and lawyers, for AML/CFT purposes

Main Activity Areas

- Policy
- International engagement
- Regulatory standards
- Supervision
- Enforcement
- Registry

Highlights

Principal Themes During 2013

- The operating environment for Jersey is changing (e.g. the growth in international regulation, public opinion about "tax havens", competition from emerging competitor jurisdictions and volatile investor confidence).
- The Commission has sought to maintain a robust and transparent regulatory framework which strengthens the Island's ability to compete internationally.
- The Commission allocated key resources in order to have a fully compliant AIFMD regime in place from July 2013 and to address the UK banking reforms (ICB/Vickers).
- The Commission also allocated resources to ensure appropriate compliance with IMF, MONEYVAL and IOSCO requirements.
- Following the UK's successful implementation of its Retail Distribution Review (RDR), the Commission's Review of Financial Advice was introduced at the end of 2013. It aims to raise the professional standards of investment advisors and eradicate possible conflicts of interest that can be caused by commission based remuneration arrangements.
- In recognition of the above, the Commission is in the process of strengthening its Executive Team. This process commenced in 2013 and is hoped to be completed during the first half of 2014.

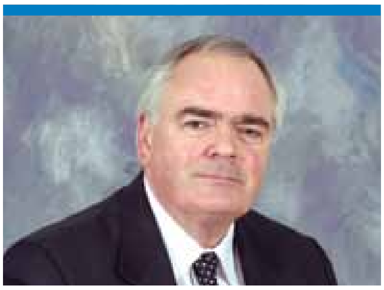
Size of the Finance Industry

The value of the assets under management in the Jersey Finance Industry at the end of 2013 is set out below.

- The total value of banking deposits held in Jersey was £139.9bn.
- The total number of regulated funds was 1,334, with a net asset value of funds under administration of £192.2bn.
- The value of assets held by trusts is estimated to be in the region of £500bn (statistics are not collected for this sector due to the varied nature of those assets).
- The total number of live companies on the Register stood at 32,479.

The Commissioners

NON-EXECUTIVE COMMISSIONERS



Clive Jones – Chairman (October 2007 to October 2013)

Clive took the decision not to seek re-appointment on the recent expiry of his term as a Commissioner on 22 October 2013. Clive Jones was first appointed a Commissioner on 23 October 2007 and was subsequently appointed Chairman on 18 September 2009.

Clive retired in June 2007 from an international career with Citigroup which took him from London to Seoul, Sydney, Melbourne, Athens, Zurich and finally to Jersey over a 36-year period. In Jersey he was the Citigroup Country Officer for the Channel Islands.

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 a Fellow of the Institute of Directors, a Chartered Director and is Chairman of the Jersey Heritage Trust.

John Averty – Deputy Chairman (December 2005)

John is the Chairman of the Guiton Group Limited. The Group publishes daily and weekly newspapers in the Channel Islands.

He is also a non-executive director of Nedbank Private Wealth Limited, a Jersey registered private bank.

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

Lord Eatwell of Stratton St Margaret (April 2010)

Lord Eatwell is currently a Professor of Financial Policy at the University of Cambridge, and he also leads a work stream within the Centre for Financial Analysis and Policy on financial regulatory issues.

Lord Eatwell played a pivotal role in the creation of the Financial Stability Forum (now the Financial Stability Board). He has also undertaken a number of roles with UK regulators and has acted as an adviser on regulatory matters to the Bank for International Settlements, the Banking Committee of the US Senate, the European Parliament and the Hong Kong Monetary Authority.

John Mills, CBE (October 2009)

John's background was in the UK Civil Service until his retirement in 2007. Senior roles included Director of Consumer Affairs at the Office of Fair Trading and as a member of the Prime Minister's Policy Unit. Outside Whitehall, he was Chief Executive of Cornwall County Council, moving to Jersey in 1999 as Chief Executive for Policy and Resources for the States of Jersey.

John is currently a member of the Shadow Board for the Ports of Jersey and, in the UK, is Vice-Chairman of the Port of London Authority. He holds several States of Jersey appointments to honorary roles in the Island's governance, including as an independent member of the Public Accounts Committee and as an Income Tax Commissioner of Appeal.

The Commissioners

NON-EXECUTIVE COMMISSIONERS

Markus Ruetimann (September 2010)

Born and educated in Switzerland, Markus has worked in the financial services industry in Zurich, Geneva, New York and London. Markus is currently the Group Chief Operating Officer for Schroder Investment Management Limited, based in London. Markus's global responsibilities encompass portfolio services, fund services, information technology, group change and project management and corporate services. Markus has been a member of Group Management Committee of Schroder plc since June 2005 and was appointed as a director of Schroder & Co. Bank AG, Zurich in September 2009.

Prior to joining Schroders, Markus was global Head of Technology & Portfolio Services at UBS Global Asset Management from 1999 to late 2004 and COO at Philips & Drew from 1988 to 1998. External non-executive mandates included CRESTCo in London, Omgeo LLP in New York, and ISSA in Zurich.

Advocate Debbie Prosser (November 2008)

Debbie qualified as a Jersey Advocate in 1990 and is a member of the Jersey Law Society. Debbie was a partner at Bailhache Labesse (now Appleby) from 1991 to 2005 and managing director of Baihache Labesse Trustees Limited from 1999 to 2004. Debbie previously held the position of chairman of the Jersey Child Care Trust and the States of Jersey Education Audit Committee, and was also a member of the States of Jersey Audit Commission and the Tourism Development Fund.

Debbie is currently the chairman of the Jersey Police Complaints Authority and a member of the Jersey Youth Court Panel and holds a number of non-executive directorships.

Crown Advocate Cyril Whelan (June 2010)

Cyril is currently a Senior Consultant at the local law firm Baker & Partners and is also a Door Tenant of Chambers at Seven Bedford Row, London. He was appointed to the office of Crown Advocate immediately upon the creation of that office in 1987 and remains the Island's Senior Crown Advocate.

His background includes 28 years as senior legal adviser in the Law Officers' Department in Jersey. As head of the Section responsible for Serious Crime and International Mutual Legal Assistance, Cyril has advised on all aspects of public law, including serious crimes such as complex fraud and money laundering. He also acted on behalf of successive Attorneys General in the implementation of major regulatory and mutual assistance legislation in Jersey.

Stephan Wilcke (July 2012)

Stephan joined the board of OneSavings Bank Plc, which trades as Kent Reliance, in 2011 and became chairman in February 2012. He was, until recently, Chief Executive Officer of the Asset Protection Agency, an executive arm of HM Treasury. Prior to this he advised various central banks on difficult situations created by the credit crunch. He was previously a partner and Head of European Financial Services at private equity firm Apax Partners Worldwide LLP.

Stephan started his career at management consultancy Oliver Wyman where he progressed to partner level. He graduated from Oxford University with a Master in Politics, Philosophy and Economics.

The Commissioners

NON-EXECUTIVE COMMISSIONERS

Ian Wright (April 2012)

Ian is a member of the Institute of Chartered Accountants in England and Wales (ICAEW). Since 2007, Ian has served in a number of roles at the Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, including Director of Corporate Reporting. He is currently Deputy Chairman of the Financial Reporting Review Panel.

He retired in 2007, having achieved the position of Senior Partner in PricewaterhouseCoopers' (**"PwC"**) Global Corporate Reporting Group based in London. Ian joined PwC in 1979, initially based in Jersey and Bahrain, and has also worked as an Audit Partner based in London and Jersey and as a Senior Technical Partner in London.

Ian has previously served as a member of the International Financial Reporting Interpretation Committee (IFRIC), the Financial Reporting Policy Group of the Fédération des Experts Comptables Européens (FEE), and the Technical Strategy Board of the ICAEW and Chairman of the ICAEW's Financial Reporting Committee.

EXECUTIVE COMMISSIONER

John Harris - Director General (March 2007)

John was appointed the Director General of the Commission on 6 November 2006 and was subsequently appointed to the Board of Commissioners in 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 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.

Chairman's Statement

2013 was an eventful year for the Jersey Financial Services Commission.

Regulation over several years of economic downturn has presented its challenges. There has been a change in the global view of required standards, but as Jersey has always committed to high standards of conduct since the inception of its finance industry, this has had less impact than for many jurisdictions.

However, it has to be noted that we have dealt with more breaches during the downturn than hitherto. There will be a number of reasons for this, but the main one appears to be an increase in reporting awareness rather than a deterioration in behaviour or taking on riskier business. Where possible, the Commission believes remediation is the best first step, but takes firm action in serious misconduct cases, of which there have regrettably been a few instances.

At present the Commission only has the blunt instrument of banning individuals or closing firms down but I am pleased to report that the Chief Minister has agreed to propose to the States a new Law allowing financial civil penalties to be imposed in cases where remediation is not possible, an inadequate response to the circumstances, or has failed. This will not only enable us to meet international expectations, but also place the not inconsiderable financial cost of inspections and enforcement more on those that behave inappropriately rather than, as at present, on the finance industry as a whole.

The Commission was delighted that its considerable efforts, in conjunction with Government, to secure acknowledgement of Jersey's compliance with the AIFMD and MONEYVAL regimes was successful. The Island faces a full scale MONEYVAL evaluation later in 2014 to check on its implementation of international standards. Much important work was also done in respect of the Vickers report on UK bank ring-fencing. There are still hurdles to overcome, but outcomes to date in all three of these crucial matters leave the Island well placed as an international finance centre.

The Commission was represented on the steering group overseeing McKinsey's review into the Island's finance industry and is looking forward to working with Government and Industry to further the future of this important pillar of the local economy.

The report led to a change in Ministerial responsibility for the Commission from the Minister for Economic Development to the Chief Minister. Although it is vital that the Commission retains its regulatory independence, the Government has a significant part to play, including providing guidance in relation to setting the Island's appetite for risk, and we look forward to working constructively with the Chief Minister and the Minister for Treasury and Resources, in his new role as Assistant Chief Minister responsible for the finance industry.

The Commission willingly plays a part in Jersey's efforts to attract new business from around the globe, both to explain the regulatory regime and to ensure business sought will meet the standards set.

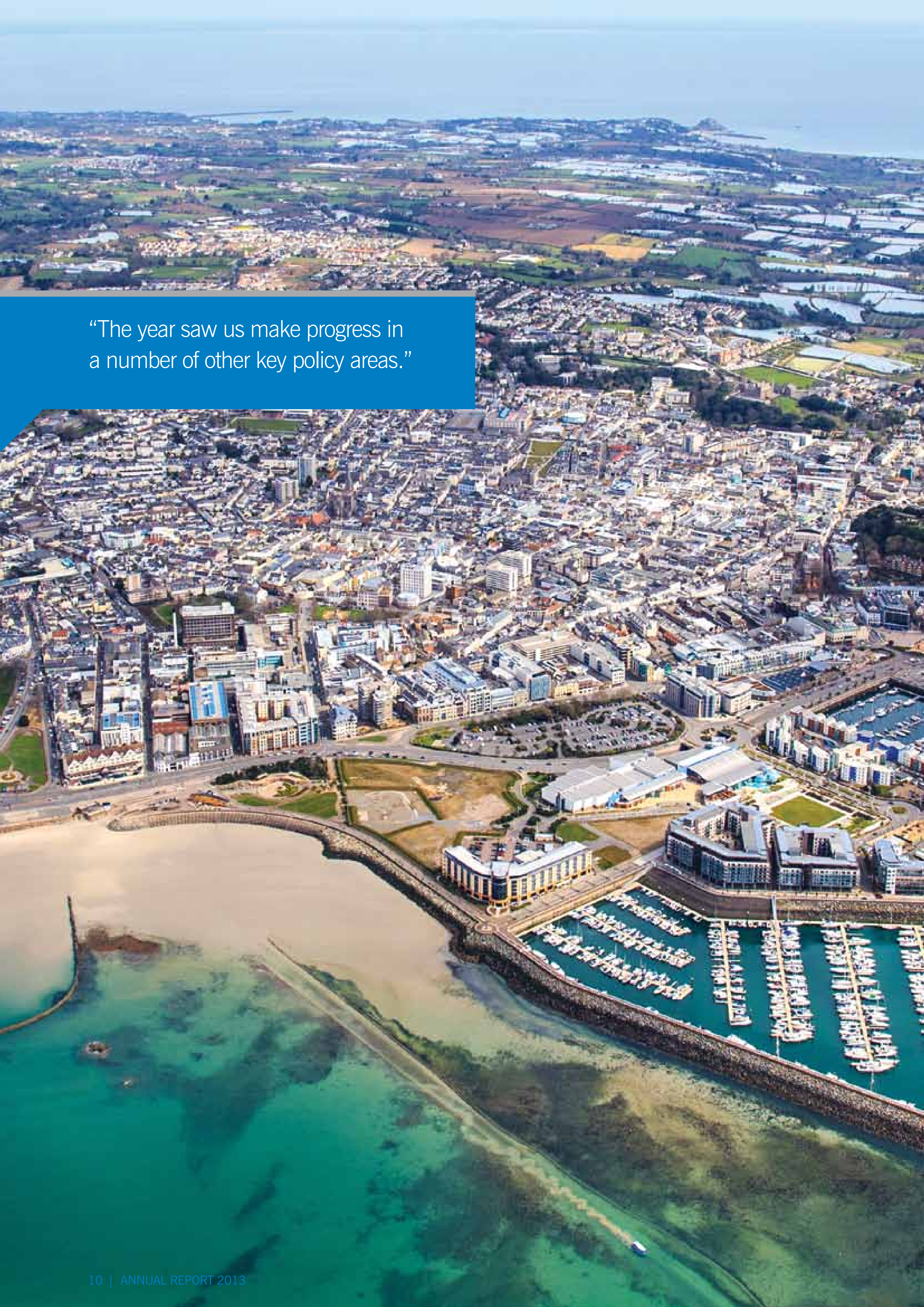
> "Regulation over several years of economic downturn has presented its challenges."

In July 2013, a proposition was lodged by a member of the States of Jersey seeking ex-gratia payments for investors in two failed unregulated property companies. The Chief Minister has appointed an independent person to undertake an inquiry with appropriate access to the Commission's records and to produce findings. Investors have also been given the opportunity to make representations to the independent person. The findings have yet to be published.

Given the significant challenges, the Commission has looked carefully at its staffing and structure and plans are close to fruition to add senior level resource which it is believed will strengthen the organisation under the continued skillful leadership of the Director General, John Harris. To him, his Directors and all the Staff, the Board pays tribute to their excellent work and loyalty, which is central to the Commission's success.

It is with considerable regret that Commissioners learned of the decision of Clive Jones not to seek a re-election when his term of office as Chairman expired in October 2013. Clive has led the Commission very ably for the past four years and his sound judgment, dedication and leadership was much appreciated by his fellow Commissioners.

John Averty
Deputy Chairman



"The year saw us make progress in a number of other key policy areas."

Director General's Report

Overview

As the Chairman states in his report, 2013 was an eventful year for the Commission yet also one during which considerable progress was made in financial services development at both the level of the regulatory authority and for Jersey as a whole. I suspect that, looking back, 2013 will come to be seen as a year of important transition. Despite the progress made, the environment remained difficult and challenging. The lingering effects of the financial crisis, with worldwide retrenchment by financial services firms finding an echo in the Island, meant growth was generally subdued both domestically and internationally. Against this background, the Commission was able to continue to fulfil its statutory functions, address many difficult issues with which it was faced, and still achieve a great deal both internationally and domestically.

This is demonstrated to full effect within the subsequent sections of this Annual Report, which focus on the work undertaken by the Executive and the Commission's Staff. I should particularly like to draw attention to the successful navigation of the challenges posed by the EU's Alternative Investment Fund Manager Directive (**"AIFMD"**) during the past 12 months as well as Jersey's success under its first examination within the MONEYVAL process looking at progress made in the anti-money laundering / countering the financing of terrorism (**"AML/CFT"**) field since the last International Monetary Fund evaluation in 2009. In both of these key objectives the Commission played a major part. Both have considerable significance for the future well-being of the finance sector in the Island, since without the external international recognition of Jersey's regulatory standards that both ultimately bring, future market access for Jersey practitioners in funds and more general financial services, particularly across EU member states, would be compromised.

Policy Matters

The year saw us make progress in a number of other key policy areas. These were wide ranging, covering matters as diverse as the Island's interface with structural banking reform in the UK, the putting in place of a Securities Interests Register within the Companies Registry, and an overhaul of the Codes of Practice issued by the Commission that set regulatory expectations and requirements for each sector of the finance industry in the Island. The Review of Financial Advice (**"RFA"**), Jersey's version of the UK's Retail Distribution Review (RDR), was also brought to fruition and came into force on 1 January 2014. This is a major development aimed at creating additional pricing transparency and higher standards of investment advice amongst those practitioners servicing both retail and professional investors in a range of widely used financial products and services.

As in the UK, the underlying objective is to ensure advice and risk taken is ever more closely correlated to the appropriate degree of knowledge, understanding and risk appetite of the customer at a cost that the latter can clearly understand. The project has been complex and widely consulted upon with the relevant stakeholders in Jersey, and should prove its merit over time in driving better customer outcomes than, in certain cases, have been experienced in recent years. It was pleasing to get to a level of agreement and implementation, and further changes in the future should not be discounted once a proper evaluation of what has now been introduced can be undertaken. At the root of the exercise is the fact that Jersey, like all financial centres, has seen a number of instances where advice and product choice have taken insufficient account of the suitability of the product and its risks relative to some of the clients involved.

Another major policy development that was substantially progressed over the past 12 months was that relating to civil penalties. As is mentioned elsewhere, this is a power the Commission has been seeking for some time to complement its existing range of enforcement sanctions and obtaining those powers will put it on a par with most other financial regulatory bodies around the world. It is intended that it will be implemented in a proportionate and progressive fashion, initially focusing on registered businesses rather than on individuals, which will be considered in a second phase, and calibrated against infractions seen in those businesses' observance of the requirements established by the Codes of Practice in each industry sector. Its other key feature in this initial implementation phase is that the civil penalties involved will in most cases only come into play when the remediation of an identified problem agreed between the registered business and the Commission has manifestly not been implemented rather than action being taken on first identification of the problem. This accent on remedy of a problem, rather than immediate sanction upon identification, is a core feature of the supervisory and enforcement approach the Commission aims to follow and I shall return to it later.

Director General's Report

International

On the international front, as will be seen in the following sections, the Commission has had another very full year of developing and maintaining its increasingly wide range of interactions with fellow supervisory bodies, and with international organisations and standard setters. In pure relationship terms, we have been able to build an excellent working understanding with both the UK's Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), the successor bodies to the Financial Services Authority (FSA), which was clearly a priority in the wake of the new institutional arrangements now in place in the UK.

In addition, we are very proud of the constructive role we play in a number of international fora, all the more so given our relatively small size as a jurisdiction. I would single out our membership of the International Organisation of Securities Commissions' Assessment Committee as an excellent example of this, but it is by no means limited to that activity. Our full participation in MONEYVAL's mutual evaluation processes and procedures, soon after our becoming involved in this key international body in 2012, is another indication of the constructive role Jersey wishes to play internationally. Such involvement, either individually or working through multi-member bodies such as the Group of International Finance Centre Supervisors (as we are doing in seeking to update the international standard for the regulation and supervision of trust and company service providers (TCSPs) - a Jersey specialism) is a good example.

In the Registry field, this is even more pronounced where the wide number of international bodies with which Jersey is involved attests to its co-operative stance. This is again demonstrated through our experience of operating over many years a central registry of beneficial ownership of Jersey companies, which in turn allowed Jersey to participate in and inform the international debate on the beneficial ownership issue that took place under the aegis of the G8 and G20.

Jurisdictional Review

The years following the financial crisis have been difficult for all jurisdictions where financial services represent a major share of national output. Unsurprisingly the fall seen in demand worldwide for structures and services has affected Jersey's principal industry and in 2013 the Government, through Jersey Finance Limited, commissioned a major jurisdictional review, with the assistance of the consultants McKinsey, to consider responses to the effects generated by the crisis and the future of financial services in the Island. This was all-encompassing, looking at the role of Government, the balance between commerciality and regulation, future drivers of demand, emerging overseas markets with the right degree of affinity with Jersey and its offering, product development and also what needed to be done to preserve Jersey's existing strengths, particularly in its traditional markets of the UK and Europe.

As would be expected, the outcome and recommendations of the review are important proprietary information for Jersey and so cannot be shared in any detail. However, for the Commission a number of things can be said. First, the review recommended actions to strengthen significantly the relationship between Government and the Commission aimed at greater and more effective alignment on a number of future financial services issues and policy approaches. Second, various prescriptions were aired on risk appetite in general being generated more clearly by Government to underpin future decision making. A consensus was forged on identifying true priority markets and greater common understanding achieved around potential reforms to certain product lines in which the Commission is to play a key role alongside both Industry and Government.

The Commission was pleased to be able to play a full part in the review and is committed to implementing the proposals, particularly where it can play a constructive and influential role, alongside the other key stakeholders.

Supervision and Enforcement

As will be seen from the sections on Supervision and Enforcement, 2013 was another very busy year for everyone concerned with proper focus on the wide range of regulated financial services entities that operate in the Island. Our on-site examination programme was maintained at a high rate with differentiated focus driven by risk assessment remaining at the heart of this key part of the Commission's endeavours, leading to themed visits as an important part of the overall programme. Accordingly, 2013 saw a focus on mis-selling within investment businesses (IBs), which can be contrasted with attention to AML/CFT capability within the banking sector, Code of Practice compliance within funds service businesses, and a wider range of potential issues within trust company businesses.

Also worthy of note is a more intensive style of discovery visit aimed at achieving a better understanding of the business model and operation of certain entities that the Commission, from its off-site analysis, sees as domestically significant, substantially interconnected with other local firms, and potentially high in impact in terms of any or all of reputational, prudential or conduct risks. This in turn follows the prevailing new approach worldwide where supervisors are striving for a greater understanding of culture within regulated businesses, enhancing their scrutiny of key office holders and potential outcomes for the business. To this end, the Commission embarked on a project of supervisory review, which aims to deliver conclusions and recommendations for change in the first half of 2014 to set new parameters for what we are trying to achieve in our supervisory activities, including key areas such as trend analysis, greater use of intelligence sources such as complaints and whistle-blowers, and better knowledge of our regulated businesses, their business models and their culture.

Although below the intensity of 2012, the Enforcement Division experienced another busy and demanding year with significant achievements in the further use of settlement agreements, identifying and deterring unauthorised business problems and in the management of a number of both new and on-going major cases. Trends towards the greater use of intelligence and a rise in matters brought to the Division's attention through whistle-blowers were very noticeable.

The Commission's Enforcement Division has been together for a number of years now and has accumulated considerable experience and know-how in dealing with the many different demands placed upon it. By definition, the environment in which the Division operates can be adversarial and stressful, and it is a tribute to their committed approach to identifying reasonable and proportionate approaches to a variety of problem behaviours amongst a minority of registered persons and individuals that appropriate outcomes have been achieved in nearly all cases. Behind this success is the Commission's well tested Decision Making Process (**"DMP"**) but also, in addition to appropriate mechanisms, the philosophy and approach adopted by the Division and the Commission as a whole lies at the heart of the progress that has been made. I have heard it said by some in Industry that Enforcement is focused only on catching people out and then exacting retribution. Nothing could be more wrong. The prevailing philosophy is about identifying and understanding the root cause of problems, encouraging the registered person to share those problems openly and candidly with the Commission and agreeing on a course of action.

Once implemented, the Commission will step back from the regulated business in order for a more normal relationship to resume. In short, whenever appropriate, the emphasis is on remediation and that is a yardstick by which success in this difficult area is measured. Naturally there are occasions when more direct and punitive action is needed - subject to the DMP and its well-developed mechanisms of checks and balances. But these are the relatively few egregious cases that arise - or where a registered person simply will not adopt a constructive approach. The Commission does believe in a reasonable and proportionate approach and will continue to invest strongly in that notion and demonstrate it in the way it operates.

Conclusions

In summary, 2013 has been another demanding year for the Executive and the Commission's Staff.
The challenges and responses are set out more fully in the subsequent sections of this Annual Report, which cover the following areas:

- international standards and policy development, particularly in relation to AML/CFT and the AIFMD;
- the supervision of the finance industry in Jersey;
- the Commission's approach to enforcement where there have been breaches of regulatory standards;
- the activities of the Companies Registry;
- the application of resources to sustain the above activity; and
- the Commission's corporate governance framework.

I should like to extend my thanks, together with those of the Executive more generally, for the support and encouragement we receive from the Board of Commissioners, together with necessary agreement on securing the resources to take on the many issues facing the Commission. I should also particularly like to express my personal thanks to Clive Jones for the support and insight with which he provided me during his tenure as Commission Chairman. I look forward to working with Clive's successor in due course. Finally, I wish, as every year, to thank the Commission's Executive and Staff for their hard work, dedication and ever present commitment in addressing the diverse challenges we face both domestically and internationally. The Commission is a rich if demanding environment but one in which I believe our individual and collective contributions make a significant contribution to Jersey's finance sector success and more broadly to Island life. We are all proud of this contribution and are committed to continuing in the same vein.

Structure Chart

CHIEF FINANCIAL OFFICER

Nigel Woodroffe
Chief Financial Officer

Chris Renault
Commission Secretary

Eric Dolan
Deputy Director
Supervisory Operations

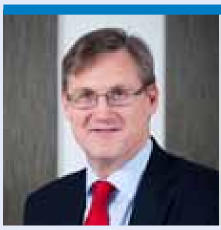
BANKING, INSURANCE AND INVESTMENT BUSINESS

Mark Sumner
Director Banking, Insurance
and Investment Business

Darren Boschat
Deputy Director
Banking

David Hart
Deputy Director
Insurance and
Investment Business

REGISTRY



Julian Lamb
Director Registry

Sarah Kittleson
Deputy Director Registry &
Non-Supervisory Operations

TRUST COMPANY BUSINESS

David Oliver
Acting Director
Trust Company Business

John Harris
Director General

FUNDS

Roy Geddes
Acting Director
Funds

Michael Jones
Acting Director
Funds

ENFORCEMENT

Barry Faudemer
Director Enforcement

Jamie Biddle
Deputy Director
Enforcement

OFFICE OF THE DIRECTOR GENERAL

Andrew Le Brun
Director, Office of the
Director General

HUMAN RESOURCES

Annette Cullen
Director Human Resources
and Facilities Management

INTERNAL AUDIT

Steven Gardener
Deputy Director
Internal Audit

International Standards and Regulatory Developments

The Commission seeks to ensure that the Island's framework for regulating and supervising financial services is of a high standard so as to comply with international standards which are dynamic and increasingly demanding.

European and other International engagement

The Commission proactively engages with international and European institutions and bodies.

Following an application made in 2012, the Commission now actively participates in the mutual evaluation processes and procedures of MONEYVAL - a body of the Council of Europe for the evaluation of anti-money laundering measures and the financing of terrorism (**"AML/CFT"**). In particular:

- In July, the Commission hosted a fact-finding visit to Jersey by members of MONEYVAL's Secretariat.
- In September, the Commission took part in an "ad hoc review group" charged with offering comments on a mutual evaluation report of a Balkan state.
- In October, the Commission took part in a workshop in Liechtenstein to consider the practicalities of conducting a national AML/CFT risk assessment in smaller territories.
- In November, the Commission attended a MONEYVAL evaluator training seminar in Strasbourg.
- In November, the Commission took part in the on-site review of a Baltic state's compliance with the Financial Action Task Force (the **"FATF"**) Recommendations.
- In December, Jersey "reported back" to the MONEYVAL Plenary on progress that it has made to address recommendations made by the International Monetary Fund (the **"IMF"**) in its 2009 assessment of Jersey's compliance with the FATF Recommendations.

The MONEYVAL Plenary was satisfied with the information provided by the Jersey authorities and progress being taken to address IMF recommendations. Jersey's "progress report" has since been published. This is to be followed in September 2014 by a further (fourth round) assessment of Jersey's compliance with the FATF Recommendations (as in force before the most recent revision).

In order to contribute to the development of international standards and to better understand the effect that changes in standards may have on Jersey, the Commission also participates in the work of:

- the Assessment Committee of the International Organisation of Securities Commissions (**"IOSCO"**);
- the FATF - through membership of the Group of International Finance Centre Supervisors (**"GIFCS"**); and
- the GIFCS - working to update the Statement of Best practice for trust and company service providers.

In particular, the Commission actively participates in the work of IOSCO's Assessment Committee which seeks to encourage full, effective and consistent implementation of principles and standards across IOSCO's wide membership.

The Commission also continues to engage with European institutions and bodies.

In June 2013, the auditor oversight regime in place in Jersey covering companies that have securities traded on a regulated market in the European Union (**"EU"**) was assessed and recognised as "equivalent" by Member States to the Statutory Audit Directive. The effect of this is that reliance can be placed on Jersey's oversight of auditors, without need for Member States in which a company's securities are traded to duplicate registration and oversight requirements under their national regimes. The legal instrument that recognises "equivalence" - a European Commission Decision - was made in June 2013.

Information is now being compiled to support an "adequacy assessment" under Article 47 of the Statutory Audit Directive. This assessment will consider what statutory provisions are in place in Jersey to facilitate the confidential exchange of relevant information between EU auditor oversight bodies and the Commission. A successful adequacy assessment would result in Jersey achieving the maximum "equivalence" available under the Statutory Audit Directive for third countries.

In 2012, it was reported that the Commission had explored with the European Commission and European Payments Council (the **"EPC"**) the future use by Jersey banks of European payment systems, following the EPC's withdrawal in early 2012 of criteria for third country membership. It was reported that it was not clear:

- who would set new criteria for deciding whether third country banks might apply to use euro payment systems; and
- who would assess third country payment frameworks against those criteria.

Since then, it has been established that assessment criteria are to be published again by the EPC, and, in conjunction with others, the Commission will seek to first offer comments on those criteria (before they are agreed) and then to facilitate possible future applications by Jersey banks under those criteria. It is expected that this will require new legislation to be introduced regulating euro payments.

The Commission negotiates memoranda of understanding with domestic and overseas agencies and promotes cooperation more generally. During the year, the Commission concluded a memorandum of understanding with the Icelandic Financial Supervisory Authority (Fjármálaeftirlitið).

The Commission's Handbook on International Co-operation and Information Exchange was published in Arabic during the year (in addition to versions already published in the English and French languages).

The Commission worked with its counterparts in the Isle of Man and Guernsey to respond to the package of Basel Committee papers issued on Basel III, comprising standards on capital adequacy and liquidity. This work built on feedback received to an initial discussion paper shared with Industry in late 2012.

A further discussion paper was issued to local banks in December 2013, setting out a proposed approach on capital adequacy elements of Basel III. This will be followed with further discussion papers on other aspects of Basel III (addressing liquidity and leverage ratio proposals, amongst other matters). In due course, this will be followed by consultation on plans for the implementation of Basel III.

The same collegiate approach has been adopted in considering recovery and resolution issues, with a focus on the Financial Stability Board's paper on "Key Attributes" of effective resolution regimes. This covers many aspects, with perhaps the most prominent being the need to replace a reliance on government bail-outs with a more nuanced approach that places a greater emphasis on contributions from creditors (commonly referred to as "bail-ins").

"The Commission now actively participates in the mutual evaluation processes and procedures of MONEYVAL."

International Standards and Regulatory Developments

Money laundering and terrorist financing

The Commission plays a key role in the Island's efforts to prevent and detect money laundering and terrorist financing.

A number of changes have been made to Jersey's AML/CFT framework during the period.

In August 2013, the Money Laundering (Amendment No. 5) (Jersey) Law 2013 came into force and made a small number of discrete amendments to the Money Laundering (Jersey) Order 2008 (the **"Money Laundering Order"**).

In December 2013, the Money Laundering (Amendment No. 6) (Jersey) Order 2013 came into force in order to address some outstanding recommendations made by the IMF. In particular, the amendment:

- changes the circumstances in which a financial institution may place reliance on identification measures (collection of information on a person's identity and also evidence to verify that identity) already applied by another institution, and apply simplified identification measures to a customer;
- requires senior management to collect additional information in cases where verification of the identity of a customer has been delayed;
- sets an end-date for the collection of missing information on identity for customer relationships established before February 2008 (in most cases by December 2014);
- allows evidence of a customer's identity held by one financial institution to be passed to another in certain circumstances.
- requires policies and procedures to identify and assess risks that may arise in relation to the development of new products, services, business practices and technology; and
- brings the treatment of secondary market trades of shares or units in collective investment schemes into line with other jurisdictions.

Also in December 2013, the draft Proceeds of Crime and Terrorism (Miscellaneous Provisions) (Jersey) Law 201- was lodged au Greffe. This draft law was adopted by the States of Jersey in February 2014 and will bring all anti-money laundering legislation into one single law (rather than three as is currently the case).

Other changes will be considered in the coming months. This is because the FATF published a revised methodology in February 2013 for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems. Whilst this revised methodology will not be used by MONEYVAL to assess Jersey's compliance with the FATF Recommendations under its fourth round assessment, the Commission has already started to consider what it and other agencies in Jersey will need to do differently in future. In particular:

- Work has started on preparing for a national AML/CFT risk assessment, which it is intended will start before the end of 2014. This will consider how financial institutions in Jersey may be targeted by criminals and how well existing defences against money laundering and terrorist financing are operating.
- Developments in the EU are being followed, where there are proposals for a fourth Money Laundering Directive, which may help to inform Jersey's implementation of the revised FATF Recommendations.

Changes have also been made to AML/CFT Handbooks at various points during the year. Additional guidance has been published on assessing country risk and the measures to be applied in the case of a higher risk customer, and on the application of identification measures to partnerships. Other changes have been to the rules surrounding the application of identification measures by lawyers.

> "Laws and regulations must be capable of implementation on an efficient and effective basis."

Other changes to legislation, requirements and guidance

Laws and regulations must be capable of implementation on an efficient and effective basis so as to achieve their objectives and command the respect of stakeholders. To this end:

- A large amount of time was spent in 2013 co-ordinating changes proposed to seven of the nine published Codes of Practice (the **"Codes"**), which set regulatory requirements. Changes were proposed to bring the wording of the seven sets of Codes closer together and also to deal with matters specific to a particular set of Codes. Revised Codes of Practice, guidance notes and subordinated loan agreements, along with an associated Feedback Paper, were published in January 2014. All will have effect from 1 July 2014. Meanwhile, the Codes for investment business were updated on 1 January 2014, following completion of the Commission's Review of Financial Advice (**"RFA"**).
- The Chief Minister is to be asked to lodge a number of "maintenance" amendments to the Collective Investment Funds (Jersey) Law 1988, the Banking Business (Jersey) Law 1991, the Insurance Business (Jersey) Law 1996, the Financial Services (Jersey) Law 1998, and secondary legislation made under these laws, and also the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008. In support of these changes, a summary of consultation responses was published in February 2014.
- Law drafting instructions have been prepared to change legislation in a way that would allow the Commission to impose civil financial penalties on regulated businesses for breaches of Codes of Practice.

Work has also continued on revising the Commission's sensitive activities policy for applications that are made under the Control of Borrowing (Jersey) Order 1958, and with the Economic Development Department on how the Commission and the proposed financial services ombudsman would co-operate with each other.

In September 2013, the Commission requested data from auditors to allow it to consider how Jersey might best approach improving its level of compliance with the IOSCO Principles on auditor oversight. Most of this information has now been received and will allow the Commission to put forward a number of options for improving compliance.

Regulatory Developments

Banking

The need to monitor and respond to external regulatory developments has continued, with an on-going tendency for this to add to the complexity of supervising local banking operations. The structure and form of banking regulation is being recast internationally. The Banking Division has closely monitored key developments and has worked with relevant stakeholders to properly understand the potential impacts on the banking sector in Jersey.

The key external developments at this time are: (1) the Basel III package of reforms; and (2) effective recovery and resolution. In particular, the proposals advanced by the UK's Independent Commission on Banking (**"ICB"**) for ring-fencing and resolution measures have the potential to significantly affect local operations. The Commission has worked with its counterparts in the other Crown Dependencies, all three governments and the affected banks to identify a workable approach to these. This work is likely to overlap with other recovery and resolution related developments, such as the proposed EU Bank Recovery and Resolution Directive.

The level of information sharing and co-ordination between supervisory authorities has increased substantially since the global financial crisis began and the Commission fully participates in this as a member of the supervisory colleges and crisis management groups that have been formed for individual banking groups. The latter, involving home resolution authorities, have enabled consideration of recovery and resolution issues across banking groups, which has provided a valuable insight into challenges faced by banks represented in the Island and helped to identify potential risks at an earlier stage.

The Commission has continued to monitor the planned reallocation of responsibilities between Eurozone national supervisory authorities and the European Central Bank, as a result of the proposed establishment of a Single Supervisory Mechanism and Single Resolution Regime for Eurozone banks.

In July 2013, the Commission issued a paper on Pillar 2 of Basel II, which developed previously issued guidance on the requirement for each locally incorporated bank to submit to the Commission a document that sets out a comprehensive assessment of its risks and capital needs. The paper reflected changes in international standards, as well as good practice identified locally. In particular, it was intended to highlight the need for local banks to consider the potential impact for them of bail-ins and other developments regarding resolution. This subject was also covered in changes made to guidance on Concession Limits, published in April 2013.

International Standards and Regulatory Developments

Funds

The work of the Securities Policy Team in 2013 was dominated by the response to the EU's Alternative Investment Fund Managers Directive (**"AIFMD"**). As the final requirements of the AIFMD became clear, and Industry's requests for the Island's response were finalised at the turn of the year, it became evident that a significant injection of resources was required for the Commission to meet the numerous demands. To this end, a senior internal resource was appointed as Lead Adviser in late February 2013 and an Industry secondee was brought in to assist the existing members of the Team.

In the months that followed, intensive work and consultation was undertaken with Industry, Government, and other key stakeholders to produce the Commission's response. This required the creation of a new regulatory regime through:

- new Legislation;
- amendments to existing Legislation;
- creation of a new fund product;
- issuance of Codes of Practice;
- Guidance Notes; and
- an authorisation regime with associated application and notification forms.

Further, detailed negotiations were held with the European Securities and Markets Authority and numerous key EU Member States to sign up to the required AIFMD co-operation agreements. The aforementioned response ensured the Commission was able to do so in good faith. To date, 27 co-operation agreements have been signed with EU Member States.

The final outcome is that Jersey is in the enviable position compared to most third countries, and indeed many European states, of having a fully compliant AIFMD regime in place from July 2013. Considering the timeframes involved, the level of importance to the local funds sector of continued access to the European market and the fact that this was one of the most technically challenging and politically sensitive projects the Commission has faced, the Commission is delighted with the outcome and grateful to Industry for its support in this regard. The initiative proved to be a very successful partnership between the Commission and Industry.

The Securities Policy Team also progressed a number of other initiatives; the RFA, consumer education, managed accounts, a number of European legislative response dossiers, and IOSCO self-assessments, amongst other things.

Investment Business ("IB")

2013 saw the completion of the RFA project. The aims of RFA are to raise the professional standards of investment advisors and eradicate possible conflicts of interest that can be caused by commission based remuneration arrangements. Updated Codes of Practice for Investment Business, reflecting RFA, came into effect on 1 January 2014; alongside an updated Guidance Note on Investment Business qualifications.

Trust Company Business ("TCB")

The Commission has observed an element of upturn in client transactions within the TCB sector in 2013. The previous UK centric business model is no longer viable to a large extent, which has reduced the source of what was considered traditional business opportunities. The TCB sector has looked further afield for business opportunities.

Although the TCB sector has continued its trend of consolidation, the total employment numbers in the sector have remained stable.

During 2013, the Division published a number of Guidance Notes and/or "Dear CEO letters" on the following matters: compliance monitoring; the regulatory requirements for natural persons acting as directors; the administration of aggressive tax schemes; and managed trust companies.

Supervision

The Supervision 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."

Approach

- A pro-active risk-based approach aimed at achieving complementary goals of discovery and deterrence, and which seeks to maintain or, where appropriate, to raise, regulatory standards.

Off-site

- Authorisation of regulated entities and principal persons.
- Review of financial information and regulatory/ prudential returns.
- Review of intelligence, including whistle blowing, complaints and Suspicious Activity Reports.

On-site

- Various types of on-site examination as detailed below.
- Mystery shopping, particularly in relation to the provision of financial advice.

Post on-site

- Follow up and remediation.
- Heightened supervision, including the use of enforcement powers.

Authorisations and revocations

Registered businesses comprise: banking; fund services business (**"FSB"**); general insurance mediation business (**"GIMB"**); insurance; investment business (**"IB"**); trust company business (**"TCB"**); and designated non financial businesses and professions (**"DNFBP"**) that carry on a business specified in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999.

During 2013, the number of registered businesses in each sector, together with any authorisations and revocations, was as follows.

Registered businesses in each sector

Sector	1 January 2013	Authorised	Revoked	31 December 2013
Banking	42	0	0	42
FSB	466	48	47	467
GIMB	139	7	10	136
Insurance	178	12	8	182
IB	97	3	5	95
TCB	189	14	17	186
DNFBP	216	26	13	229
Total	**1,138**	**96**	**83**	**1,151**

The IB Team expects a further reduction in IB registrations during 2014 as the sector continues to consolidate.

The Jersey Mutual Insurance Society (the **"Society"**) was granted a permit under the Insurance Business (Jersey) Law (the **"Insurance Law"**) in 2013. This followed a voluntary application by the Society to give up its exemption under the Insurance Law and become a permit holder under the Insurance Law.

"A pro-active risk-based approach aimed at achieving complementary goals of discovery and deterrence."

Supervision

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 themes arising from the examinations have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers, the eNewsletter and the Website. The Commission completed 231 examinations during 2013 (187 during 2012).

Total examinations 2013

Division	Themed	Supervision	Total
Banking	17	2	19
Funds	9	82	91
Insurance	0	12	12
IB	0	25	25
TCB	33	15	48
AML Unit	0	36	36
Total	**59**	**172**	**231**

Examination activity was a significant feature of 2013. The main issues that have arisen from the on-site examination programme during 2013 are summarised below by each Industry sector. Remediation plans are agreed, where necessary, with the entities and such plans are monitored to ensure that the remedial work is undertaken within the prescribed timescales.

Banking

Banking continued to undertake thematic examinations in relation to prudential reporting during the first half of 2013, which highlighted a number of areas in which the Commission's guidance had been misinterpreted. The Commission has already published consolidated findings and provided specific feedback to individual firms and will now revisit its published guidance in order to provide greater clarification, where necessary.

During the second half of the year, Banking undertook examinations on the theme of AML and financial sanctions screening. These examinations have enabled the Commission to benchmark AML and sanctions defences in place across the banking sector in Jersey and allowed it to highlight best practice and target areas for improvement. This theme will continue during the first half of 2014 and will culminate in a consolidated findings report.

Funds

In 2013, Funds Supervision undertook 27 on-site examinations resulting in the review of 91 fund entities.

The examination findings identified areas for improvement in relation to corporate governance, management of conflicts of interest, compliance monitoring and oversight of outsourced services, as well as AML/CFT controls.

A thematic review was conducted in relation to the application of the Collective Investment Funds' Codes of Practice (the **"CIF Codes"**), issued in April 2012. A key finding was failure by registered persons to incorporate the CIF Codes into their policies, procedures and compliance monitoring programme.

Insurance

Findings from the on-site examinations highlighted weaknesses in corporate governance, risk management framework and documented procedures. However, there was evidence of continuing improvement in the conduct of business undertaken on behalf of policyholders.

"Examination activity was a significant feature of 2013."

IB

The IB Team completed a full programme of 25 on-site examinations during 2013. Whilst these visits did not have a specific theme, there was a focus on identifying potential cases of mis-selling or weaknesses in procedures and controls that could lead to mis-selling of investments. The on-site examinations identified some common themes including:

- weaknesses in procedures and documentation required to effectively demonstrate on-going suitability of investments;
- insufficient focus on conflicts of interest by those charged with governance and ineffective procedures to identify and address potential conflicts;
- weaknesses in policies and procedures relating to AML and associated deficiencies in customer due diligence;
- inadequate compliance monitoring programmes and/or lack of resources to conduct effective monitoring; and
- deficiencies in the identification and documentation of risks faced by registered persons.

The IB Team has engaged with Industry in relation to historic sales of Interest Rate Hedging Products and continues to monitor developments in this respect.

TCB

The TCB Division focused most attention and resource on specific themes when undertaking its on-site examination programme for the year. The 2013 themes, arising from the on-site examination findings in 2012, included compliance monitoring, conflicts of interest, the compliance and anti-money laundering reporting functions.

The Division found that in a large number of cases the compliance monitoring programme was not based on risk, not sufficiently wide in scope and not conducted by an independent resource. As a result of these findings, the Commission produced a Guidance Note for Industry in December 2013.

In May 2013, the Division held a one day conference that provided feedback from on on-site examinations, which included guidance on risk management, corporate governance, transaction monitoring, and client review effectiveness.

AML Unit

The AML Unit has three principal areas of responsibility:

- supervising persons undertaking money service business;
- registering and overseeing designated non-financial businesses and professions (**"DNFBPs"**) for compliance with Jersey's AML/CFT regime; and
- registering non-profit organisations (**"NPOs"**) and monitoring this sector for vulnerabilities against the financing of terrorism.

During 2013, the AML Unit carried out 29 on-site examinations across the sectors that it supervises and provided support to other Divisions on a further seven AML related examinations.

"The IB Team has engaged with Industry in relation to historic sales of Interest Rate Hedging Products."

The focus of the AML Unit's work to date has been on ensuring that newly registered businesses have received an initial examination from the Commission so as to establish that they have undertaken the necessary AML/CFT business risk assessment and formulated a strategy and associated polices and procedures to counter money laundering and the financing of terrorism. With the majority of businesses now having received an initial on-site examination, the AML Unit now intends to concentrate on conducting more in depth examinations of higher risk businesses. To this end, the AML Unit intends to overhaul its risk model for DNFBPs during 2014 in order to better target its resources to higher risk businesses. The AML Unit will also seek to gather information from the NPO sector in order to refresh its assessment of this sector's vulnerability to terrorist financing.

Enforcement

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

As a general trend, the Enforcement Division has seen an increase in more complex and demanding cases across nearly all regulated sectors.

Working with a registered person to achieve compliance and safeguarding investors' interests continues to be a major part of Enforcement's work. Much of this is achieved through working co-operatively with the registered person. In the most serious cases, Enforcement undertakes culpability reviews of individual conduct with reference to integrity and competence. Serious cases result in the issuance of directions restricting an individual working in the financial services industry and are accompanied by public statements.

The Commission recognises the importance of applying sufficient checks and balances when considering the use of such powers and has developed a robust, publicised, process: "a Guidance Note to the Decision Making Process".

Any affected person who feels that the Commission has acted unreasonably in the use of such powers is entitled to appeal to the Royal Court. No appeals to the Royal Court were made in 2013. Only one appeal has been lodged in the last six years.

Settlement agreements have continued to be an effective and cost efficient method of dealing with serious regulatory misconduct, and six agreements were concluded during the year. Such agreements are subject to strict parameters issued by the Board of Commissioners (the **"Board"**) and are also subject to an annual retrospective review by a Commissioner.

Those that seek to evade regulatory oversight of their activities by conducting financial services business whilst not registered with the Commission often pose a significant risk to investors. Due to the very real threat associated with those that seek to covertly conduct unauthorised financial services business, the Commission will continue to give priority to investigating such cases. In 2013, the Commission conducted 18 such investigations which was a marked decrease on the previous year's figure of 33.

The Commission published 12 public statements during the year, relating to both regulated businesses and those conducting unauthorised financial services businesses. The full public statements can be viewed on the Commission's website.

Receiving good quality intelligence to identify misconduct helps direct the Commission to a specific problem, often resulting in swift and focused intervention. In 2013, the Commission received approaches from 20 whistle blowers either through the use of the Commission's whistle blowing line or through direct personal contact.

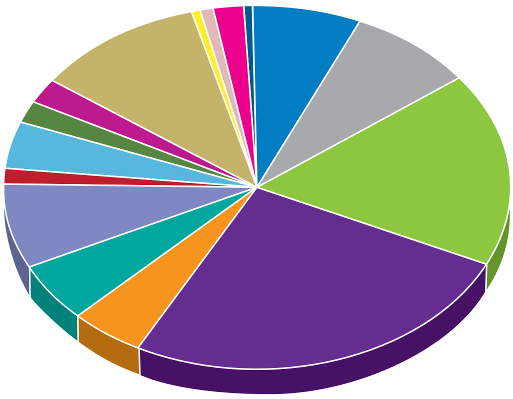
> "Receiving good quality intelligence to identify misconduct helps direct the Commission to a specific problem."

A consultation paper on the introduction of a civil penalty regime was published in April 2012. The feedback was instrumental in shaping the Commission's thoughts on the structure of a civil penalty regime. The feedback provoked a great deal of discussion by both the Executive and the Board, culminating in the publication of a feedback paper and the preparation of law drafting instructions at the end of 2013. It is anticipated that a further round of consultation will take place once a draft law is available.

Giving feedback to the Industry on trends and developments is regarded as an important part of Enforcement's role. During the course of the year, Enforcement participated in several Industry seminars. Enforcement hosted its own lunchtime seminar in December, which was aimed at providing practical and useful information to the industry based on "lessons learned" from Enforcement cases.

Enforcement case statistics

Percentage breakdown of Enforcement Division activity during the year ended 2013



Financial Services (J) Law - Investment Business - Non Regulated 6.8%
Financial Services (J) Law - Investment Business - Regulated 8.2%
Financial Services (J) Law - Trust Company Business - Non Regulated 17.0%
Financial Services (J) Law - Trust Company Business - Regulated 25.9%
Financial Services (J) Law - Fund Services Business - Regulated 4.8%
Financial Services (J) Law - Insider Dealing 5.4%
Financial Services (J) Law - Market Manipulation 7.5%
Financial Services (J) Law - Misleading Statements and Practices 1.4%
Banking Business (J) Law - Non Regulated 4.1%
Banking Business (J) Law - Regulated 2.0%
Companies (Jersey) Law 2.0%
Proceeds of Crime (Jersey) Law 10.9%
Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 0.7%
Insurance Business (J) Law - Non Regulated 0.7%
No Specific Law 2.0%
Investigation of Fraud Law 0.7%

Total Enforcement Cases during the period from 1 January 2013 to 31 December 2013

Law	Active 1 January 2013	New Cases in Year (to 31/12/2013)	Total during year (to 31/12/13)	Total shown as percentage	Balance 31 December 2013
Financial Services (J) Law - Investment Business - Non Reg 6.8%	3	7	10	6.8	1
Financial Services (J) Law - Investment Business - Reg 8.2%	4	8	12	8.2	6
Financial Services (J) Law - Trust Company Business - Non Regulated 17.0%	8	17	25	17.0	7
Financial Services (J) Law - Trust Company Business - Regulated 25.9%	28	10	38	25.9	27
Financial Services (J) Law - Fund Services Business - Reg 4.8%	3	4	7	4.8	4
Financial Services (J) Law - Insider Dealing 5.4%	2	6	8	5.4	2
Financial Services (J) Law - Market Manipulation 7.5%	1	10	11	7.5	1
Financial Services (J) Law - Misleading Statements and Practices 1.4%	1	1	2	1.4	2
Banking Business (J) Law - Non Reg 4.1%	0	6	6	4.1	0
Banking Business (J) Law - Reg 2.0%	2	1	3	2.0	1
Companies (Jersey) Law 2.0%	0	3	3	2.0	1
Proceeds of Crime (Jersey) Law 10.9%	3	13	16	10.9	1
Proceeds of Crime (Supervisory Bodies)(Jersey) Law 2008 0.7%	0	1	1	0.7	0
Insurance Business (J) Law - Non Reg 0.7%	0	1	1	0.7	1
No Specific Law 2.0%	0	3	3	2.0	2
Investigation of Fraud Law 0.7%		1	1	0.7	1
Total	55	92	147	100.0	57

Registry

The Commission operates Jersey's Companies Registry (the **"Registry"**), which registers Jersey statutory bodies.

The Registry is committed to constructively respond to the needs and requirements of its users. Its Focus Group meets annually to discuss issues such as the quality of service provided by the Registry, online services, the volume of business through the Registry, and new products and fees.

During 2013, the Registry continued to progress its 'root and branch' review. The objects of the review are to:

- clearly define the requirements of a replacement Registry system;
- ensure that any new system removes the burden of redundant administrative requirements and takes into account any legislative drivers; and
- ensure international standards are met where required.

The focus for 2013 was to actively engage with stakeholders, in particular other local registries and Government agencies. Registry ICT business process modelling "as is" and Registry best practices reviews were completed during the year.

Overall, the number of Registry transactions continued to grow with registrations and processing, such as special resolutions and searches, having significantly increased.

The Registry adheres to published response time-scales, all of which were met in 2013, as shown in the table on page 50.

Automation and e-commerce projects

The online search facility, the online monitoring and the online filing system were all enhanced.

All systems continue to be embedded in the online environment known as Easy Company Registry (**"ECR"**).

In particular a new facility was created to allow search documents to be downloaded rather than attached to an email. The method of attaching a document to an email prevented some very large documents being retrieved; the new method now allows all publicly filed documents to be searched online.

Work on developing an automated Security Interests Register (**"SIR"**) reached go live on 1 October 2013 for the filing of assignments of receivables, while security interest filings were enabled from 2 January 2014.

In partnership with ICT, the Registry continued to enhance and extend its website with the introduction a number of online forms, in particular forms for the collection of the new partnership fees, which were designed to achieve further efficiencies. A number of Registry e-zines were published during 2013 to keep users abreast of Registry issues and developments.

International Development of the Registry

The Registry has continued to enhance its profile internationally, participating at events such as the European Commerce Registries' Forum (**"ECRF"**) in Romania. According to the ECRF's global benchmarking survey 2013, Jersey was one of nine jurisdictions to achieve a positive inflow from cross-border mergers of all jurisdictions surveyed. Given this statistic, Jersey considers it important to be aware of international registry developments in this area. As part of this programme, the Registry was elected to the ECRF Working Group set up to progress harmonization of registry definitions and the Registry continued to work with the group set up to consider the requirements of the Directive on the Interconnectivity of European Union (**"EU"**) and non EU (third countries) business registries.

The implications for Jersey and other non EU countries of the introduction of this Directive and, consequently, any EU mechanism set up to deliver the requirements of this Directive, still remain to be determined.

As part of its programme to match international standards on the supply and transparency of registry data, an information sharing agreement was signed with the European Business Register (**"EBR"**). This has enabled information on Jersey companies to be available through the EBR for the last seven years.

The International Association of Commercial Administrators (**"IACA"**) represents the company registries of the United States and Canada. IACA registries are regarded as the leading jurisdictions for the administration of secure transactions and, with Jersey's new SIR going live in 2013 and being further developed in 2014 with regard to tangible moveable assets, access to expert support from some of the North American registries has been, and continues to be, beneficial in developing the SIR.

Resources

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.

Information and Communications Technology (**"ICT"**)

The ICT Division has successfully completed a number of major technology projects, including the relocation of its primary data centre in order to ensure the continued high availability of the Commission's internal and public facing systems. Taking advantage of this relocation, the Commission's aging network security infrastructure was replaced with a new suite of advanced appliances and monitoring systems.

Work commenced on the replacement of the Commission's desktop computing infrastructure, brought about by the impending retirement of Microsoft Windows XP in 2014. The Commission has chosen to move to a new generation of 'thin client' technologies which will provide a significant increase in the flexibility and accessibility of its systems. The Division procured a new ITIL[1] aligned service management system to replace the aging helpdesk solution. This further reinforces its commitment to achieving a high level of quality, service and change control.

A number of new business applications have been developed on the Commission's SharePoint platform, together with enhancements to existing systems.

Work continued with the Companies Registry to extend the online services that are available, including the delivery of the new, entirely electronic, Security Interests Register. This went live in October 2013.

2013 also saw the completion of a Divisional resource review resulting in the creation of two new positions to further underpin the increasing investment being made in new and evolving systems.

Human Resources

The Commission has a policy on equality and diversity, but does not currently have any specific objectives.

2013 was a challenging year, characterised in the main by high volumes of recruitment, and some new Learning and Development initiatives. The Commission aims to be an employer of choice attracting quality local and global applications. During 2013, the Commission successfully recruited 19 new and replacement members of Staff. Regretted employee turnover reduced in 2013 to 7.38% of the workforce, this was down from the 2012 figure of 9.26%. Employee stability has also increased with average employee length of service now standing at 6.22 years.

Learning and development has always been given very high priority at the Commission. It is essential that Staff are professionally qualified, technically competent and have the opportunity to receive continuous professional development. The Commission utilises a variety of development methods which include: secondments; breakfast briefings; professional training; in-house learning; conferences; and training alongside other regulators.

"The ICT Division has successfully completed a number of major technology projects."

[1] ITIL – Information Technology Infrastructure Library – Service Management Best Practices.

Corporate Governance

Introduction

The Commission is committed to high standards of governance and believes that The UK Corporate Governance Code (the **"Code"**) issued by the Financial Reporting Council is the appropriate benchmark for financial services businesses and their regulators. The Code operates on a "comply or explain" basis where an explanation should be given about how the underlying principles in the Code are met where this is not automatic.

The Commission complies in full with The Code. Although the Commission does not have shareholders, it has instead a wide range of stakeholders and seeks to have an effective dialogue with them by way of the annual Business Plan and Budget, the Annual Report and the wide range of consultation documents about major legislative and policy proposals that it publishes. It also operates a whistle blowing help line to assist in the collection of information to identify regulatory misconduct and has a physical office in a central location to enable the public to make contact. The Commission meets regularly with Government Ministers and Officers, and with the leaders of the businesses that it regulates.

The Commission publishes a section on Corporate Governance on its Website covering the following areas: Matters Reserved for the Board; Delegation of Powers; and Conflicts of Interest. This can be accessed at www.jerseyfsc.org/corporate_governance.asp

"The Board is responsible, in particular, for agreeing the strategy of the Commission and ensuring that the necessary financial and human resources are in place for the Commission to meet its objectives."

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"**). The Board is responsible, in particular, for agreeing the strategy 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 (the **"States"**), 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[1] 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 Government 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.

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 considered to be independent non-executive members of the Board. Seven of the Commissioners live in Jersey, and three in the United Kingdom.

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.

[1] Pursuant to the States of Jersey (Transfer of Functions No.6) (Economic Development and Treasury and Resources to Chief Minister) (Jersey) Regulations 2013, the Minister responsible for the Commission changed from the Minister for Economic Development to the Chief Minister on 19 July 2013.

The Board is satisfied that its composition provides a proper balance between the interests of persons carrying on the business of financial services, the users of such services and the interests of the public at large. The current membership of the Board, together with a brief description of their experience, 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.

Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States. When seeking to fill vacancies that arise, the Board follows the procedures recommended by the Jersey Appointment Commission (**"JAC"**) - a body set up by the States to overview all public sector appointments - and a member of the JAC sits on the Selection Panel that will include at least one local Commissioner and one off-Island Commissioner. The Selection Panel reports to the Board. The Board determines whether an appointment should be made and recommends such appointment to the Chief Minister. If the Chief Minister is satisfied with the Commission's recommendation, the Chief 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 at the earliest stage. Commissioners receive a standing invitation to attend in-house seminars, as well as receiving lunchtime presentations at strategic level from local and overseas speakers of recognized stature. This is in addition to ad hoc continuous development training events.

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

Clive Jones, the Chairman of the Commission since 18 September 2009, took the decision not to seek re-appointment on the expiry of his second term as a Commissioner on 22 October 2013. Clive Jones was first appointed a Commissioner on 23 October 2007. A selection process for a new Chairman was commenced in December 2013 and will continue into the early part of 2014.

Following the retirement of Clive Jones, John Averty, the Deputy Chairman, has presided at Board meetings and Commissioner Eatwell has acted as Senior Independent Director since that event.

On 1 March 2013, John Harris was re-appointed by the States to serve a further term of five years as a Commissioner. On 30 November 2013, Advocate Deborah Prosser was re-appointed by the States to serve a second term of five years as a Commissioner.

Operation of the Board

During 2013, the Commission held nine Board meetings and made five resolutions that were passed by way of transactions of business without meeting. 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. Since April 2013, the Commission has taken advantage of the efficiencies, costs savings and environmental benefits that are provided through the use of electronic Board Packs.

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 a policy statement on those powers that it has delegated to the Executive of the Commission. The full text of these policy statements can be viewed on the Commission's website at: www.jerseyfsc.org/corporate_governance.asp

Corporate Governance

On an annual basis, the Board holds an Away Day and this provides an opportunity to discuss strategic issues for the year ahead. Additional meetings to discuss strategic issues and review the performance of the Board and the Director General are also held. Annual meetings are also held with the financial services regulators in the other Crown Dependencies (Guernsey and the Isle of Man).

The Board conducted a self-evaluation of its performance during 2013. Whilst the conclusions reached were generally satisfactory, the Board concluded that it should improve its internal processes, which included changes to the structure of the agenda for Meetings, putting questions to the Executive in advance of Meetings, and giving consideration to the Commission's philosophy in relation to its various roles by having regular discussions about topics such as its risk appetite.

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 the fourth quarter 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 the Board to answer questions and provide any additional information that may be required. Performance against budget is monitored by the presentation of quarterly management accounts to the Board and financial presentations as and when appropriate.

The Commission's financial and critical non-financial control processes have been in place throughout the year and have been kept under regular review. The Board concluded that the system of financial control in relation to key items was effective throughout the year.

During 2013, the Executive developed a strategic framework to improve clarity over the Commission's key aims, strategies and operational activities. Through the use of Key Performance Indicators (**"KPIs"**), strategic analysis and risk assessments the Commission will be able to assess progress towards achieving its required outcomes and to enable insightful strategic responses. The Commission's stated aims have been developed further and now comprise:

1. Have the right scope and mandate to discharge regulatory objectives effectively.
2. Match international standards for business lines & AML/CFT proportionately and in line with the Commission's Guiding Principles.
3. All providers, products & persons meet licencing requirements.
4. All regulated entities operate within accepted standards of good regulatory practice.
5. Improve regulatory standards through credible deterrence.
6. Enhance the reputation of the Commission and Jersey through the development of mutually beneficial relationships.
7. Provide registration, regulatory challenge and search facilities in accordance with statutory and regulatory requirements.
8. Promote, develop and maintain effective and efficient support operations.
9. Recruit & retain the right number of highly motivated & talented staff who are able to deliver world class regulation.

Although the framework is in its infancy, the Executive and the Board have already found it useful in focussing on certain key areas such as the potential stakeholder expectation gaps in respect of the Commission's scope and mandate and emerging issues relating to virtual currencies such as Bitcoins.

Principal risks and uncertainties

The Board discusses the risks and uncertainties facing the Commission on a regular basis. Discussions and decisions are influenced by global political, economic, legal and regulatory factors, as well as local considerations and the operation of the Commission itself.

Strategic and operational risks arising from its legal remit have been captured in a risk register, which is regularly reviewed by the Executive, Audit Committee and Board. Of the risks identified, the Commission currently considers the following to be the principal risks and has allocated significant resources to managing them.

International Standards Alignment

This is the risk that the reputation of Jersey and compliance with international standards falls below the level necessary to secure sufficient high quality and profitable financial services business and/or results in international disapproval/sanctions.

The Commission considers this risk to be increasing as a result of the current global political, economic and regulatory environment. In addition to its existing activities, the Commission responded by:

- engaging fully with government to implement McKinsey recommendations;
- improving its policy prioritisation processes;
- recruiting additional policy resources; and
- creating a new Director of Policy and Strategy role to be filled in early 2014.

Regulatory Strategy and Execution

This is the risk that the Commission does not choose effective regulatory strategies or is unable to achieve its objectives resulting in public financial loss and/or reputation damage to the Commission and Jersey.

The Commission also considers this risk to be increasing as a result of the current political, economic and regulatory environment. In addition to its existing activities, the Commission responded by:

- improving clarity over key aims, strategies and operational activities;
- developing strategic reporting (including KPIs);
- reviewing the effectiveness of its change implementation process; and
- creating a new Chief Operations Officer role to be filled in early 2014.

The Commission will continue to monitor these risks and the effectiveness of its response to them through its corporate governance processes.

Committees of the Board

The Board had established three Committees; an Audit Committee, a Remuneration Committee and a Nomination Committee. However, in May 2013, the Board decided that, in light of the fact that nine of its ten members were non-executive, it would be consistent with good practice to dispense with the Nomination Committee and deal with the business in the full Board.

The Board appoints the members of the Committees. The terms of reference of the two remaining Committees are published on the Commission's website at: www.jerseyfsc.org/committeesoftheboard.asp

Audit Committee

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 2013 were John Averty (Chairman) (until October 2013), Ian Wright (a member during 2013 and subsequently appointed as Chairman from October 2013), Stephan Wilcke and Cyril Whelan (from October 2013).

The Audit Committee met twice during the year and spent significant time on the statutory audit, risk, internal controls and KPIs. In addition, one resolution was passed by way of the transaction of business without meeting.

The Audit Committee considered which financial and non-financial controls it believed are key controls and drew up a short list of essential controls covering cash payments, contracting and physical security. It then commissioned specific work from internal and external audit to provide it with evidence of their effectiveness.

The Audit Committee concluded that the system of financial control in relation to these key items was effective throughout the year and reported this to the Board.

The Audit Committee took a significant interest in the development of the Commission's key risk register and KPIs to enable the Board to monitor progress towards achieving key regulatory outcomes.

Internal Audit focussed its activities Supervisory effectiveness, looking at the on-site examination process and the way in which information and intelligence is used. Advice was provided on the Commission's project governance and KPI frameworks.

Corporate Governance

The Audit Committee met with PKF (UK) LLP (**"PKF"**), the external auditor, during the year. The Audit Committee reviewed the audit plan and considered whether there were any material exposures omitted. It discussed the work proposed and the level of materiality for potential errors and omissions and concluded that the plan was appropriate and that the audit should be effective. During that meeting, PKF advised that it would be merging with BDO LLP and continuing to trade as BDO LLP. Whereas there were no conflicts of interest in relation to the audit undertaken by PKF for the financial year ended 31 December 2012, as it did not undertake any financial services business in Jersey, BDO Limited, a limited liability company incorporated in Jersey and part of the international BDO network of independent member firms is a recognized auditor in Jersey, and this required further consideration in relation to the audit for the financial year ended 31 December 2013. The Audit Committee took comfort from the assurance that BDO LLP would continue to carry out the audit from a BDO LLP office in the UK, with the work being overseen by a UK based partner. The Audit Committee later met with BDO LLP and discussed the results of their work and any potential threats to their independence. It was noted that the audit partner would now have completed seven years and concluded that it would be appropriate for the partner to be rotated for 2014. BDO LLP did not provide any non-audit services to the Commission.

Remuneration Committee

The members of the Remuneration Committee during 2013 were, Debbie Prosser (Chairman), Clive Jones (until October 2013), John Mills and Markus Ruetimann (from October 2013). The Remuneration Committee met three times during 2013 and one resolution was passed by way of the transaction of business without meeting.

The Remuneration Committee gave further consideration to the introduction of a competency framework to assess behavioural as well as technical competencies. Workshops were held for the Board and the Executive to consider the major issues facing the Commission. Following those workshops, the Board decided that other work and projects would take priority over the introduction of a competency framework.

The Remuneration Committee received and considered recommendations from the Executive for the annual pay review and bonus awards and agreed the remuneration levels for the Executive and staff. The Remuneration Committee decided to undertake a review of the Commission's remuneration strategy in 2014, and requested that the Executive undertake preliminary work in preparation for the Committee's review.

Nomination Committee

The Board concluded that it was not necessary to have a standing nomination committee and instead the full Board carries out the functions of a nomination committee as and when the need arises.

During the year, the decision of the Chairman not to seek a further term of office led to the creation of an ad hoc committee of the Board. It gave extensive consideration to the needs of the Commission and how that individual may best serve the needs of the organisation and the Island. This led to the preparation of a detailed role specification for a future Chairman which was discussed with key stakeholders.

Certain Commissioners considered that they might have potential conflicts of interest and as soon as identified they excused themselves from further participation in the work of the committee.

The committee invited tenders from both Jersey and London based recruitment consultants and selected MWM Consulting. There are no other connections between the Commission and MWM Consulting. The role of Chairman was then advertised in Jersey and UK media and on the Commission's website.

Subsequent to the year end, a smaller sub committee was formed to evaluate the high quality candidates identified by this process and make a recommendation to the full Board. The sub committee was joined by a representative of the Jersey Appointments Commission to help ensure that we complied in full with the Procedures for Appointments made by the States of Jersey.

"The Audit Committee took a significant interest in the development of the Commission's key risk register and KPIs to enable the Board to monitor progress towards achieving key regulatory outcomes."

Attendance at Meetings

During 2013, attendance at meetings of the Board and its Committees was as follows:

	Meeting		
Commissioner	**Board**	**Audit**	**Remuneration**
Clive Jones	8/8		2/2
John Averty	9/9	2/2	
John Harris	8/9		
Lord Eatwell	6/9		
John Mills, CBE	8/9		3/3
Advocate Debbie Prosser	9/9		3/3
Markus Ruetimann	8/9		1/1
Crown Advocate Cyril Whelan	9/9	0/0	
Stephan Wilcke	7/9	1/2	
Ian Wright	7/9	2/2	

Accountability arrangements

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

Pursuant to the States of Jersey (Transfer of Functions No.6) (Economic Development and Treasury and Resources to Chief Minister) (Jersey) Regulations 2013, the Minister responsible for the Commission changed from the Minister for Economic Development to the Chief Minister on 19 July 2013.

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 will be exercised. The text of the Memorandum can be obtained from the Commission's Website.

> "the Board has taken steps to understand the views of the Commission's major stakeholders."

Whilst the Commission does not have any shareholders, the Board has taken steps to understand the views of the Commission's major stakeholders by holding meetings with senior Government Ministers, Jersey Finance Limited and representatives of other Industry bodies. The Executive also meets with Government Ministers and Officers, and representatives of Jersey Finance Limited and other Industry bodies, on a regular basis.

FINANCIAL STATEMENTS

Financial Statements

Introduction

Fee income increased to £13.62 million in 2013 from £13.00 million in 2012. The main reason was the effect of the first increase to funds fees in 10 years on 1 July 2012 (in 2012, only six months were at these higher rates compared to the full year in 2013).

Bank deposit interest received amounted to £64,000, which was less than in the previous year, reflecting lower interest rates available in the market. Other income came from seminars for the finance industry that were held during the year. The cost of these seminars was included in other operating expenses. No similar seminars were held in 2012.

The Commission's major item of expenditure remains staff costs. As in previous years, the Commission has only been increasing staff numbers when absolutely necessary. During 2013, the average number of staff employed increased from 117 to 124. Despite the increase in the number of staff however, the overall related costs remained at a similar level to 2012. This was in part because several senior positions fell vacant in the year without immediate like-for-like appointments being made. An analysis of this expenditure is contained in note 5 to the financial statements. Action taken in the year to recruit 19 staff including three directors and a Chairman contributed to an overall increase in recruitment costs to £291,000.

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

Expenditure on legal and professional services principally comprised the continued cost of consultants assisting with document management and Registry workflow review projects, the costs associated with the States of Jersey's review of a significant investigation and a share of the cost of an additional law draftsman. Despite the number of activities increasing, legal and professional services costs fell overall to £457,000 in 2013.

The net amount spent on investigations and litigation fell to £701,000 compared to £745,000 a year earlier. As in 2012, the majority of expenditure in 2013 related to just two major ongoing cases, reflecting the Commission's efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Visits continued to be made regularly to overseas regulatory authorities and to international standard-setting organisations. It is important to maintain regular liaison and information exchange with these international bodies. This will continue in the coming years.

The Commission remains committed to staff development, education and training, so appropriate funding is made available annually for this important aspect of the Commission's activities.

Overall, the level of operating expenses increased from £12.97 million in 2012 to £13.64 million in 2013. The net result for the year was an operational surplus of £93,000 and a consequent rise in reserves to £7.34 million. The Commission has continued its policy in respect of its accumulated reserve in order to build up such a reserve to an amount equal to six months' operating expenditure plus the average of the last five years' cost of investigations and litigation. This is in order to meet contingencies, particularly the sizeable sums of money that may be required to fund investigations and litigation.

The Commissioners are of the opinion that the Financial Services Commission is a going concern, and the financial statements have been prepared accordingly. The auditors, BDO LLP, who were appointed in accordance with Article 21 of the Financial Services Commission (Jersey) Law 1998, have indicated their willingness to continue in office.

The Commissioners have considered in detail the whole of the annual report and financial statements and concluded that it is, taken as a whole, balanced, fair and understandable and provides the information necessary for stakeholders to assess our performance as a regulator, our regulatory model ensuring effective supervision and enforcement, and our longer term strategy.

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

The Financial Services Commission (Jersey) Law 1998 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 Generally Accepted Accounting Practice (being United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom).

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commissioners are responsible for keeping proper accounts and proper records in relation to the accounts. 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 F Renault
Commission Secretary
2 April 2014

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2013 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Financial Services Commission (Jersey) Law 1998.

The financial statements comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is the Financial Services Commission (Jersey) Law 1998 and United Kingdom Generally Accepted Accounting Practice.

Our assessment of risks of material misstatement and our audit approach to these risks

The following risks had the greatest impact on our audit strategy and scope:

- ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition.

For regulatory fees, we tested on a sample basis that fees for regulated entities had been calculated in accordance with fee notices published by the Commission. We also recalculated deferred income to ensure it had been correctly accounted for in accordance with the Commission's accounting policies.

For registry fees, we tested on a sample basis that fees had been calculated in accordance with fee notices published by the Commission. We recalculated annual return income based on the number of returns submitted to the registry.

- Management override of internal controls is a risk that we are required to consider under ISAs (UK & Ireland).

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Our application of materiality and an overview of the scope of our audit

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

We determined planning materiality for the financial statements as a whole to be £200,000. In determining this, we based our assessment on a level of 1.5% of income. On the basis of our risk assessment, together with our assessment of the Commission's control environment, our judgment is that performance materiality for the financial statements should be 75% of planning materiality, namely £150,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £200,000 for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Our audit of the Commission was undertaken to the materiality level specified above and was all performed at the Commission's office in Jersey.

Scope of the audit of the financial statements

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

Respective responsibilities of Commissioners and auditors

As explained more fully in the statement of Commissioners' responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

This report is made solely to the Chief Minister in accordance with Article 21(3) of the Financial Services Commission (Jersey) Law 1998. Our audit work has been undertaken so that we might state to the Chief Minister those matters we are required to state to the Chief Minister in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Minister for our audit work, for this report, or for the opinions we have formed.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Commission acquired during the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Commissioners' statement that they consider the Annual Report to be fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

BDO LLP
Chartered Accountants
Norwich
United Kingdom
17 April 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Regulatory Income:					
Regulatory fees	4 (a)		11,002		10,487
Registry fees	4 (b)		2,616		2,509
Total regulatory income			13,618		12,996
Other income:					
Bank deposit interest received			64		87
Other income			46		-
Total income			13,728		13,083
Operating expenses:					
Salaries, fees, social security and pension contributions	5	9,250		9,214	
Operating lease expenditure		463		471	
Other premises costs		318		296	
Computer systems costs		1,026		613	
Legal and professional services		457		480	
Investigations and litigation	6	701		745	
Public relations costs		19		18	
Travel costs		219		155	
Staff learning and development		204		207	
Recruitment costs		291		79	
Other operating expenses		266		280	
Auditors' remuneration		16		15	
Depreciation of tangible fixed assets	7	405		396	
Total operating expenses			13,635		12,969
Excess of income over expenditure			93		114
Accumulated reserve brought forward			7,247		7,133
Accumulated reserve carried forward			7,340		7,247

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 44 to 49 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2013

			2013		2012
	Note	£000	£000	£000	£000
Fixed Assets:					
Tangible assets	7		852		753
Current Assets:					
Fee income receivable		2		25	
Sundry debtors		60		29	
Prepayments		606		318	
Cash at bank and in hand	8	11,330		11,610	
		11,998		11,982	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	4,381		4,531	
Sundry creditors	9	1,129		957	
		5,510		5,488	
Net Current Assets			6,488		6,494
Total Assets less Current Liabilities			7,340		7,247
Represented by:					
Accumulated reserve			7,340		7,247

The notes on pages 44 to 49 form an integral part of these financial statements.

The financial statements on pages 41 to 49 were approved by the Board of Commissioners on 2 April 2014, and signed on their behalf by:

J C Averty
Deputy Chairman

J R Harris
Director General

	2013 £000	2012 £000
Reconciliation of net income to net cash inflow from operating activities		
Net income for the year	**93**	114
Interest received	**(64)**	(87)
Depreciation charges	**405**	396
(Increase) / decrease in debtors and prepayments	**(296)**	59
(Decrease) / increase in creditors	**(104)**	751
Net cash inflow from operating activities	**34**	1,233

Cash Flow Statement

	2013 £000	2012 £000
Net cash inflow from operating activities	**34**	1,233
Returns on investments and servicing of finance		
Interest received	**64**	87
Capital expenditure		
Payments to acquire tangible fixed assets	**(378)**	(607)
(Decrease) / increase in cash	**(280)**	713

Reconciliation of net cash flow to movement in net funds

	2013 £000	2012 £000
(Decrease) / increase in cash in the year	**(280)**	713
Net funds at 1 January	**11,610**	10,897
Net funds at 31 December	**11,330**	11,610

1. Accounting policies

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.

a) Income and expenditure is accounted for on an accruals basis. Regulatory and Registry fees are recognised over the period to which they relate.

b) Registry fees include only the share of fees attributable to the Commission. The Commission acts as agent in collecting the proportion of annual return fees attributable to the States of Jersey (see note 4b).

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.
Computer systems under construction are not depreciated. Depreciation is charged when a system has been completed and is in operation.
Office furniture, fittings and equipment are depreciated over five years.
Motor vehicles are depreciated over three years.

d) Foreign currency transactions during the year have been translated at the rates of exchange ruling at the dates of the transactions and any closing balances translated at the rates prevailing at the Balance Sheet date.
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 are accounted for as they are incurred. Recoveries are accounted for when they have been awarded and it has become virtually certain that they will be received.

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 is accounted for over the term of the lease.

g) The costs of defined contribution pension schemes are accounted for on an accruals basis. The costs of annual contributions payable to defined benefit schemes operated by the States of Jersey are accounted for on an accruals basis because the Commission is unable to obtain the information necessary to apply defined benefit scheme accounting (see note 14).

h) The financial statements contain information about the Commission as an individual entity, and do not include consolidated financial information as the parent of a group. The Commission is exempt from the requirement to prepare consolidated financial statements because the inclusion of its subsidiaries is not material for the purpose of giving a true and fair view.

2. Related party transactions

The Commission has been established in Law as an independent financial services regulator and as such the States of Jersey is not considered to be a related party.

3. Taxation

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

4. Income

	2013	2012
	£000	£000
a) Regulatory fees		
Banking	1,277	1,328
Funds	4,685	4,041
Insurance companies	745	759
General insurance mediation	107	98
Investment business	1,192	1,239
Trust companies	2,446	2,492
Designated non-financial businesses and professions	518	498
Recognised auditors	22	23
Money services business	10	9
	11,002	10,487

b) Registry fees

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

Registry fees include annual return fees.
The amount of the annual return fee payable to the Registry comprises two elements - an amount (£35) payable to the Registry to cover its administration costs and an additional amount (£115) set by, collected on behalf of, and payable to, the States of Jersey. The number of annual returns received during the year was 32,988 (2012 - 32,047).

	2013	2012
	£000	£000
Total annual return fee income	4,948	4,807
Less collected on behalf of, and payable to, the States of Jersey	3,794	3,685
Retained by the Registry	1,154	1,122
Other Registry income	1,462	1,387
Total Registry income	2,616	2,509

c) Regulatory fees received in advance	2013	2012
	£000	£000
Banking	1,356	1,377
Funds	2,086	2,169
Insurance companies	531	534
General insurance mediation	2	-
Investment business	391	406
Trust companies	14	45
Designated non-financial businesses and professions	1	-
	4,381	4,531

5. Salaries, fees, social security and pension contributions

	2013	2012
	£ooo	£ooo
Staff salaries	7,670	7,660
Commissioners' fees (note 13)	249	239
Social security payments	375	356
Pension contributions	645	614
Permanent health and medical insurance	218	171
Other staff-related costs	93	174
	9,250	9,214

The average number of staff employed during the year was 124 (2012 - 117)

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 are accounted for as they are incurred.

In a few cases, some or all of the Commission's costs may be recoverable. Such recoveries are accounted for when they have been awarded and it has become virtually certain that they will be received.

Costs incurred in 2013 amounted to £737,000 (2012 - £821,000), against which there were recoveries of £36,000 (2012 - £76,000). Net costs incurred during 2013 therefore amounted to £701,000 (2012 - £745,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	Computer Equipment	Computer Systems under construction	Motor Vehicles	Total
	£ooo	£ooo	£ooo	£ooo	£ooo
Cost of assets at 1 January 2013	638	2,812	18	-	3,468
Additions during year	30	232	232	10	504
Systems completed during year	-	202	(202)	-	-
Disposals during year	-	(25)	-	-	(25)
Cost at 31 December 2013	668	3,221	48	10	3,947
Depreciation at 1 January 2013	556	2,159	-	-	2,715
Charged during year	34	370	-	1	405
Eliminated on disposals	-	(25)	-	-	(25)
Depreciation at 31 December 2013	590	2,504	-	1	3,095
Net book value at 31 December 2013	78	717	48	9	852
Net book value at 31 December 2012	82	653	18	-	753

Computer systems under construction have not been depreciated. Depreciation is charged when a system has been completed and is in operation.

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 five different banks.

9. Sundry creditors

	2013	2012
	£000	£000
General expense creditors	**839**	470
Accruals	**290**	487
	1,129	957

General expense creditors include pension contributions of £90,000 (2012 - £87,000) still to be remitted to the schemes at the balance sheet date.

Accruals contain an amount of £122,000 (2012 - £137,000) 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. Contingent liabilities

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

11. Financial commitments

The Commission has entered into an agreement through JFSC Property Holdings No.1 Limited (note 12) to lease premises for the Commission's occupation.

	2013	2012
	£000	£000
For a period of more than five years, the annual rentals payable under this operating lease are:	**490**	490

The rentals payable under this operating lease are subject to periodic review, rebased to market rates.

12. Interest in wholly-owned companies

At 31 December 2013, the Jersey Financial Services Commission had one wholly owned company, JFSC Property Holdings No.1 Limited (2012 - two wholly owned companies).

JFSC Property Holdings No.1 Limited entered into an agreement on behalf of the Commission to lease premises for the Commission's occupation. Consequently, the Commission entered into an agreement with JFSC Property Holdings No.1 Limited whereby the Commission became 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.

Following the closure of the Jersey Financial Services Commission Staff Pension Scheme (and its replacement by the JFSC 2012 Staff Pension Scheme) in 2012 (note 14b), the Commission dissolved JFSC Pension Trustees Limited in 2013. (The Company's sole purpose had been to serve as the Corporate Trustee to the Jersey Financial Services Commission Staff Pension Scheme).

13. Commissioners' remuneration

		2013 **£**	2012 £
Fees paid to Commissioners were as follows:			
Clive Jones	(Chairman - retired 22 October 2013)	**42,000**	48,000
John Averty	(Deputy Chairman)	**28,350**	27,000
Lord Eatwell of Stratton St. Margaret		**31,500**	30,000
John Harris		**nil**	nil
John Mills		**21,000**	20,000
Deborah Prosser		**21,000**	20,000
Markus Ruetimann		**31,500**	30,000
Philip Taylor	(resigned 2 February 2012)	**n/a**	3,333
Cyril Whelan		**21,000**	20,000
Sir Nigel Wicks	(retired 16 June 2012)	**n/a**	15,000
Stephan Wilcke	(appointed 17 July 2012)	**31,500**	12,500
Ian Wright	(appointed 17 April 2012)	**21,000**	13,333

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 £293,000 for the year (2012 - £293,000) in his capacity as Director General.

Commissioners' remuneration was increased by five per cent at the start of 2013, which took into account the increase received by staff at the Commission over the two year period since the Commissioners' fees were last increased. The procedures followed by the Commission ensure that the setting of remuneration packages for Commissioners is formal and transparent and no individual Commissioner is responsible for determining his or her remuneration.

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 necessarily 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 £41,000 (2012 - £52,000). 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 contribution 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 2014.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2010. 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 surplus in the scheme assets at the valuation date of £40.6 million. Because the scheme is accounted for as if it is a defined contribution scheme, no account has been taken of the Commission's potential share of this surplus.

In addition to this, as at the date of the valuation, there was a debt due to the scheme from the States of Jersey that related to the period pre-1987. The Commission settled its share of 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) In 2012, the Commission closed the Jersey Financial Services Commission Staff Pension Scheme. It was replaced at that time by a new scheme, the JFSC 2012 Staff Pension Scheme, which is a defined contribution scheme open to staff whose initial employment by the Commission occurred after 1 January 1999. At the time of closure, the majority of members interests were automatically transferred to the JFSC 2012 Staff Pension Scheme. A small number of instructions to commute interests or transfer interests to other schemes remained outstanding at 31 December 2012 and these were all completed in 2013. No assets or liabilities remain in the closed scheme.

The JFSC 2012 Staff Pension Scheme's assets are held separately from those of the Commission under the care of an independent trustee.

Salaries and emoluments include pension contributions for staff to the schemes of £604,000 (2012 - £562,000). Contribution rates have remained the same though contribution totals have increased due to changes in membership numbers, ages and employment grades.

Particulars of the scheme may be obtained from: the Director, Human Resources, Jersey Financial Services Commission, PO Box 267, 14-18 Castle Street, St Helier JE4 8TP.

Statistical Annexe

Companies

Registry Processing - performance against target

	All Companies %	Partnerships %	Searches %	Certification %	Business names %
Achieved	98.7	96.3	100	100	99.8
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

Year	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2011	60,801	3,230	837	122	2,286
2012	68,157	7,950	845	133	2,295
2013	71,300	11,000	845	170	2,452

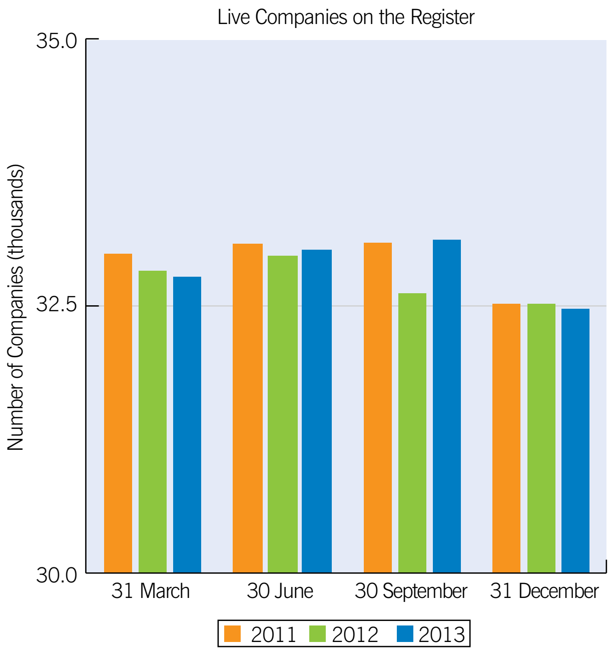
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2011	629	576	640	675	2,520
2012	646	558	526	643	2,373
2013	557	658	667	635	2,517

Live Companies on the Register

At 31 December 2013 (2012) there were 32,479 (32,503) live companies registered in Jersey.

Year	31 March	30 June	30 September	31 December
2011	32,998	33,116	33,194	32,508
2012	32,816	32,938	32,628	32,503
2013	32,790	33,037	33,272	32,479



Funds

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

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2013

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

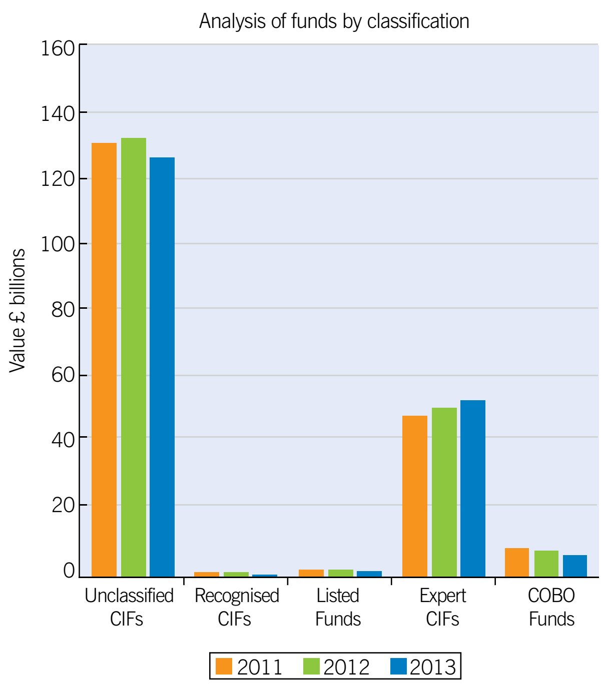
Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2011	189.424	1,392	2,454
31 December 2012	192.761	1,388	2,322
31 December 2013	192.152	1,334	2,149

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	114.112	524	580
CIFs	Open	70.695	622	1,381
	CIF Sub Total:	**184.807**	**1,146**	**1,961**
COBO Funds	Closed	6.956	168	168
COBO Funds	Open	0.389	20	20
	COBO Sub Total:	**7.345**	**188**	**188**
	Total:	**192.152**	**1,334**	**2,149**

Analysis by Class - 31 December 2013

Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	127.141	681	1,281
Recognized CIFs	1.609	10	34
Listed Funds	3.430	27	27
Expert CIFs	52.627	428	619
CIFs Sub Total	**127.141**	**681**	**1,281**
COBO Funds	7.345	188	188
Total	**192.152**	**1,334**	**2,149**

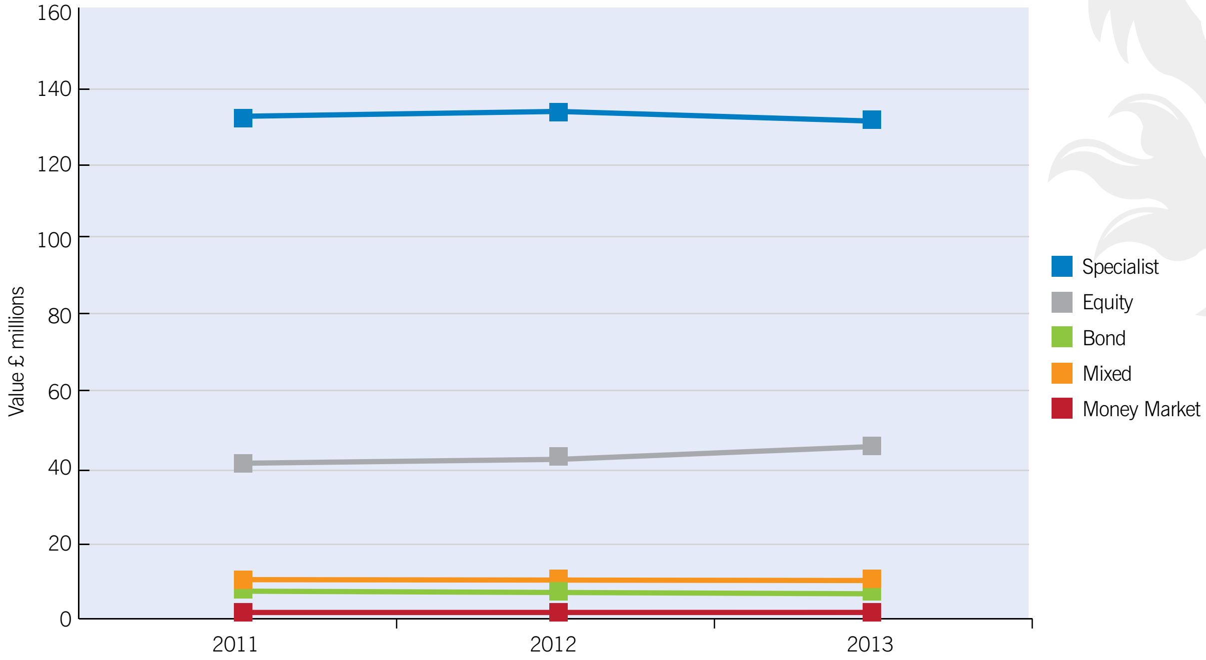


Funds

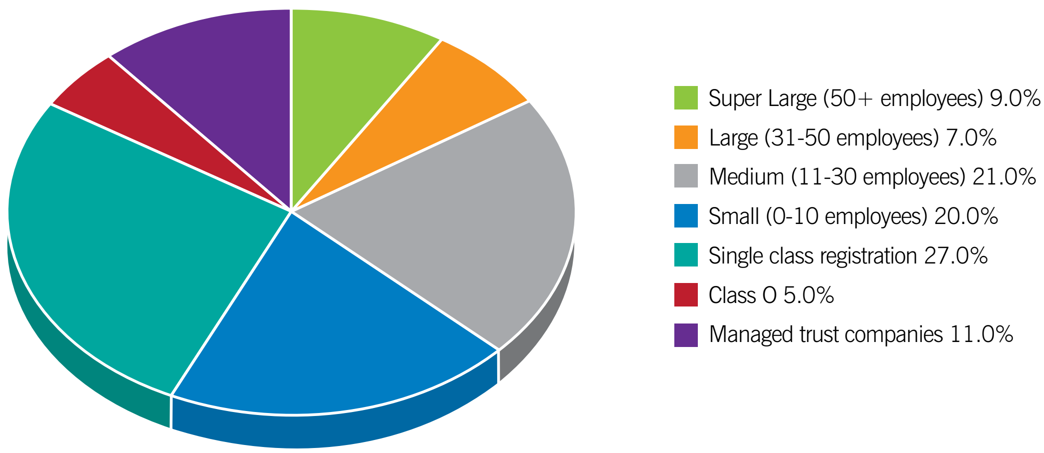
CIFs & COBO Funds - Analysis by Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	6	20	93	63	1,393
B02 - Bond-UK Debt	4	11	20	122	1,324
B03 - Bond-US Debt	1	4	13	15	733
B04 - Bond-Europe	1	6	2	54	593
B05 - Bond-Other	4	8	19	200	912
Sub Total Bond	**16**	**49**	**147**	**454**	**4,955**
E01 - Equity-UK	11	13	154	133	2,136
E02 - Equity-Europe (Including UK)	28	6	643	952	22,083
E03 - Equity-Europe (Excluding (UK)	16	2	115	49	2,365
E04 - Equity-US (North America)	7	6	55	38	1,850
E06 - Equity-Far East (Including Japan)	5	2	21	34	728
E07 - Equity-Far East (Excluding Japan)	2	5	5	1	100
E08 - Equity-Global Emerging Markets	9	14	146	21	1,713
E09 - Equity-Global Equity	23	91	183	697	7,821
E10 - Equity-Other	54	42	175	162	6,685
Sub Total Equity	**155**	**181**	**1,497**	**2,087**	**45,481**
X01 - Mixed-Mixed Equity and Bond	23	175	390	486	9,202
Sub Total Mixed	**23**	**175**	**390**	**486**	**9,202**
M01 - Money Market-Sterling	1	6	3	7	111
M02 - Money Market-US Dollar	0	9	10	22	99
M03 - Money Market-Euro	0	6	0	4	33
M04 - Money Market-Swiss	0	1	0	3	16
M05 - Money Market-Other	1	4	0	0	24
Sub Total Money Market	**2**	**26**	**13**	**36**	**283**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	45	0	291	236	6,313
S02 - Specialist-Venture Capital/Private Equity - Other	274	6	1,329	1,383	36,267
S03 - Specialist-Real Property	174	44	854	106	23,683
S04 - Specialist-Derivatives	5	6	14	9	57
S05 - Specialist-Traded Endowment Policies	9	24	71	104	1,079
S06 - Specialist-Hedge/Alternative Investment Funds	356	307	2,105	3,398	45,393
S07 - Specialist-Other	92	180	1,462	2,029	19,439
Sub Total Specialist	**955**	**567**	**6,126**	**7,265**	**132,231**
Grand Total	**1,151**	**998**	**8,173**	**10,328**	**192,152**

Funds - Analysis by Investment Code Policies



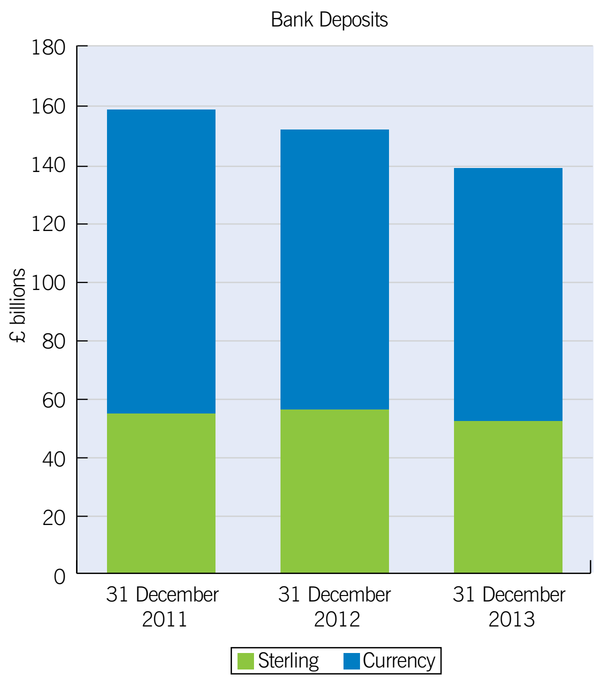
Breakdown of Trust Company Businesses by size



Banking

Banks and Bank Deposits - £ billions

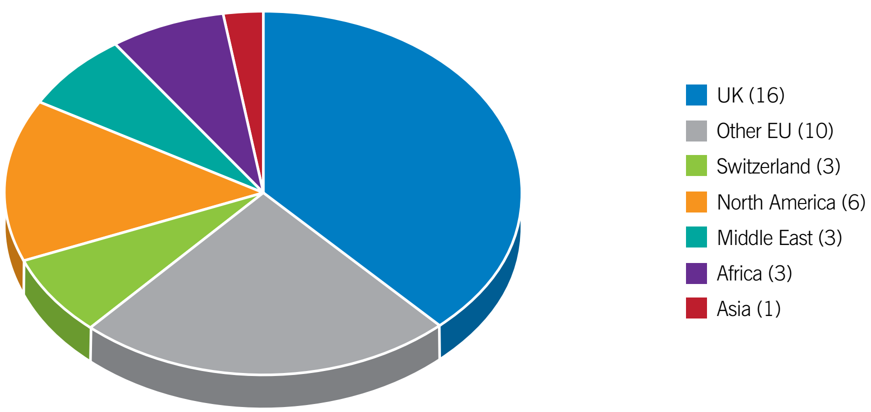
Date	Number of banks	Sterling	Currency	Total
31 March 2011	39	55.979	110.511	166.490
30 June 2011	39	54.468	110.551	165.019
30 September 2011	39	55.909	111.386	167.295
31 December 2011	40	54.276	103.811	158.087
31 March 2012	40	54.860	100.031	154.891
30 June 2012	41	56.397	94.014	150.411
30 September 2012	42	56.109	92.573	148.682
31 December 2012	42	56.126	96.018	152.145
31 March 2013	42	56.341	98.740	155.081
30 June 2013	42	53.775	97.055	150.830
30 September 2013	42	52.956	92.251	145.207
31 December 2013	**42**	**52.422**	**87.472**	**139.894**



Analysis of Bank Deposits - 31 December 2013 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	6,182,578	4,146,051	10,328,629
Jersey Financial Intermediaries etc	6,786,430	6,461,497	13,247,927
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	24,118,214	15,019,039	39,137,253
Subtotal	**37,087,222**	**25,626,587**	**62,713,809**
Other EU Members	2,668,937	11,271,302	13,940,239
European Non EU Members	2,818,423	19,461,630	22,280,053
Middle East	1,633,460	16,967,578	18,601,038
Far East	2,006,003	4,017,864	6,023,867
North America	1,541,328	2,799,577	4,340,905
Others, Unallocated non Jersey, UK etc	4,666,813	7,327,107	11,993,920
Subtotal	**15,334,964**	**61,845,058**	**77,180,022**
Overall total of deposits	**52,422,186**	**87,471,645**	**139,893,831**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	4.4%	3.0%	7.4%
Jersey Financial Intermediaries etc	4.9%	4.6%	9.5%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	17.2%	10.7%	28.0%
Subtotal	**26.5%**	**18.3%**	**44.9%**
Other EU Members	1.9%	8.1%	10.0%
European Non EU Members	2.0%	13.9%	15.9%
Middle East	1.2%	12.1%	13.3%
Far East	1.4%	2.9%	4.3%
North America	1.1%	2.0%	3.1%
Others, Unallocated non Jersey, UK etc	3.3%	5.2%	8.6%
Subtotal	**11.0%**	**44.2%**	**55.2%**
Overall total of deposits	**37.5%**	**62.5%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2013



Assets of Banks

Totals and sub-totals for registered deposit takers, split between those that are incorporated in Jersey (**"Jersey Banks"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Jersey Branches"**).
All values are in £ millions.

Activity		2009	2010	2011	2012	2013
1 All Loans		**221,370**	**197,664**	**193,381**	**183,085**	**168,256**
	Jersey Banks	79,155	82,402	82,877	81,863	72,965
	Jersey Branches	142,215	115,262	110,504	101,222	95,291
of which:						
1.1 Funding of group companies		188,368	164,613	159,180	148,974	133,786
	Jersey Banks	53,185	56,166	55,859	56,133	48,547
	Jersey Branches	135,183	108,447	103,321	92,841	85,239
of which intra-Jersey[1] is:		3,790	5,178	5,386	3,121	4,685
1.2 Other Loans		33,002	33,051	34,201	34,111	34,470
	Jersey Banks	25,970	26,236	27,018	25,730	24,418
	Jersey Branches	7,032	6,815	7,183	8,381	10,052
of which:						
1.2.1 Interbank Loans		3,545	3,116	4,321	3,041	1,253
	Jersey Banks	3,473	2,974	4,199	2,840	987
	Jersey Branches	72	142	122	201	266
1.2.2 Customer Loans		29,457	29,936	29,879	31,069	33,217
	Jersey Banks	22,497	23,263	22,819	22,890	23,432
	Jersey Branches	6,960	6,673	7,060	8,179	9,785
of which:						
1.2.2.1 Retail Loans		5,737	4,409	4,474	4,523	4,734
	Jersey Banks	3,478	2,442	2,350	2,198	1,662
	Jersey Branches	2,259	1,967	2,124	2,325	3,072
1.2.2.2 Residential Mortgages		6,575	6,448	6,881	7,417	7,918
	Jersey Banks	4,174	3,879	4,062	3,987	3,841
	Jersey Branches	2,401	2,569	2,819	3,430	4,077
1.2.2.3 Commercial Loans		17,145	19,079	18,524	19,129	20,565
	Jersey Banks	14,845	16,942	16,407	16,705	17,929
	Jersey Branches	2,300	2,137	2,117	2,424	2,636
2 All investments		**9,562**	**11,871**	**11,594**	**29,085**	**22,344**
	Jersey Banks	7,523	8,209	9,682	7,906	7,653
	Jersey Branches	2,039	3,662	1,912	21,179	14,691
3 All other assets		**19,979**	**31,558**	**28,134**	**5,243**	**4,091**
	Jersey Banks	2,912	3,119	3,695	3,305	2,188
	Jersey Branches	17,067	28,439	24,439	1,938	1,903
Balance Sheet Total		**250,911**	**241,093**	**233,109**	**217,413**	**194,691**
	Jersey Banks	89,590	93,730	96,254	93,074	82,806
	Jersey Branches	161,321	147,363	136,855	124,339	111,885
Risk Weighted Assets (Jersey Banks only)		**41,626**	**43,222**	**49,974**	**50,131**	**45,271**

2013 Commentary

The balance sheet total decreased by 4.1% (£8.3 billion) in Q4 2013, caused by the decrease in liabilities detailed in the Funding page. This mainly impacted funding provided upstream to group (down £4.4 billion) and investments (down £3.2 billion), the latter category falling principally because of the related decline seen (£2.4 billion) in outstanding issued debt.

For 2013 as a whole, the balance sheet total decreased by 10.5% (£22.7 billion) for similar reasons as described above. Funding to group fell £15.2 billion and investments £6.7 billion, with outstanding issued debt declining by £9.3 billion.

Total Jersey Branch assets increased significantly (and Jersey Bank assets decreased similarly) as the result of a wholesale transfer of business in one case.

Funding of Banks

Totals and sub-totals for registered deposit takers, split between those that are incorporated in Jersey (**"Jersey Banks"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Jersey Branches"**).
All values are in £ millions.

Activity		2009	2010	2011	2012	2013
All Deposits		**169,010**	**166,771**	**163,474**	**155,266**	**144,578**
	Jersey Banks	78,114	80,665	82,256	78,681	69,810
	Jersey Branches	90,896	86,106	81,218	76,585	74,768
of which:						
3.1 Customer Deposits		106,801	109,816	111,980	108,635	100,191
	Jersey Banks	73,607	74,978	77,106	75,081	67,112
	Jersey Branches	33,194	34,838	34,874	33,554	33,079
3.2 Bank Deposits		62,209	56,955	51,494	46,630	44,387
	Jersey Banks	4,507	5,688	5,150	3,600	2,699
	Jersey Branches	57,702	51,267	46,344	43,030	41,688
of which intra-Jersey is:		3,790	5,178	5,386	3,121	4,685
All senior debt issued		**63,528**	**54,089**	**50,815**	**42,712**	**33,409**
	Jersey Banks	2,270	2,779	2,839	3,330	2,425
	Jersey Branches	61,258	51,310	47,976	39,382	30,984
All other liabilities and equity		**18,374**	**20,234**	**18,820**	**19,435**	**16,704**
	Jersey Banks	9,207	10,287	11,159	11,064	10,570
	Jersey Branches	9,167	9,947	7,661	8,371	6,134
Balance Sheet Total		**250,911**	**241,093**	**233,109**	**217,413**	**194,691**
	Jersey Banks	89,590	93,730	96,254	93,075	82,805
	Jersey Branches	161,321	147,363	136,855	124,338	111,886
Regulatory Capital (Jersey Banks only)		**6,325**	**6,617**	**7,280**	**7,396**	**7,300**
Capital and Reserves (Jersey Banks only)		**5,373**	**5,569**	**6,222**	**6,871**	**6,950**

2013 Commentary

The balance sheet total decreased by 4.1% (£8.3 billion) in Q4 2013, driven by decreases in customer deposits (down £1.7 billion), deposits from banks (down £2.8 billion) and issued debt and other liabilities (down £3.7 billion). Sterling strengthened significantly, which decreased the sterling equivalent value of foreign currency denominated deposits by circa £2.4 billion.

For 2013 as a whole, the balance sheet total decreased by 10.5% (£22.7 billion). Customer deposits fell by £8.4 billion, deposits from banks by £2.2 billion and issued debt and other liabilities fell by £12.0 billion. Sterling marginally strengthened, which decreased the sterling equivalent value of foreign currency denominated deposits by circa £0.6 billion.

Key trends and profitability of Banks that are incorporated in Jersey

	2009	2010	2011	2012	2013
Trend in Balance Sheet Total	-13.5%	+4.6%	+2.7%	-3.3%	-11.0%
Trend in Customer Loans	-16.1%	+3.4%	-1.9%	+0.3%	+2.4%
Trend in Customer Deposits	-11.3%	+1.9%	+2.8%	-2.6%	-10.6%
Trend in Regulatory Capital	-4.7%	+4.6%	+10.0%	+1.6%	-1.3%
Net Interest Income ("NII")	**1,338** -19.1%	**1,183** -11.6%	**1,229** +3.9%	**1,119** -9.0%	**1,056** -5.6%
Total Income	**2,294** -12.8%	**2,084** -9.2%	**2,222** +6.6%	**1,915** -13.8%	**1,906** -0.5%
Operating Expenses	**1,088** -8.0%	**1,118** +2.8%	**1,126** +0.7%	**968** -14.0%	**981** +1.3%
Bad Debt Provisions	**793** +308.8%	**355** -55.2%	**202** -43.1%	**204** +1.0%	**27** -86.8%
Profit Before Tax	**413** -67.0%	**611** +47.9%	**894** +46.3%	**743** -16.9%	**898** +20.9%

2013 Commentary

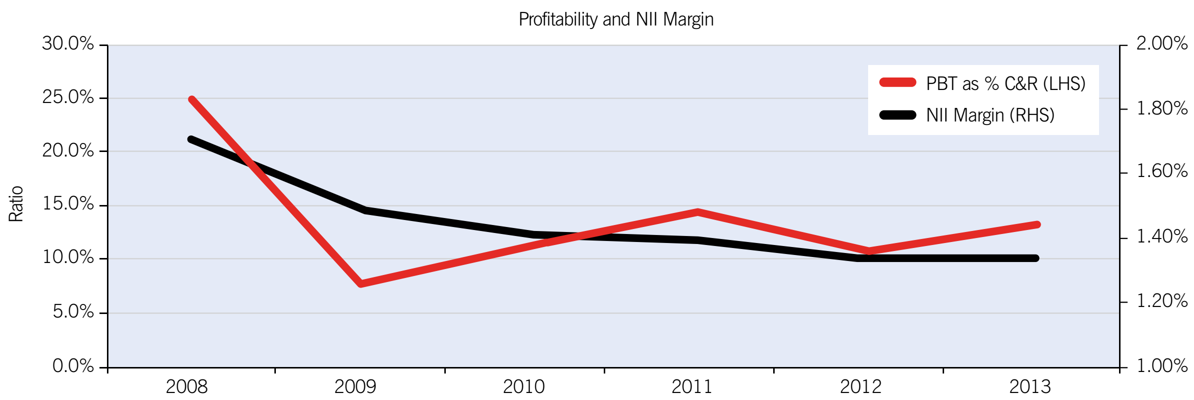
2013 saw sizeable decreases in customer deposits, partly due to one wholesale transfer of business from a Jersey Bank to a Jersey Branch within same group, and limited growth in customer lending. Net interest income fell, driven by a continued decline in volumes, but margins have stabilised. However, profitability increased, due to a far lower rate of net new provisions (due mainly to write-backs of loans previously provided against).

Key performance indicators of Banks that are incorporated in Jersey

	2009	2010	2011	2012	2013
Profit before tax (**"PBT"**) as percentage of total assets	0.43%	0.67%	0.93%	0.80%	1.02%
PBT as percentage of capital and reserves (**"C&R"**)	7.6%	11.2%	14.4%	10.8%	13.0%
PBT as percentage of regulatory capital	6.4%	9.4%	12.3%	10.0%	12.2%
NII margin (i.e. as a percentage of total assets)	1.39%	1.29%	1.27%	1.20%	1.20%
Cost/Income ratio (Operating Expenses as a percentage of Total Income)	47.4%	53.6%	50.7%	50.5%	51.5%

2013 Commentary

Profitability increased in 2013, but this was almost entirely due to the write back of loans previously provided against, with remaining underlying performance broadly unchanged.

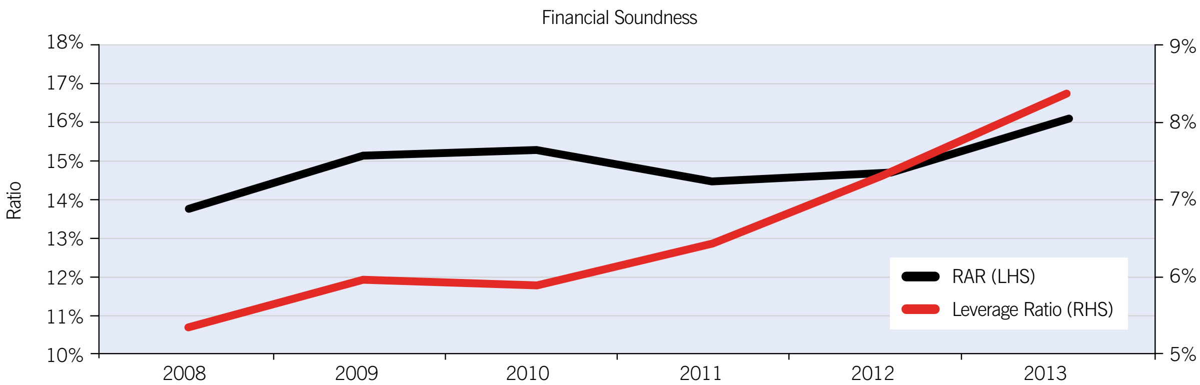


Key risk ratios of Banks that are incorporated in Jersey

	2009	2010	2011	2012	2013
Regulatory capital as percentage of risk weighted assets (**"RAR"**)	15.2%	15.3%	14.6%	14.8%	16.1%
Capital and Reserves as percentage of total assets (**"leverage ratio"**)	6.0%	5.9%	6.5%	7.4%	8.4%
Non-performing loans (**"NPLs"**), i.e. all loans considered to be impaired, to any extent)	**869**	**1,517**	**1,581**	**1,560**	**1,549**
NPLs as % of Customer Loans	3.9%	6.5%	6.9%	6.8%	6.6%
Provisions	**797**	**982**	**1,053**	**1,124**	**1,058**
Provisions as % of NPLs	91.7%	64.7%	66.6%	72.1%	68.3%
Interest rate risk (**"IRR"**), impact of 200bp adverse move)	**199**	**257**	**235**	**288**	**280**
IRR as % of regulatory capital	3.1%	3.9%	3.2%	3.9%	3.8%
FX Risk (Aggregate net open Foreign Exchange position)	**502**	**716**	**1,004**	**888**	**943**
FX Risk as % of regulatory capital	7.9%	10.8%	13.8%	12.0%	12.9%

2013 Commentary

Non performing loans and provisions remained broadly stable. The RAR and the leverage ratio both increased, due mainly to decreases in loan exposures.



Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998 = £22.2 billion.

The total number of clients of investment managers = 14,627

Date	Funds under management (£ billions)	Number of clients
31 December 2011	20.802	14,381
31 December 2012	21.202	14,209
31 December 2013	22.158	14,627

Notes

Jersey Financial
Services Commission

www.jerseyfsc.org