



> Jersey Financial
Services Commission
> **Annual Report**

2014

R.72/2015

- › Full and active IOSCO member
- › OECD “white list” jurisdiction
- › Top IMF rating from 2009 Financial Sector Assessment Program Report
- › Financial Stability Board Group 1 jurisdiction
- › 27 AIFMD co-operation agreements
- › IACA Merit Award 2014

› The Jersey Financial Services Commission

- › The Jersey Financial Services Commission (JFSC) is the financial services regulator for the Island of Jersey. It is responsible for:
 - a/ The supervision, authorisation, oversight and development of financial services in or from within Jersey
 - b/ Providing the States of Jersey with reports, advice, assistance and information in connection with financial services
 - c/ Making recommendations for Laws and Regulations applying to the finance industry
- › The Commission aims to:
 - › Ensure that all authorised financial services and individuals meet appropriate criteria and that we match international standards of banking, securities, trust company business, and insurance regulation, as well as anti-money laundering and terrorist financing defences
 - › Be effective in combatting terrorism and financial crime as part of the wider international effort in this respect
 - › Work closely with fellow regulators and law makers to ensure access to efficient and effective markets for financial services
 - › Be an agile and thoughtful regulator in reducing risk to depositors and investors whilst being proportionate so that the costs of regulation do not outweigh their benefits



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› Jersey Financial
Services Commission

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› Annual Report

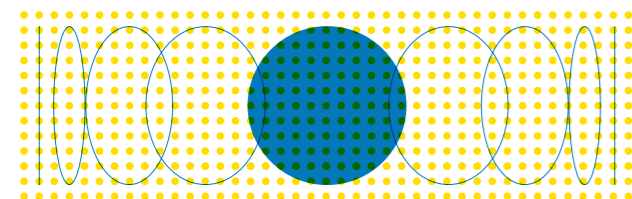
2014

01

› Highlights of the year

› 2014

› ^{01/} January



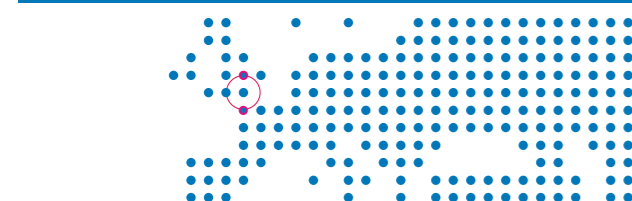
› Review of Financial Advice (RFA) launched (enters into force)

› ^{02/} February

32,201

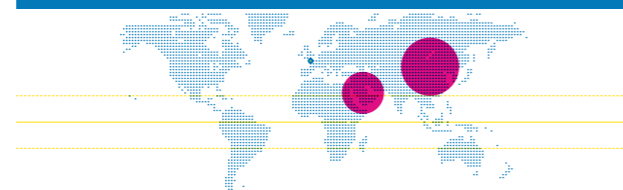
› Annual Returns* processed

› ^{03/} March



› Funds regime review scope agreed with Government and launched

› ^{04/} April



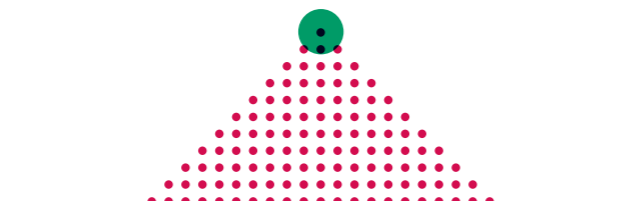
› Memoranda of Understanding signed with CSRC** (China) and ESCA** (UAE)

› ^{05/} May



› New Executive Director appointments to the JFSC

› ^{06/} June



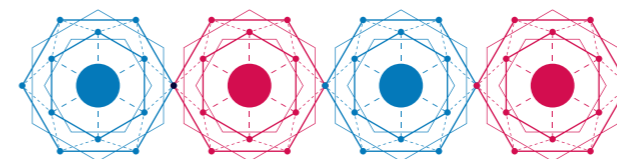
› Lord Eatwell appointed Chairman of the JFSC

› ^{07/} July



› AIFMD transitional arrangements end

› ^{08/} August



› Launch of Jersey Government Financial Services Framework

› ^{09/} September



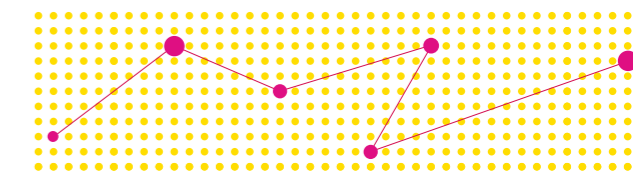
› Civil Penalties legislation lodged with States of Jersey. Preparatory work begins for MONEYVAL AML/CFT evaluation

› ^{10/} October



› Revised GIFCS*** Statement of Best Practice for Trust & Company Service Providers launched

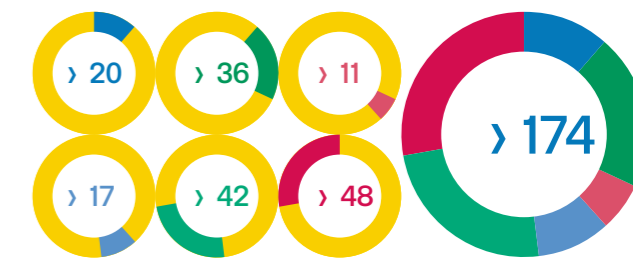
› ^{11/} November



› MONEYVAL preparations begin in full. Civil Penalties legislation passed

› ^{12/} December

› In 2014, the following supervisory visits were undertaken:



› Banking	20
› Funds	36
› Insurance	11
› Investment Business	17
› TCB	42
› AML Unit	48
› TOTAL	174

› * Jersey company renewals
› ** China Securities Regulatory Commission and Emirates Securities and Commodities Authority
› *** The Group of International Finance Centre Supervisors

2015

02



View from the top Chairman's Statement



Appointment as Chairman

I was appointed Chairman of the Jersey Financial Services Commission (JFSC) in June 2014. I was delighted and honoured. Delighted, because I have been given the opportunity to assist Jersey to meet the many extraordinary challenges that financial markets pose today. Honoured, because I will be leading an outstanding team of professionals, committed to fulfilling the regulatory mission they have been given by the States.

Today the JFSC faces the challenge of change. It is a truism that the world of finance is characterised by rapid innovation – sometimes that innovation is driven by the desire to enhance micro-efficiency, sometimes in response to regulatory change (a process that tends to create its own circular dynamic). But what has been generally true, is even more true today. One of the consequences of the financial crisis of 2008 has been the generation of fundamental changes in financial institutions and the behaviour of financial markets. The significance of these changes for financial services and for the economy as a whole is, to be frank, as yet not fully understood.



Change is taking place in (at least) three areas:



a/ The structure of financial markets is undergoing rapid change

An important development is the growth of shadow banking, i.e. the performance of banking functions by non-banks, such as asset managers and insurance companies. A corollary of the growth in shadow banking has been the growth of bond markets, sovereign and corporate. Bond markets can be very volatile in the face of interest rate changes – hence the “market tantrum” of May 2013 when Ben Bernanke signalled the approach of QE tapering. The prospect of increases in interest rates led to a rush to cover potential losses in bond markets, with significant turmoil in Asian markets. Systematic risk is no longer the sole preserve of leveraged banks. Unleveraged institutions can create systemically unstable positions too.

The application of technology is also changing the structure and operation of financial markets most visibly in the rise of crypto-currencies (the Commission has authorised one of the first Bitcoin funds), but in a wide range of market and product structures too. These are just a couple of examples. Many more are likely to follow as the changing structure of financial markets relocates risk – possibly in a manner that will affect Jersey financial entities in ways not previously encountered. In addition, there is the changing balance of economic strength between West and East that poses entirely new challenges for effective regulation – for example with respect to the exercise of due diligence in regulating prospective financial flows from unfamiliar jurisdictions.



b/ Financial regulation is changing

In response to regulatory changes elsewhere, and in the light of major structural changes underway in the industry, the Commission is undertaking a fundamental review of the approach to banking regulation. The first tranche of our changes were published in a Policy Statement last year, the key change being the abolition of the old mechanistic “top 500” rule, and its replacement with a licensing policy based on an assessment of risk.

In other areas of financial regulation the extension of quasi-extra-territorial regulation in terms of demands for equivalence, or of truly extra-territorial rulings as in the case of FATCA, inevitably changes the dynamics of financial market development, and therefore financial regulation in Jersey. And diverse structures within the new

regulatory regimes (for example, the differences between the new regulations in the US and those in the EU) create potential market realignments via regulatory arbitrage that may pose significant challenges to regulation in Jersey – and create opportunities.

The Commission approaches these changes with a determination to implement a regulatory regime that best serves the economic interests of Jersey. That means ensuring that the financial services industry in Jersey has access to markets around the world. Without an internationally respected regulatory regime in the Island, doors will be slammed shut on Jersey industry.

02

› c/ The relationship between regulators and governments is changing

However, not all these changes are in the same direction. In many of the major economies, governments attempting to manage systemic risk in the financial services sector, have ceded powers to regulators. For example many of the powers that the 2013 Banking Act gives to the Bank of England would in the past have typically been exercised only by elected politicians. Regulators that have previously been endowed solely with what were seen as "technical" powers of micro-prudential regulation are now required to take the highly politicised decisions that macro-prudential regulation demands. The tentative steps being taken by the Financial Policy Committee of the Bank of England indicate an awareness that this could be a political minefield.

As far as Jersey is concerned developments are, if anything, moving in the opposite direction. Whilst the Government remains committed to the independence of the JFSC, it is seeking a closer consultative relationship with the regulator in the furtherance of economic objectives in this small, highly specialised jurisdiction.

The scale, scope and pace of all these changes, and the risks and opportunities embodied in them, pose major challenges, particularly in the context of the limited resources available to the Commission. Meeting these challenges will require that the Commission is a thinking regulator, that is it must be agile and inquisitive.

› A thinking regulator

A thinking regulator is a regulator that persistently confronts the challenges posed by change. The Commission has formerly, perhaps, been overly devoted to examining the success or otherwise of past operations. This is, of course, necessary, since lessons are learned from the past. But too much time examining "reports", and too little devoted to future challenges, and even speculative argument, does not make for a Commission that can appreciate the opportunities that the changing financial environment presents.

It is this "thinking" approach that is necessary if the regulator is to be agile. It is inevitable in an innovative industry such as financial services that even a successful regulator is 10 metres behind the market in a 100 metre race. The point is not to fall even further behind. Instead the goal should be to understand the significance of new developments, and decide on the appropriate, well-founded response within a reasonable period. It is not the task of the regulator to be a financial entrepreneur, or to attempt to guide financial market development – though the regulator may have an important role to play in Government policies to aid financial market development. It is the task of the JFSC to listen to the concerns and insights of the regulated community, and to provide an environment that encourages innovations that are compatible with the overall objectives of the Commission.

But for this to succeed there must be commitment on both sides. The Commission is keen to listen, but the Industry must be prepared to speak, and to speak openly and frankly.

To be thinking and agile the JFSC must be an inquisitive, research-oriented regulator, and therein lies a dilemma. The Commission simply does not have the resource, and given the size of the jurisdiction, cannot have the resource, that enables it to pursue a significant research agenda within the Commission itself. However, the senior executive team now has the numbers and skills to be effective collators and interpreters of research, and the staff as a whole embodies a wealth of day-to-day experience and expertise. Their approach has been to identify and engage with creative thinkers, leverage the enquiries of others and focus it through the lens of the Commission.

It is this thinking approach that will characterise the Commission in coming years. In implementing our regulatory regime the Commission will continue to focus on remediation as a means of securing compliance, with enforcement as a necessary last resort.

› Role of the Board

The Board has its role to play too, and, fortunately, it has the right mix of long-term skills to meet the challenges – including the unexpected events that will undoubtedly occur.

My analysis of the challenges faced by the Commission has been distilled into a Change Programme, details of which are set out in the Business Plan published in January. The Change Programme will demand resources. One of the major tasks facing the Board over the next year is therefore to oversee the implementation of the programme whilst maintaining effective business as usual.

It is the role of the Board to assess, inform, interpret, anticipate and advise. The Executive is accountable to the Board, and hence the Board must assess performance and further the development of the Executive. The Board has a wealth of experience that it brings to inform the operations of the Commission. In particular it must assist the Executive and staff in interpreting the complexities of the rapidly changing international financial environment, helping the Commission to anticipate events and maintain the momentum of regulatory innovation. These are key dimensions in which the Commission serves the financial services industry in Jersey, pursuing our goal of ensuring that Jersey firms have access to markets around the world.

Over the past year, two new Commissioners have been appointed. Peter Pichler has worked for many years in the financial services industry in Jersey, and brings a wealth of on-Island practitioner expertise to our deliberations. Peter replaces John Mills who retired from the Commission in October after five years of first-class service to the Commission. Our new off-Island Commissioner is Simon Morris, a partner at the international law firm CMS Cameron McKenna with many years of experience in matters of financial regulation.

My appointment as Chairman followed the retirement of Clive Jones in November 2013. Clive guided the Commission through the stormy waters of the financial crisis with great skill, foresight and good humour. Jersey has every reason to be very grateful to him. The gap between Clive's retirement and my appointment was filled by the Deputy Chairman, John Averty. In what was a challenging time for the Commission, John guided us with his customary dexterity and aplomb. I, and Jersey, owe him a considerable debt of gratitude.

As I mentioned at the beginning, I am particularly honoured to be associated with the first class staff at the Commission, led by our outstanding Director General, John Harris. My thanks go to all of them.



- › **Setting strong regulatory standards to support and strengthen Jersey's international reputation**

03

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Delivering against our objectives

Director General's Statement

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Introduction

The Commission can look back on 2014 as a busy and productive year. It brought a noticeable additional focus on investment in the future of the organisation to complement the preponderant attention on management of risks presented by licensed firms within the Island which characterised the financial crisis years from 2008 to 2013. This is not to say that vigilance in respect of the challenges thrown up by Jersey's varied and dynamic financial services sector was noticeably relaxed.

The degree of financial, operational and reputational risk overall has arguably diminished little if at all even as somewhat improved economic conditions have returned. Nonetheless the Commission began a process in 2014 of seeking to upgrade its own capabilities in systems, people, communications, project management and working practices at the same time as maintaining a strong supervisory and, where needed, enforcement presence. To succeed in achieving more with the same underlying resource involves a stretching programme of change and investment within the Commission, co-existing with a refined supervisory model to support our risk-based approach to managing the various challenges with which we as a supervisor are faced. In this respect 2014 was the beginning of what will be a significant journey.

›

The supervisory approach

The pace and rhythm of supervisory oversight in 2014 was for the most part largely unchanged from previous years. A comprehensive on-site visit programme was maintained, complemented by a range of off-site analytical and intelligence based activities across all regulated sectors. However, some changes have been made to the way we operate our risk model as a basis for judging the nature, periodicity and degree of intervention within different sectors. Thus acceptable risk tolerances by sector have been more subtly differentiated for likelihood and impact. For example AML/CFT risk within banking and trust company businesses is being looked at more closely than say within the investment business sector where the focus will, for the foreseeable future, be on misselling.

This is but one example of our acceptance that supervision needs, to some degree, to be more selective than before without nevertheless losing the benefit of visibility i.e. a still high number of on-site activities overall. We strive also to be more intelligence led as a basis for intervention and also to structure such presence in the marketplace to reflect differing outcomes. In 2014 a few "deep dive" style visits, particularly to firms holding a number of different licences, were undertaken with the use of greater Commission resource, drawn from a number of supervisory teams and deployed over a longer period, leading to a better overall understanding within the JFSC of the firm in question. In addition we have seen the market structure changes already apparent within certain sectors at the beginning of the year accelerate. In banking, structural reforms are now with us, most notably in respect of the proposals for ring-fenced banks in the UK. The UK decision not to permit non-EEA subsidiaries and branches of major UK banks to be within the ring-fenced bank perimeter has important implications for the traditional upstreaming model deployed by such Jersey based entities. It means a diversification of the operating model they have traditionally followed towards a more matched asset and liability approach, with excess liquidity arising from Jersey's predominant international deposit gathering role being used for a variety of asset funding activities, as opposed to being simply upstreamed to the parent bank.

Such upstreaming may of course continue into the non-ring-fenced portion of the parent Group, but either this or more funding for other Group assets imply a change in the risk profile for us as Jersey based bank supervisors. The latter part of 2014 saw the beginnings of each bank affected by these changes (of which there are 5 in the Jersey context) outlining their proposed solutions and this will come into sharper focus in the year ahead.

A second visible market structure development in 2014 has been the acceleration of the changing profile of ownership in the trust sector. This has seen increasing private equity group acquisition of some Jersey based trust operations, coupled with a relative consolidation of mid-size firms merging together for greater critical mass and operating efficiency, together with a relative withdrawal by some major banks from the sector altogether (reflecting the move worldwide in banking toward simpler and less geographically diverse operating models).

Then there is the owner-managed part of the sector which has been numerically important but which over time has diminished in numbers as a consequence of merger and exit activity. Some further change in this sub-sector was seen in 2014 but a significant number of such Jersey origin firms remain. As with many of our oversight activities, our skills and experience as a supervisor of all these very different trust company operations have had to "flex" to accommodate differing demands and needs during the past 12 months and this is likely to be a continuing trend.

A third market structure development has been the growing trend of substantial hedge fund operations locating in full or in part to Jersey. Whilst a very welcome boost to the makeup of the Jersey based financial sector, such funds present the need for a well coordinated supervisory approach working with fellow regulators charged with oversight of such firms' operations within their own jurisdiction. We need in addition to hone our own understanding of these firms within Jersey. Again this significant change in the make-up of the fund management sector seen through 2014 means in effect for us at the Commission a move towards more "home supervision" in this sector, with attendant needs to be met in our own resource and expertise base.



The Change Programme

As the Chairman has noted in his comments this year, the demands on regulators everywhere are changing rapidly and significantly. Recognising this, the Commission has embarked upon a Change Programme of its own to respond to such demands.

This began to gather pace towards the end of 2014 in its initial analysis and design phase and can be articulated as a step change in electronic enablement of our information relationship with our supervised firms. It also reflects a decision to review and where necessary reform our supervisory package, itself built on a commitment to revise and refine our risk model and risk management processes generally.

It then entails a greater focus on information management within the JFSC both as a necessary discipline in itself and with an eye to forthcoming Freedom of Information legislation applying, in part, to the Commission from January 2016. Underpinning all of this is a commitment to review and refresh how we invest in, develop and reward our staff without whom no programme of change can succeed. The implementation of our Change Programme forms an important part of the recently published 2015 Business Plan and will necessarily be an important part of this review in 12 months' time.



Other Achievements

As in any year, to record everything achieved in the preceding 12 months would likely be a long list and so inevitably there is a requirement for some selective highlights in the space available. However, in addition to the range of supervisory activities already noted, together with the launch of the Change Programme, 2014 was notable in a number of other ways.

We saw the full implementation of the Securities Interests Register in the Companies Registry, which pleasingly attracted international recognition in the form of an IACA Merit Award. The Registry also took further strides towards a technologically more efficient paperless interface with users and reconfigured working practices to assist in the implementation of the jurisdiction's Sound Business Practice Policy (i.e. greater focus on the use of Jersey companies and other legal vehicles to manage reputational risk) where the Registry has a front line role.

Whilst the need to take Enforcement action is always regrettable, the past 12 months have seen several lengthy and challenging cases come to their conclusion with Public Statements issued by the Commission. An additional 11 Public Statements were issued covering a range of matters requiring a regulatory response in the form of sanctions, often involving the restriction of future employment of individuals within the Jersey financial sector.

The Commission works hard to try to avoid such actions, vastly preferring a remediation approach wherever possible. By this we mean that when we do identify problems our initial preferred approach is to work together with the firm in question to address the issues seen and to reach a positive outcome for all parties. However, the safety and soundness of the market overall and the need for maintenance of Jersey's reputation in financial and commercial matters, together with the degree of co-operation or otherwise of firms and individuals where problems are found, means that such an approach is not always possible or practical. In such instances the Commission has not shied away from necessary action and will continue to adopt that policy stance going forward. A number of other major activities in 2014 are worthy of mention;

› The Commission began preparations in earnest for the forthcoming MONEYVAL evaluation of the Island's capabilities in AML/CFT including some significant changes to local legislation, not least the passage in Jersey's States Assembly of primary legislation to enable the Commission to levy Civil Financial Penalties as one of its available sanctioning measures in future Enforcement actions

› Other international policy development needs were met with the transition to full implementation of co-operation agreements in the context of our third country embrace of the EU's Alternative Investment Fund Managers Directive (AIFMD) together with important regulatory agreements signed with Chinese, United Arab Emirates and Swiss counterpart regulatory bodies

› A range of policy work undertaken with international bodies such as IOSCO, where the Commission participates in a number of technical Committees, and MONEYVAL, whereby JFSC staff participate in peer evaluations of other jurisdictions, both seen in 2014 to full effect, underpin Jersey's long standing commitment to match international standards of regulation and supervision

› A significant increase in the number of fund applications seen by our Funds Authorisation team culminating in the volume of Assets under Management (AuM) in the jurisdiction within Collective Investment Schemes of varying types rising by 19% to a total of £228 billion.

A number of other achievements and important areas for focus for the Commission over the past 12 months are covered elsewhere in these pages.

03



A Question of Culture

A theme I have attempted to develop in my comments this year is one that focuses on the changing demands on regulators worldwide, with the JFSC being no exception. This echoes the Chairman's analysis across the wider international front and with such a demand for change impacting on the supervisor's priorities, focus and availability of skills comes a need for the regulatory community to depend more than ever on the conduct of business within regulated firms themselves if such challenges are to be met.

Thus we can say that our reliance on corporate culture, governance, internal controls, compliance within firms and contributions from outside parties such as their external auditors has never been greater. As a supervisor we therefore recognise that we need to understand the culture and attitude of our firms more quickly and more deeply than ever before and refine our whole approach to oversight accordingly. However, no supervisor can be effective in a vacuum. What is still required, some eight years after one of the greatest financial crises the world has ever seen, is a step change in the conduct of business within firms, with revelations about the nature of misconduct at the time of the crisis still surfacing.

Certain Enforcement actions seen within Jersey, some of which came to conclusion in 2014, reinforce this view. In the final analysis, whilst much is and will be demanded of regulators in ensuring the safety and soundness of the financial system and conduct within it, there will never be sufficient resource available to conduct such oversight in a way that guarantees zero failure or even minimal failure within the financial sector.

Accordingly, there is now more than ever a need for dialogue and an agreement between the regulator and the regulated about standards, conducts and ethics – about, if one prefers, “what good looks like” within regulated financial services – with our respective activities and focuses targeted accordingly and something akin to a partnership taking shape or at least a meeting of minds about what we need to do to rehabilitate financial services as a social good in the minds of many after the recent years of seemingly endless problems. The JFSC is committed to such an approach and will build on the base of 2014 to work with its regulated community to achieve such an outcome which must be in the interests of us all.



Conclusions

As mentioned in my opening lines, it has been another busy and challenging year for the Commission, yet one I believe of progress and commitment to change in a world, which clearly accommodates less and less those who may wish to stand still. This is certainly a theme developed in the Chairman's remarks above and in my statement I hope I have been able to describe an organisation beginning to recognise and respond to the call to change embodied in his overview of the changing environment in which we must function as a regulatory body.

In our work as the Executive and staff of the JFSC we are fortunate to have the support and expertise of our Board of Commissioners, led by our new Chairman, Lord Eatwell, who succeeded Clive Jones in June 2014, and who has certainly set a strong lead in refining our changing mission and priorities.

Once again, I would like to record my sincere appreciation and thanks to the Executive Directors and to our staff, at all levels and in all roles, who, in their public spiritedness, industrious endeavour and unflagging commitment, ably discharge the Commission's duties on behalf of the Island. In my view there has never been a more challenging yet interesting time for regulatory bodies in financial services than over recent years and in those to come. As a team we look forward to continuing to make a telling contribution to Jersey's future as a mature and well-regulated international finance centre, capable nonetheless of responding to new, innovative and challenging thinking in today's rapidly changing international financial markets.





Understanding our markets

The financial services sector is the dominant industry in Jersey and accounts for some 40% of the Island's Gross Value Added (GVA) and 22% of employment.

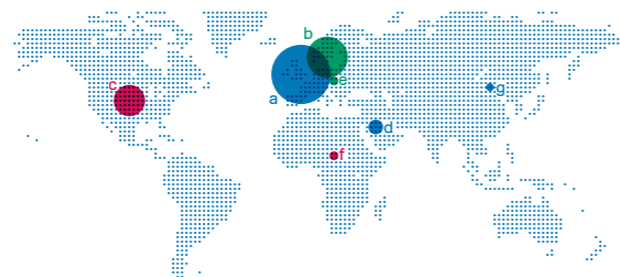
Jersey provides a diversified range of financial services to both domestic and overseas customers serving both retail and wholesale markets. The primary sectors are banking, investment funds and private wealth management supported by insurance broking and investment business services.

Banking

There were 26 banking institutions holding 33 Jersey banking licences at the end 2014, with the total value of deposits remaining relatively stable exceeding £130 billion.

Total employment is believed to exceed 4,500. The majority of licences were held by groups headquartered in the EU, particularly the UK.

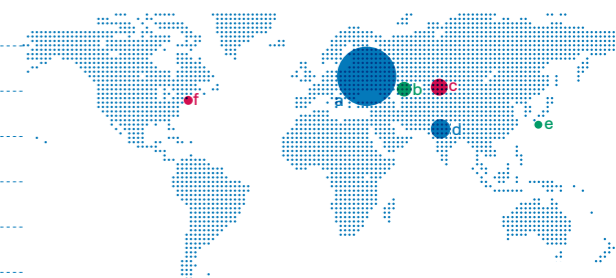
a/ UK	11
b/ Other EU	7
c/ North America	6
d/ Middle East	2
e/ Switzerland	3
f/ Africa	3
g/ Asia	1



Jersey banks provide significant support to the Island's investment fund and private wealth businesses and almost half of their deposit base arises from Jersey and UK resident depositors.

£51.5 billion of deposits are denominated in Sterling reflecting Jersey's role in the sterling area, with £80.8 billion in other currencies, principally Euro and US Dollars.

a/ Jersey and UK	47%
b/ Other EU Members	9%
c/ European Non-EU	12%
d/ Middle East	15%
e/ Far East	4%
f/ North America	4%
g/ Others	9%



The banks predominantly lend their funds to their parent entities whether in the UK or elsewhere. However, local banks also provide finance to support the Island's investment funds, private wealth businesses and local economy.

Banking activities are under pressure throughout the world. Two factors in particular are likely to give rise to change in the Island's banks over the next few years. Firstly, the UK government has decided to require its domestic banks to ring-fence UK depositors which will give rise to structural changes in the way in which their Jersey activities are owned and managed. It seems likely that their Jersey operations will take on more risk by diversifying their asset bases.

Average regulatory capital held by Jersey banks was 15.4% of risk weighted assets in the year end of 2014.

The overall size of the banking industry has continued a long term contraction with the consolidation of the industry, some of which resulted from the financial crisis and meant a persistent reduction in the number of banking groups providing services to domestic and overseas customers.

Secondly, all banks are facing intense pressure to deliver efficient services in a digital age and this may be felt more acutely by Jersey bank operations serving an international deposit base where the timely adoption of digital services may provide opportunities as well as threats.

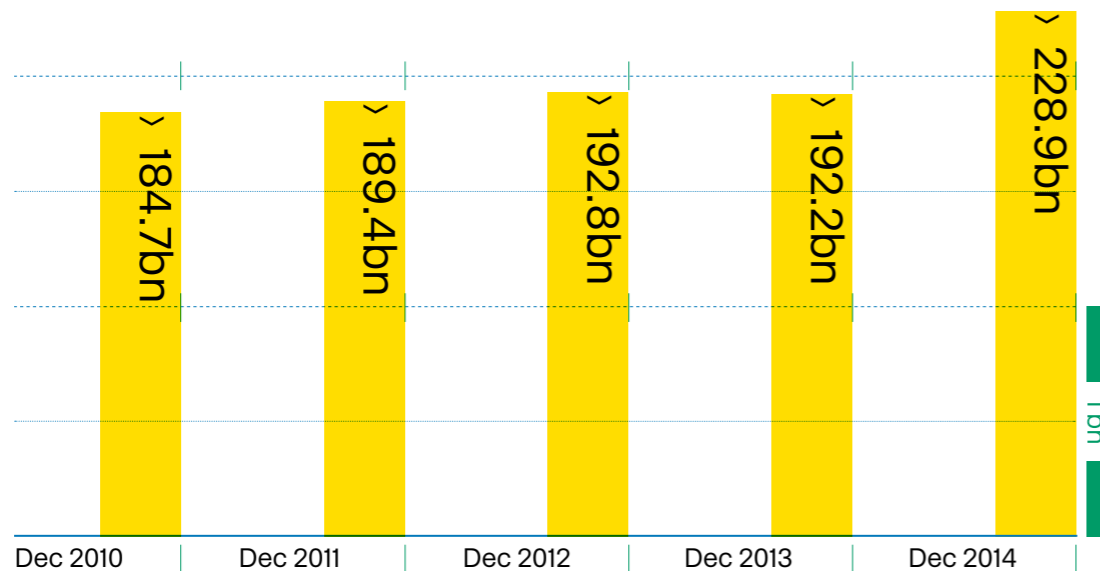
Jersey is keen to ensure that effective competition exists and that the Island's banks are able to provide efficient and relevant services to a global customer base. The JFSC has recently revisited its bank licensing policy to ensure that potential applications are not deterred by an unnecessarily rigid rule based approach to assessing licence applications.

04

Investment Funds

There are 485 licensed fund services businesses providing a range of services, including investment management and administration, to a large and diverse range of collective investment funds.

The Island counts in excess of 1,300 regulated funds; the net asset value of funds serviced in Jersey grew by £36bn, from £192bn to £228bn, during 2014.



The overall picture is of increasing complexity of fund structures and an increase in alternative asset classes including hedge funds complementing the Island's experience in specialist classes such as property, hedge funds and venture capital.

2014 saw the end of transitional periods under the AIFMD in many EU member states. Jersey's wide network of co-operation agreements saw more than 60 managers using private placement to market more than 180 funds into various EU jurisdictions.

Investment Business

In December 2014 there were 90 licensed investment businesses conducting a range of activities including investment advice, discretionary investment management, dealing and custody services. Investment businesses range from small locally owned financial advisors to branches and subsidiaries of large multi-national financial services groups. The investment business sector services a diverse spectrum of local and international clients.

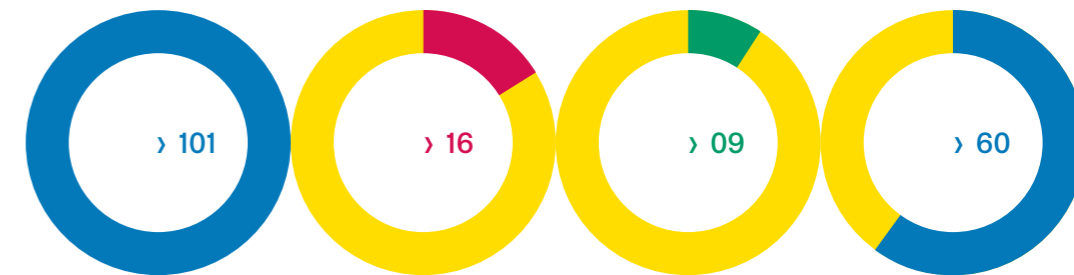
2014 saw a £1.4bn reduction (representing 2,963 clients) in Jersey's discretionary investment management activity; at 31 December 2014 Jersey's investment businesses provided discretionary services to 11,664 clients with £20.8bn of assets under management.

The investment business sector has experienced consolidation in recent years and, whilst there has been positive recent activity in relation to new licences, the Commission expects a further reduction in investment business registrations during 2015.

Trust Company Business

Jersey was the first country in the world to regulate trust businesses. There were 186 trust company businesses at December 2014.

› Full licences	101
› Managed trust companies	16
› Class O (firms providing certain services to Jersey resident customers with limited control of customer assets)	09
› Class G (primarily individuals providing director services)	60

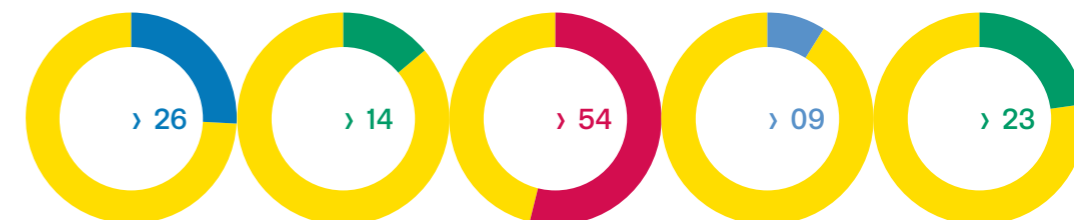


Jersey TCBs manage a variety of asset classes on behalf of their clients: ranging from real estate to mineral rights to classical equity and debt instruments. Executive share options schemes and pension plans are also common. The client base is equally diverse ranging from sovereign wealth funds to private individuals to family wealth management offices.

The sector trend is one of local consolidation with the number of registered businesses reducing but employment levels being relatively stable. A number of businesses are also expanding internationally either through organic growth or acquisitions in the countries concerned.

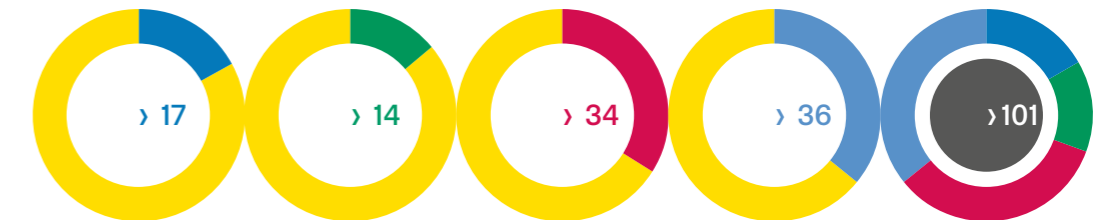
Trust Company Business Ownership

› Bank owned	26
› Other financial institution	14
› Owner managed	54
› Private equity	9
› Legal/accountancy	23

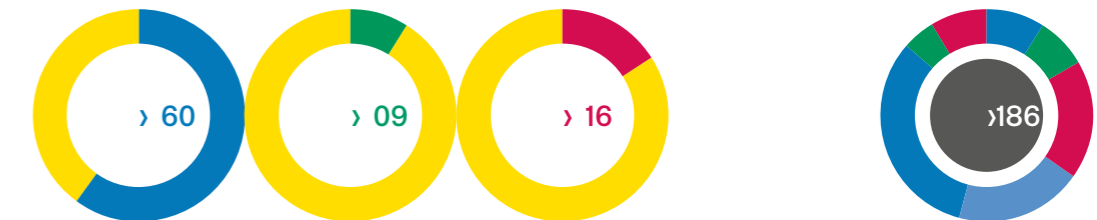




Profile by size (TCB employees)		Dec 2014
> Super large (> 50)		17
> Large (31 - 50)		14
> Medium (11 - 30)		34
> Small (up to 10)		36
> Total	=	101



> Class G - Individual Registrations		60
> Class O - Small Firms		09
> MTCs (Managed Trust Companies)		16
> Total	=	186



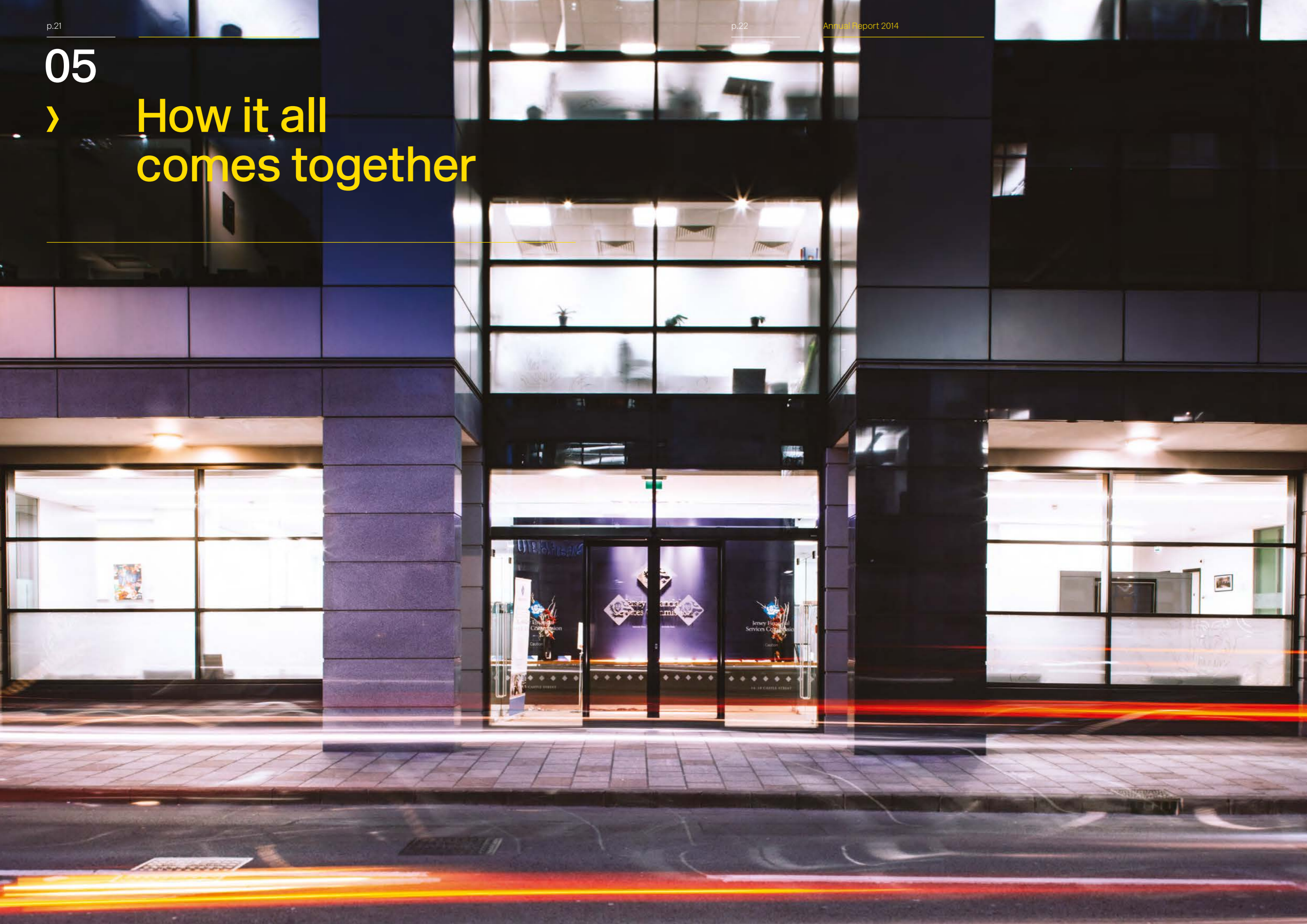
> Insurance

There were a total of 180 insurance companies authorised to carry on insurance business in or from within Jersey. The majority of these insurers consisted of 170 non-resident companies (Category A permit holders) providing insurance on a cross-border basis with no physical presence in the Island primarily via insurance intermediaries. The other 10 insurers are Jersey incorporated insurance companies (Category B permit holders) that include captive insurers providing insurance for a diverse range of commercial risks outside of Jersey.

There were a total of 130 insurance intermediaries authorised to carry on general insurance mediation business in or from within Jersey. This total includes 34 intermediaries that provide services on a cross border basis and 56 that only arrange general insurance as an ancillary service to their main non-insurance business activity (e.g. travel insurance available from travel agents).

05

> How it all comes together



05

› How it all comes together

› Mission

Our mission, as set out in statute, is to maintain Jersey's position as an international finance centre with high regulatory standards and to pay particular attention to our Guiding Principles of:

- › Reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers
- › Protecting and enhancing the reputation and integrity of Jersey in commercial and financial matters
- › Safeguarding the best economic interests of Jersey
- › Countering financial crime both in Jersey and elsewhere

In addition to our regulatory mandate we seek to provide efficient and reliable registry services operating in the public interest.

› Strategy

Our regulatory strategy can be distilled into three areas: market access, reputation management and loss minimisation.

Jersey businesses provide services to a diverse range of customers, the majority of which reside outside the Island and are subject to laws and regulations in their home territories. Some of those territories operate regulatory regimes that require foreign services providers to be subject to regulatory environments broadly equivalent to their own. Our strategy is to ensure that our own laws and regulations track international standards to ensure that Jersey business can access those markets. An example of our market access work is the AIFMD project that we have undertaken over the last two years.

Jersey relies heavily on its reputation to be able to offer financial services products and solutions throughout the world. The JFSC has a key role to play in protecting that reputation whilst not curtailing unreasonably the opportunities for businesses to develop new markets, products and services.

Our policy is to support such developments whilst providing guidance on how reputation risk might need to be managed. We seek to balance the potential benefits to jobs and growth of any new licence application with

the potential for increased reputation risk and use our licensing powers to restrict developments where the threat to reputation risk may outweigh any expected benefits.

No system of regulation can ensure that there are no failures. Our approach is to balance reducing risk to depositors, investors and society with a regulatory environment for financial services businesses that is proportionate as well as meeting international standards. Our philosophy is that business should be managed so as to get it right first time. Thus we like to see businesses with high standards of governance, effective systems of internal control and a supportive compliance culture so that they are able to identify and quickly correct their own shortcomings.

Our registry programme is to prioritise those services that are necessary to support our regulatory objectives, such as the register of companies including beneficial owners, and then leverage our detailed knowledge, experience and infrastructure to provide registry services for departments of the States of Jersey.

05

› Regulatory Model

Our approach is to set robust regulatory standards, against which firms will be assessed when applying to set up business in Jersey and throughout their relationship with us. Where necessary, we are prepared

to make interventions to bring firms within acceptable standards or, in extreme cases, revoke their registration in order to protect industry, the public and the reputation of Jersey.

› Setting Regulatory Standards

We set strong regulatory standards to afford adequate protection for investors and depositors and match international requirements so that Jersey's finance industry may continue to enjoy relevant market access. Sometimes our standards may temporarily differ from our competitors as a result of changes in international requirements but we aim to stay aligned by developing strong relationships with international standard setters and keeping abreast of developments.

Our standards require financial services businesses to have set minimum levels of capital and liquidity depending on the nature and size of the business undertaken and to provide us with audited financial statements. We work with the UK Accountancy Recognised Supervisor Bodies and the UK Audit Inspection Unit to have some of the audit work carried out in the Island inspected and we refer to them issues of potential non-compliance with Auditing Standards.

We consult widely on all proposals to change Laws and Regulations and work closely with the industry to ensure that all of the relevant Laws and Regulations are well understood and capable of implementation on an efficient and effective basis so that they achieve their objectives and command the respect of depositors, investors and financial services businesses.

The senior management of firms is responsible for ensuring that they have appropriate governance, systems and controls in place to manage their risks and adhere to our regulatory standards. This includes having a locally-based Compliance Officer who is responsible for supporting management and providing assurance to the managing body that the firm continues to meet our requirements. Firms are required to notify us if there are issues of non-compliance with laws, regulations and practice.

› Authorisation

As we place reliance on firms to implement appropriate governance, systems and controls to manage their risks and meet our standards, we undertake comprehensive checks on business applications to ensure that owners

and their planned activities meet our published licensing requirements. This includes assessing whether firms' Principal and Key Persons are fit and proper.

› Supervision

We undertake desk-based and on-site supervision work. The intensity with which each firm is supervised is based upon the risk we perceive that they present to our aims and objectives. We are increasingly an intelligence-led regulator, reacting swiftly to intelligence received from various sources including other regulators and from

whistleblower mechanisms we employ. Issues identified are usually resolved between supervision staff and a firm's management, although the JFSC has the option to refer the matter to the Enforcement team if a firm is unable or unwilling to address deficiencies within agreed timescales.

› Remediation and rehabilitation

Our codes of practice require firms to notify us of compliance issues of which they become aware. We also identify issues through our supervisory activities. Where firms are having difficulties in meeting our requirements, we will take into account how open and co-operative they are with us when we decide on the best course of action to take. In all instances, we will agree with firms how matters can be resolved and a realistic date for completing agreed actions. We will monitor progress being made through regular interactions with firms.

In some instances, firms may have more fundamental issues to resolve. Typically we will assess these firms as presenting higher risk to our regulatory aims and objectives and implement a more intensive supervision programme to help them back towards full compliance with our standards. In severe situations or where the firm is unwilling or unable to co-operate fully, we will take enforcement action to mitigate risk.

› Enforcement

The JFSC uses its enforcement powers to improve regulatory standards through credible deterrence and to reduce potential damage where firms or individuals pose an unacceptable threat. Our powers, which we have used where necessary, include the ability to issue directions restricting activities or the employment of individuals; making public statements and the withdrawal of a firm's licence. During 2014, we made good progress towards implementing a Civil Penalties regime to provide us with a wider range of options to ensure that our enforcement sanctions are commensurate with a firm's behaviours.

Early receipt of information about possible non-compliance with Laws and Regulations is key to our ability to act effectively to prevent or minimise damage or loss. The JFSC operates a whistleblowing telephone line to provide a confidential communication route for those concerned that making a disclosure about possible non-compliance might have an adverse impact on them individually.

We work closely with the States of Jersey Police on matters including money laundering and drug trafficking. We have also established information gateways with overseas regulatory bodies for receiving and providing information in respect of regulatory matters including suspicious activity.

› Guidance, outreach and education

We provide comprehensive written guidance to the firms we regulate, complemented by regular presentations and seminars. Firms also receive regular reports to help them understand trends and issues arising from supervisory visits.

Protect Your Money website and regular presentations to members of the public to help raise awareness of practical measures that can be taken to reduce the risk of personal loss.

As investors and depositors are responsible for their own due diligence and understanding financial services they may wish to purchase, the JFSC provides resources such as the

Our involvement in Jersey's secondary schools programme continued with the notable success of Financial Education now being formally included on the curriculum.

05

› Registry business model

Our registry business was originally designed to maintain a register of Jersey companies and to assist our regulatory functions by maintaining information about those companies and their beneficial owners. This activity led us to develop extensive knowledge and experience of running a registry to high standards of efficiency and effectiveness.

Recent years have seen a significant demand from financial services businesses for online and real time operation of such services and this has led us to develop an approach and an IT platform that meets these needs.

The development necessary to provide such services in a secure environment is significant. Thus we are keen to explore how we maximise the benefits from that investment through using the same platform to provide registry services to third parties. Governments maintain a wide range of registries to support the services they supply to individuals and businesses and accordingly we act as partner with the States of Jersey where mutual benefits and cost savings may be achievable.

› Principal risks and uncertainties

The Board discusses the risks and uncertainties facing the JFSC on a regular basis. Our agenda is influenced by global political, economic, legal and regulatory factors, as well as local considerations, the risks presented by regulated firms and the operation of the JFSC itself.

The JFSC's risks are captured in a risk register, which is regularly reviewed by the Executive, Audit Committee and Board. The review considers whether all our key

risks have been identified and assessed reliably, whether our mitigation response is appropriate and whether we are allocating sufficient resources to those areas that present the greatest risks to our regulatory objectives.

Of the risks identified, the JFSC 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 and/or sanctions.

The JFSC also considers this risk to be increasing as a result of the current global political, economic and regulatory environment. Over and above its usual activities, the JFSC has additionally responded in this context in recent years by:

- › Recruiting additional policy resources
- › Improving its policy prioritisation processes

- › Engaging fully with government to implement recommendations for agreed reform

- › Investing additional resources into MONEYVAL and AIFMD preparations

To mitigate this growing risk we work closely with international and UK partners so that we are aware of the latest thinking and likely developments in the foreseeable future. This enables the JFSC to determine its legislative priorities and if possible influence external policy makers to ensure that developments are practical and likely to be effective.

› Information Security

The risk of data loss, data theft and/or data corruption as a result of unauthorised internal or external activities continues to be a challenge for financial services and other sectors. The expanding reliance on internet technology and mobile/remote working has inevitably expanded the scope for cyber-attacks with the obvious potential consequences of reputational and/or financial loss. Information security risks pose a persistent threat to the reputation of the Island, Jersey's financial services industry as well as to the Commission.

The Commission hosts extensive confidential information about individuals and businesses in order to perform its regulatory and registry obligations. In order to mitigate the risk of information security breaches, we utilise sophisticated technology and we have a dedicated team which constantly monitors the integrity and effectiveness of these defences. Every effort is made to stay current and to ensure a safe and reliable operating environment.

› Money Laundering and Terrorist Financing

Jersey has a good track record in tackling money laundering and terrorist financing.

However, there is always a possible risk that Jersey is linked with money laundering or terrorist financing to such an extent that it would damage the Island's reputation and lead to loss of confidence in doing business in the Island.

The JFSC perceives this risk is increasing as a result of heightened terrorist threats, the increase in cyber-crime and the emergence of payment systems that avoid the use of bank accounts. There is also potential for higher threats to emerge from new markets that Jersey firms are developing.

We seek to mitigate this risk through high standards of knowledge, training and reporting of suspicious transactions by the business community, combined with an up to date regulatory environment. The JFSC also ensures that there are effective working relationships between the relevant agencies (JFSC, States of Jersey Police, prosecuting authorities) so that action is taken efficiently and effectively when a suspicious transaction is reported.

05



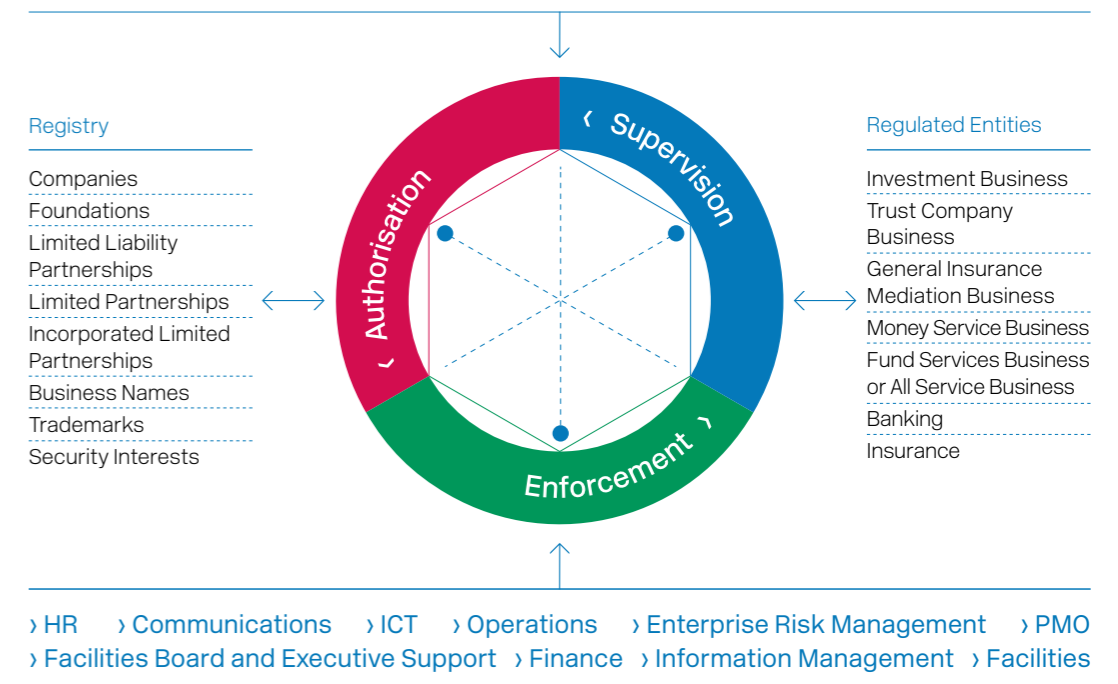
› Strategic Planning and Execution

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

The JFSC considers this risk to be increasing because the full effects of significant changes in financial services markets and international regulation on Jersey and the extent of disruption to financial markets from new technology are not yet fully understood.

We seek to mitigate this risk by working closely with industry to improve our knowledge of likely developments and by becoming more agile and forward looking so that we can effectively manage change as it arises. To achieve this the JFSC is seeking to improve the knowledge and skills of its workforce and restructure the way in which it collects and utilises information about businesses and markets.

› How it all comes together



06

› Divisional Reports



06.1

› Policy and Strategy Strategic Report

› Working with international policy makers and governments

There are two teams within the Commission that manage and develop this area: Policy and Strategy and Financial Crime Policy.

The Policy and Strategy team liaise with HM Treasury, the Financial Conduct Authority, the European Securities & Markets Authority, the European Commission and other key stakeholders, on major policy dossiers such as the Alternative Investment Fund Managers Directive (AIFMD), Markets in Financial Instruments Directive II (MIFID2), Markets in Financial Instruments Regulation (MIFIR), European Market Infrastructure Regulation (EMIR) and Single Euro Payments Area (SEPA). We will continue to assess the impact of these Directives and Regulations, the appropriate proportionate response and the varying equivalence issues for Jersey as a third country.

An application was made during 2014 to the European Commission for an adequacy assessment under the Statutory Audit Directive, which involved an assessment of the JFSC's information confidentiality rules against EU standards.

Memoranda of Understanding (MOUs) were signed with the Financial Services Board of the Republic of South Africa, the Emirates Securities and Commodities Authority, the Chinese Securities Regulator and the Swiss Financial Market Supervisory Authority. The Commission continues to actively work with other regulators.

We are proud of the constructive role we play in a number of international fora, especially given our relatively small size as a jurisdiction. Of particular significance, is our membership of, and active participation in, the International Organisation of Securities Commissions (IOSCO), through their various policy and standards implementation committees.

›

In respect of banking policy, work continued with the Isle of Man and Guernsey regulators to address the package of new standards under Basel III. Initial Discussion Papers have been jointly issued on capital, systemically important banks and leverage, with industry feedback generally positive. A Discussion Paper on liquidity management will follow in 2015. Further, the JFSC has been involved in reshaping the Standardised Approach to Credit Risk (currently under Basel II) through its membership (as a representative of the GIFCS) of a Basel Committee taskforce. Consultation with the Jersey banking sector on these matters commenced at the end of 2014.

In order to contribute to the development of international standards and to understand the effect that changes in standards may have on Jersey, the Financial Crime Policy team also participates in the work of the Financial Action Task Force (FATF) – through its membership of the Group of International Finance Centre Supervisors (GIFCS).

The Financial Crime Policy team actively participates in the mutual evaluation processes and procedures of MONEYVAL – a body of the Council of Europe. For example:

› The Financial Crime Policy team participated in fourth-round mutual evaluations of two MONEYVAL members: a Baltic country and a Balkan country. Whilst a substantial commitment of time is necessary in order to take part in such assessments, they provide an excellent opportunity for JFSC staff to apply and improve their knowledge of the FATF Recommendations

› The team attended training (November 2014 and March 2015) on conducting mutual evaluations under MONEYVAL's fifth-round of assessments – which starts this year and which uses the revised FATF Recommendations and revised assessment methodology

› The JFSC has represented MONEYVAL at a private sector forum organised by the FATF

› Presentations have been delivered to plenary meetings on financial inclusion and transparency of legal persons and legal arrangements

In line with new international standards, the Financial Crime Policy team has liaised extensively with the World Bank concerning use of software and a methodology to conduct a national money laundering and financing of terrorism risk assessment. This risk assessment, which is expected to start towards the end of 2015, will form the basis for the continued development of policy in this important area.

06.1

› Keeping domestic laws, regulation and codes up to international standards

A number of important policy initiatives were progressed domestically.

In the funds industry, work continued on the Funds regime review during the year, with significant progress and detailed discussions with industry regarding streamlining and simplification. The Commission finalised its work on Managed Accounts introducing an exemption, by way of an Order, from Investment Business for those conducting activity in this space. This resulted in simplifying their regulatory treatment, in one place in Jersey, under the Fund Services Business regime. Progress was also maintained on AIFMD implementation working closely with industry and European regulators on the framework and supervisory approach. The Bank Licensing Policy was amended to permit the possibility of smaller, non-systemic banks to operate in the Island.

In advance of MONEYVAL's fourth round assessment of Jersey's compliance with the FATF Recommendations, a number of changes were made to Jersey's AML/CFT framework:

- › An amendment was made to the Money Laundering (Jersey) Order 2008 (the Money Laundering Order), which came into force in October 2014.
- › The Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Financial Services Business Regulated under the Regulatory Laws (AML/CFT Handbook) was substantially re-written and re-published in January 2015. This followed an extensive period of public consultation starting in July 2014.

Assistance has also been provided to the Chief Minister's Department with the development and enactment of other legislation, in particular the Proceeds of Crime and Terrorism (Tipping Off – Exceptions) (Jersey) Regulations 2014 and Proceeds of Crime (Financial Intelligence) (Jersey) Regulations 2015. The former set out circumstances when it will be possible to pass on information about a suspicion of money laundering or financing of terrorism to another person without committing an offence, and the latter provide Jersey's financial intelligence unit (housed in the Joint Financial Crimes Unit of the States of Jersey Police) with additional powers to collect intelligence from the financial sector.

At the request of Jersey's Financial Crime Strategy Group, a report assessing money laundering and financing of terrorism risks associated with the use of virtual currencies has been prepared. The report also suggests a number of options for regulating virtual currencies in Jersey. The report and options are currently under consideration.

The Commission also coordinated, and contributed to, publication in January of a pan-agency report on money laundering typologies and trends in Jersey.

In line with the increasing use of technology to counter money laundering and the financing of terrorism, the Commission has also recently published a statement on the use of tablet and smart phone applications to carry out customer identification measures.

Finally, the enabling law to permit the use by the Commission of civil penalties was approved by the States in 2014 and subordinate legislation issued under the law is subject to consultation in 2015.

› Acting with intelligence and agility in a rapidly changing financial world



06.2

› Supervision: Banking

› Examinations and findings

The Banking division fulfilled a full programme of supervisory engagement during 2014. Our examination efforts focused on an AML/sanctions thematic programme in the first half of the year, culminating in a detailed summary report published for industry guidance. Overall, banks were found to be well advanced in implementing their AML/CFT and financial sanctions systems and controls which were considered to now be of a good standard.

Assessments included a practical screening exercise whereby banks were asked to pass a list of names provided by the JFSC through their screening filters, and present the results for analysis. This exercise proved valuable in benchmarking the banks' screening arrangements and in two cases led directly to the identification of serious, and previously undetected, flaws in their screening filters. Key/common findings were:

- › Automated re-screening of customers
- › Senior management understanding of screening arrangements
- › Coverage of financial sanctions risks in the Business Risk Assessment (BRA)
- › Screening system user access controls and IT change governance
- › Staff procedures for discounting potential target matches and compliance monitoring

Examinations for the rest of the year were focused on corporate governance and resulted in fewer high risk rated findings. This validated our perception that corporate governance of Jersey incorporated banks, has improved considerably in recent years as a result of group initiatives and the positive contribution of Jersey based independent non-executive directors, which have now been appointed at all Jersey incorporated banks.

Although the possibility of a bank collapse has subsided since the peak of the global financial crisis, risk management issues continue with a handful of individual banks that warrant the JFSC's attention and

› Prudential matters

Jersey incorporated banks remained generally well capitalised, despite the challenges of the financial crisis and the more efficient management of capital by parent groups. Reorganisations required as a result of the UK's and other home jurisdictions' plans to ring-fence large retail banks will lead to risk profiles changing in respect of credit, operational and market risks, which might lead to capital increases being required in individual cases.

Bank profitability improved as levels of new credit provisions continued to reduce and an increased element of recoveries was

› Other developments

We continued to organise and chair the Contingency Planning Group, established to review and enhance Jersey's preparedness for a bank failure (consisting of representatives from the JFSC, Viscount's Department, Chief Minister's Office and the Deposit Compensation System Board). Work has revolved around ensuring each stakeholder has adequate contingency plans in place and running bank failure scenarios to test these. Jersey currently lacks an adequate bank resolution regime, something which the JFSC will continue to work with Government on addressing.

involvement. Whilst the individual cases remain confidential, examinations have identified issues with the following:

- › Information security
- › Risk rating customers
- › Credit risk in the home jurisdiction
- › Monitoring pooled customers
- › Payment controls
- › Assessment of risk relative to particular high risk jurisdictions

seen, helped also by overhead reductions. It seems that further material improvements are at least partly dependent on interest rate increases commencing.

Banks have steadily developed deposit behavioural data and their analysis of this since prudential liquidity requirements were introduced in 2008. This forms the basis of continuing applications to the Commission for banks to go beyond standard permitted liquidity mismatches.

Bank registration fees were increased by 30% (per bank) to address a shortfall arising from:

- › The consolidation of banking operations and consequent surrender of licences
- › An ongoing absence of new applicants
- › The increased cost of matching continually evolving international standards

There is a continuing trend for banks to consolidate and to close operations within branches and local subsidiaries. Over the last ten years, two thirds of subsidiaries have exited and total licence numbers have fallen by a third. This trend has obvious potential consequences for licence fee levels.



06.2

› Investment Business

› Examinations and findings

An extensive programme of on-site Investment Business examinations was performed, which focused heavily on the suitability of investments.

Performing 17 Investment Business examinations identified that the majority of firms have taken, or are taking, steps to enhance procedures relating to customer suitability. Findings included weaknesses in relation to product due diligence, product approval processes, maintaining and recording up-to-date knowledge of clients' circumstances and client risk tolerance/capacity for loss and concentration risk.

Suitability of investments was also the focus of off-site supervision. This resulted in a single figure number of investment businesses becoming subject to increased Supervision and Enforcement action.

It is evident that our supervisory measures are having their desired effect, and that business conduct has improved in recent years. However the JFSC continues to identify and pursue cases of historic misselling of non-retail investment funds. Accordingly,

the suitability of investments will remain a key area of focus for the Investment Business team in different areas. For example, they will continue to engage with industry and monitor developments relating to sales of Interest Rate Hedging Products.

A number of other matters arose in 2014 that warranted the Commission's attention. These included: fraud, information security, suspicious activity reporting, corporate governance inadequacies and financial resource deficiencies.

Other off-site supervisory activities will continue into 2015, including; outreach to assist industry in ensuring compliance with revised regulatory requirements resulting from changes to the Codes of Practice in July 2014, and efforts to ensure that regulated activities conducted in Jersey on a cross-border basis are compliant with the Island's regulatory regime.

› Other developments

Regulatory changes arising from the JFSC's Review of Financial Advice (RFA) project came into effect on 1 January 2014. RFA aims to raise professional standards and competence and reduce possible conflicts of interest that can be caused

by commission based remuneration arrangements. The Investment Business team has reviewed compliance with RFA through supervisory activities in 2014, with only isolated instances of non-compliance being identified.

06.2

› Funds

› Examinations and findings

In total, 36 on-site examinations were carried out by the Funds Supervision team in 2014, providing 'visibility' of the Commission in the market place and an opportunity to review industry's systems and processes and to ensure compliance with the regulatory laws and codes of practice.

The main theme of the 2014 visit programme was a review of licence holders' risk management systems and controls in relation to money laundering and the financing of terrorism. The key findings were:

- › Improvements were noted in the recording of issues discussed at Board level;
- › While some Business Risk Assessments evidenced deficiencies, in others a broader spectrum of risks were being recorded, which in turn directly influenced activities undertaken as part of compliance monitoring programmes;
- › Weaknesses were identified relating to the independence of the Money Laundering Reporting Officer, and the effectiveness of compliance monitoring regarding identification and verification of clients.

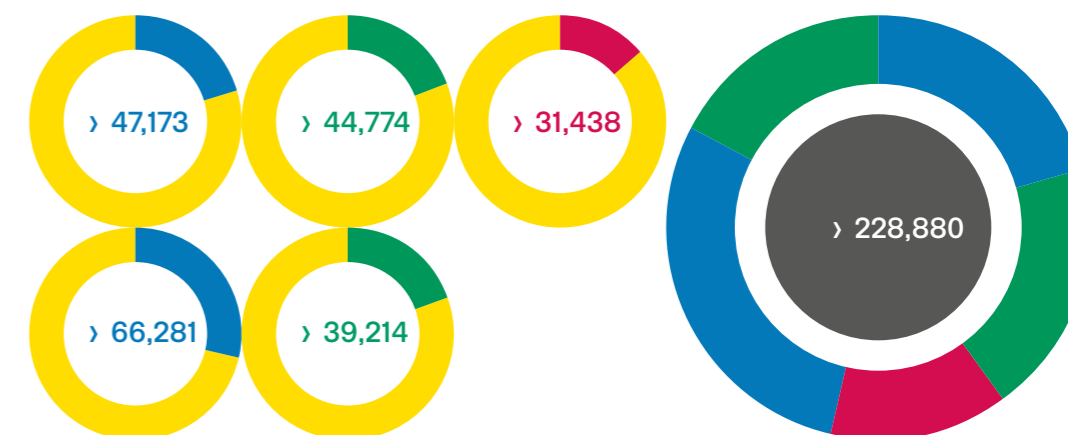
Remediation plans were agreed with each entity visited and the division is pleased to report a continued high level of co-operation from the entities visited during the year.

›

Funds by asset class

NAV £ millions as at 31/12/14

› Equity	47,173
› Venture capital/private equity	44,774
› Real property	31,438
› Hedge and alternatives	66,281
› Other (balance)	39,214
› Total	= 228,880



›

Other developments

The Funds Division introduced a programme of outreach meetings with key stakeholders and held a number of AIFMD consultations, seminars and training programmes during the year. The attendance at these seminars was very high and to supplement this face-to-face contact, improvements and updates were made to the guidance notes and codes of practice on the Commission's website. Frequently asked questions on specific AIFMD topics were also published.

During 2014 a number of compliance officers were asked for feedback on the design and development of a new Funds annual compliance return. The quality of the feedback was very high and the new compliance return will be launched in 2015. The introduction of an annual compliance return will now put the Funds sector on the same footing as the other finance industry sectors.

06.2

› Trust Company Business

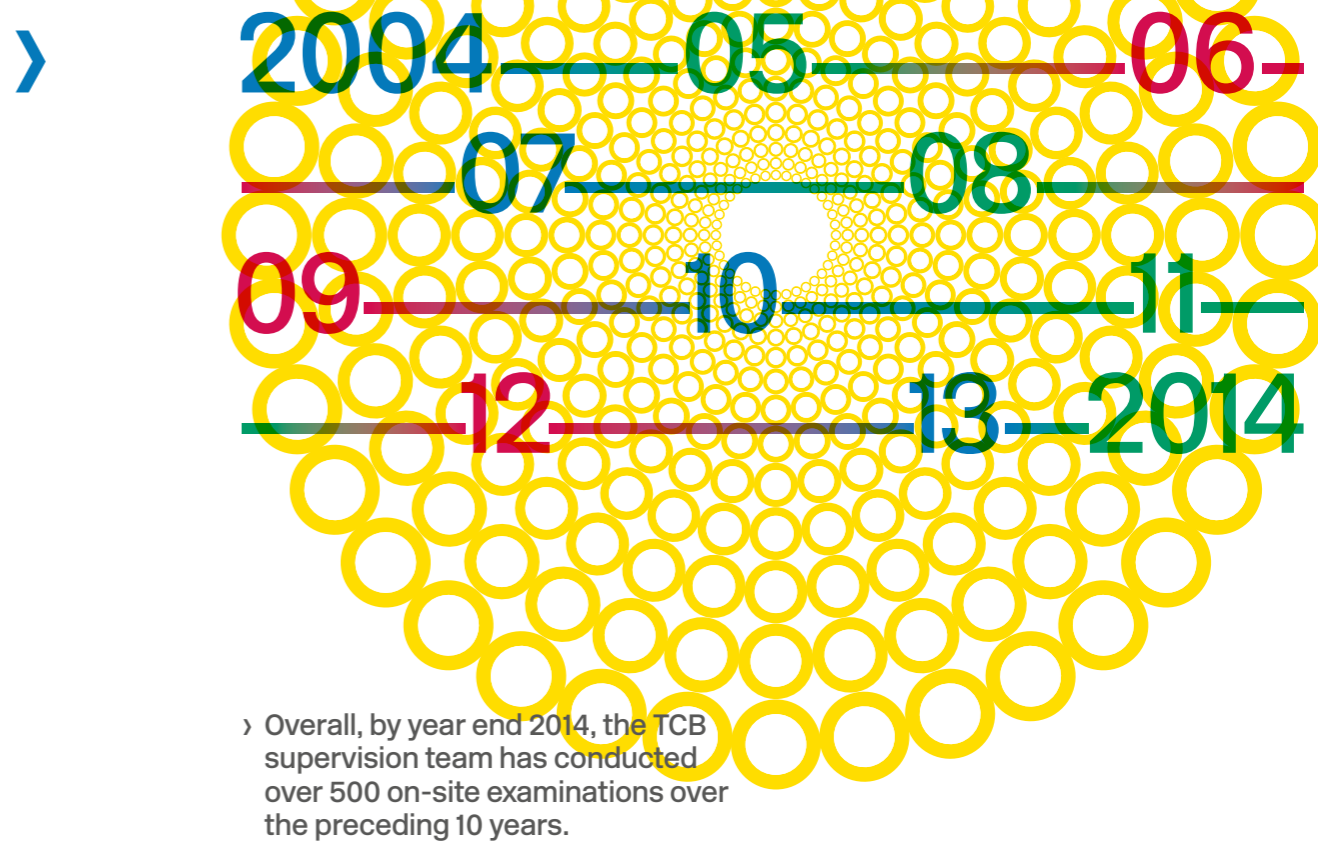
› Examinations and findings

The TCB Division focused most attention and resource this year on specific themes which represented the highest risk to the JFSC's Guiding Principles, particularly in terms of protecting and enhancing the reputation and integrity of Jersey in commercial and financial matters, and countering financial crime both in Jersey and elsewhere.

A thorough on-site examination programme meant 42 on-site examinations were conducted during the year. The visit programme highlighted the following issues that existed in some firms:

- › Weaknesses in SAR reporting procedures
- › Improvements were needed to make compliance monitoring more effective
- › Inadequate risk profiling of the customer base
- › Some poor conflict of interest management

In addition to this work, the team continues its outreach programme of training and seminars to regulators and industry representative bodies on the somewhat specialist activity of Trust company regulation that few supervisors undertake worldwide (in 2014, including working with the Maltese and Liechtenstein regulators).



› Other developments

In July 2014, the Island's government published a statement regarding "abusive tax schemes" which introduced a requirement on service providers to document where any new business involves schemes registered under Disclosure of Tax Avoidance Scheme obligations ("DOTAS") in the UK.

The Commission responded to this statement by advising regulated entities that, in addition to existing requirements set out in a Guidance letter dated March 2013 entitled "Aggressive

Tax Schemes", the Commission will in future, as part of its normal programme of on-site examinations, test the compliance of service providers with the above requirement.

The TCB division also provided resources to a Group of International Finance Centre Supervisors (GIFCS) working party, which resulted in the publication in October 2014 of a revised Standard on the Regulation of Trust and Corporate Service Providers.

06.2

› Insurance

› Examinations and findings

The Insurance team carried out a combination of general supervision assessments and Payment Protection Insurance (PPI) examinations. The examinations followed desk-based surveys of the industry in relation to suitability of investments and PPI misselling complaints.

Whilst the PPI review is to be completed in 2015, the JFSC is pleased to note that local firms appear to be handling PPI fairly with many taking into account the UK requirements under group-wide procedures.

The remaining supervision examinations identified the following findings:

- › Sub-standard risk-based compliance monitoring
- › Inadequate monitoring of outsourced compliance activities
- › Insufficient compliance resource within firms

- › Inadequacies in the maintenance of AML business risk assessments

- › Over-reliance for critical customer information on obliged persons such as introducers and intermediaries

- › Inadequacy of source of wealth documentation

The ongoing trend for consolidation across the Jersey insurance sector continued during 2014. The JFSC dealt with several insurance companies undertaking transfer schemes plus merger and acquisition activity, as non-resident firms continued to seek structural efficiencies in preparation for Solvency II.

› Other developments

The Insurance team concluded a self-assessment of compliance with revised core principles issued by the International Association of Insurance Supervisors (IAIS). There may consequentially be a small

number of amendments to insurance regulatory requirements to address gaps identified which will be subject to consultation with industry.

› AML Unit

› Examinations and findings

The AML Unit completed 48 on-site examinations in 2014, visiting a broad and diverse range of non-traditional financial services businesses (collectively known as DNFBPs or designated non-financial business and professions) for which it is responsible, including money service businesses, accountancy practices, law firms, estate agents, and other financial services, such as lenders.

The AML Unit has made a shift to a genuinely risk-based approach to supervision, with the emphasis moving from breadth of coverage and outreach to advise firms of broad requirements, to more in-depth examinations, testing AML/CFT systems and controls to ensure they are not only adequate, but are operating effectively. This more in-depth approach has resulted in the JFSC identifying businesses requiring heightened supervision due to inadequate risk management, though no evidence was found of actual money laundering or other criminal activity. Key findings included:

- › Poor business risk assessments
- › Inadequate consideration of the money laundering, terrorist financing vulnerabilities and threats relative to the individual business
- › Poor client risk assessment processes and inadequate consideration of cumulative money laundering risk factors, with a systemic defensive culture of "we know our clients"
- › Inadequate Suspicious Activity Reporting (SAR) processes. There is a systemically low volume of internal and external suspicious activity reporting amongst DNFBPs which is not necessarily being considered as a 'red flag', but may indicate deficiencies in areas such as staff training

Other developments

During 2014, the AML/CFT risk model for DNFBPs, including money service businesses was enhanced and approximately 250 businesses were re-assessed. Outputs from the model now form the basis for the 2015 examination programme. It has been synthesised with emerging money laundering and terrorist financing trends and typologies to ensure a truly risk-based approach to supervision.

In respect of such emerging risks, the AML Unit has worked closely with the Commission's Financial Crime Policy team on new products such as virtual currency and pre-paid cards. In 2014, the team conducted a series of themed examinations of money service businesses in order to understand Jersey's exposure to money laundering and terrorist financing risk through the use of pre-paid cards. As a result, related guidance is now available in Part 4 of the AML Handbook.

The AML Unit undertook a survey of Non-Profit Organisations (NPOs) to gain an increased understanding of the sector's activities, fund raising and disbursements. The information gathered in the survey now forms part of a more in-depth analysis currently underway.

06.3

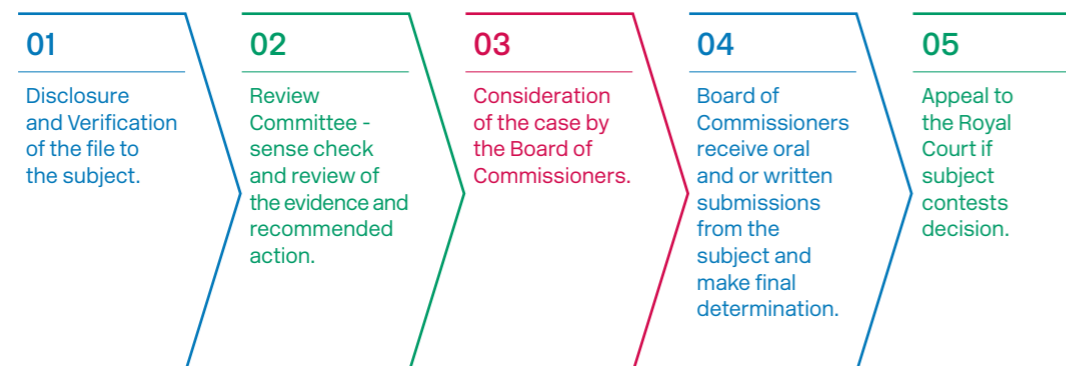
› Enforcement

- › The goal of the Enforcement division is to be firm but fair, and to engage in constructive dialogue with those that we regulate, resorting to the use of statutory enforcement sanctions where necessary.

The Enforcement Division dealt with a total of 93 new cases during 2014.

› Enforcement Process

Where formal sanctions are imposed, the JFSC's decision making process is followed with the preliminary review by two directors to assess the case and determine if it is suitable for settlement discussions.



› Investigation Findings

Poor standards of corporate governance exercised at the board level continued to be the root cause of several of the most significant enforcement cases in 2014, and resulted in the closure of two regulated service providers, together with the issue of directions to the former directors preventing or restricting their future employment by any regulated entity.

Wherever appropriate, Enforcement will attempt to steer or force a regulated business towards a course of remediation. The overwhelming majority of Enforcement cases fit into this category resulting in significant improvements in adherence to the regulatory standards.

› Public Statements and Sanctions

Public statements continue to be an important and effective regulatory sanction, but also act as an alert to the public and a point of reference for the regulated community to learn from the mistakes of others, or to alert them to the fact that directions have been issued against a specific individual who may pose a risk to the finance industry. In 2014 the Commission issued 13 such public statements.

Twelve individuals were considered to pose a risk to the industry and issued with directions preventing or restricting them from obtaining employment with a registered person, without first obtaining the specific consent of the JFSC. One such consent was granted in 2014.

During the year, Enforcement entered into settlement agreements with five individuals/businesses subject to enforcement action culminating in the issue of directions and public statements. Settlement agreements allow the JFSC to increase the volume of cases it investigates and reduces the costs associated with contested enforcement action. The use of settlement agreements was incorporated into the JFSC's decision making process, which was updated in 2011, and is subject to a further review in 2015, to incorporate changes needed for the introduction of Civil Penalties in Q3 2015.

› Fraud Prevention

Members of the public, many of them retired both in Jersey and overseas, continue to search for better returns on their savings, and have on occasions been tempted to invest money through unsolicited telephone calls or emails and sadly, fall victim to fraud and scams.

In late 2014, Enforcement joined forces with the States of Jersey Police, Trading Standards, Digital Jersey and the Honorary Police to form the Fraud Prevention Forum, with the aim of delivering initiatives in Q2 2015 to protect members of the public from falling victim to such scams.

› Intelligence

The JFSC's capability to collate and develop intelligence has been essential in ensuring that Enforcement focus resources in the correct manner adopting an intelligence

led approach to regulation. In 2014, the JFSC received 12 substantive contacts from whistleblowers, often providing very precise and key intelligence.

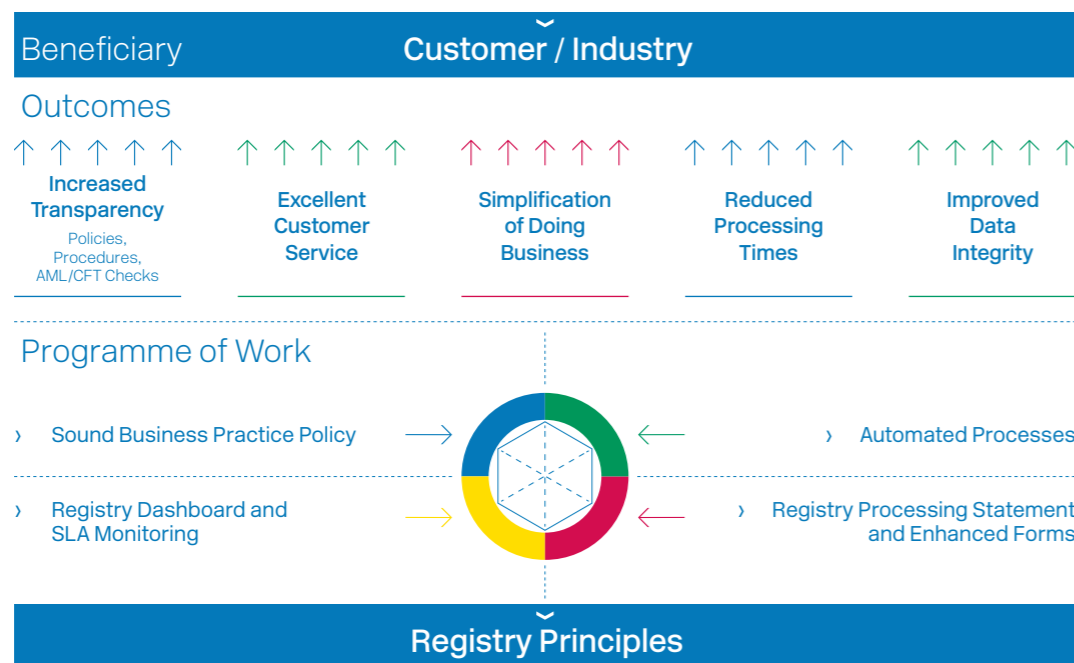
06.4

Registry

The JFSC operates Jersey's Companies Registry, which registers Jersey companies, partnerships, foundations and business names. The Registry aims to maintain a service that is able to supply its users with a customer-centric approach enabling users to have access to accurate and reliable information. The Security Interests Register (SIR) and the registration of trademarks are also operated by the Registry.

The Registry:

- Monitors and vets adherence to the Sound Business Practice Policy (SBPP)
- Undertakes the first line (second line for regulated business) of anti-money laundering and countering the financing of terrorism, defence checks for Jersey locally resident users



Intelligence

The Registry has introduced a set of initiatives to sustain high customer service levels, while fulfilling the role of AML/CFT gatekeeper within the JFSC. In November 2014, it published the SBPP with the objective of ensuring that on incorporation, the Registry is made fully aware of the nature of the business to be conducted by an

applicant, in line with Financial Action Task Force (FATF) Recommendations. The SBPP outlines the risk-based approach applied by the JFSC, acting through the Registry, when processing applications, that include activities or functions that are deemed to pose higher reputational risks to Jersey.

Registry Activities in 2014

Systems // Processes // Registry Principles // Dashboard // Industry // SLA
SBPP
 International // Vision // Our People // Customer // SIR // Tell Us Once // EBR

Automation and e-commerce projects continue to be developed

In December 2014, we implemented a series of dashboard systems which provide real-time management information regarding the applications submitted by customers. This has been an invaluable tool to manage and deploy resources to meet the customer needs based on live activity levels.

The online search facility, monitoring and filing systems were all enhanced in 2014, to improve the quality of service users receive and to ensure access to high quality public data is maintained.

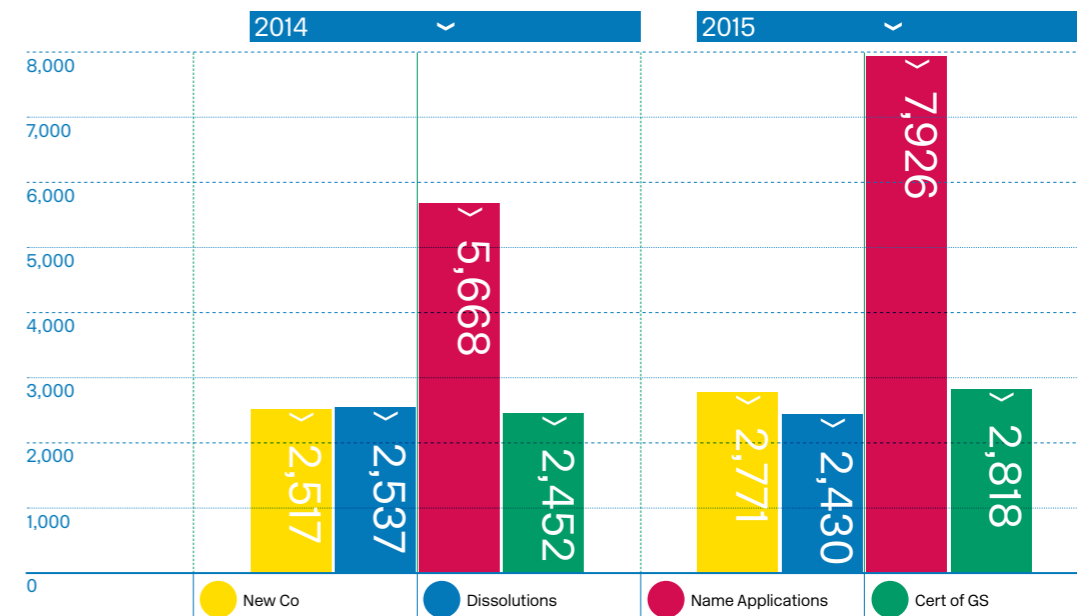
Applications in 2014

To evidence our commitment to a customer-centric approach, we converted over 2.45 million documents from image files to searchable pdfs, to allow easy access. A system has also been built to provide immediate online certificates of good

standing for companies, partnerships, foundations and business names. At present, the Registry holds 312,251 entries on its register (this includes live and dissolved legal entities).



Throughout 2014 the Registry processed approximately 200,000 applications, 2,771 of these were company incorporations.



06.4

› Registry business model

In order to maintain its international reputation for quality service, the Registry has continued to develop better services for its users by driving a reduced paper agenda and delivering efficiencies where possible. We have acted on user feedback to make it as easy as possible for customers to do business with us, having already identified the need to update our IT platform to ensure that any new systems remove the burden of redundant administrative requirements and take into account any legislative drivers thereby adhering to developing international standards and expectations.

The focus for 2015 is to engage with stakeholders, in particular with other local registries and States of Jersey agencies to combine efforts for the benefit of the Island. Particular focus is on implementation of the Jersey Aircraft Register. Registry is also keen to proceed with applying for a jurisdiction four digit local operating unit number from the Global Legal Entity Identifier (GLEI), Regulatory Oversight Committee and begin research on the feasibility of running a Jersey register to issue GLEIs.

Registry is also working hand in hand with the States of Jersey on the 'Tell us Once' project – an initiative to provide a one stop shop for residents wishing to set up a business in Jersey.

Particular focus in 2014 has been on the Registry's operation of the register of ultimate beneficial ownership of companies and other Jersey legal entities on incorporation or inception. This is supported by the Commission's licensing and supervision of TCBs to maintain up to date beneficial ownership of all such structures on an ongoing basis is an important component of Jersey's leading position in the international debate on capture of beneficial ownership information.

› International Development of the Registry

We are an active member of the European Business Register (EBR), a network of National Business Registers and information providers from currently 27 European countries. The EBR provides easy access to European company information online – allowing access to each member country's official register.

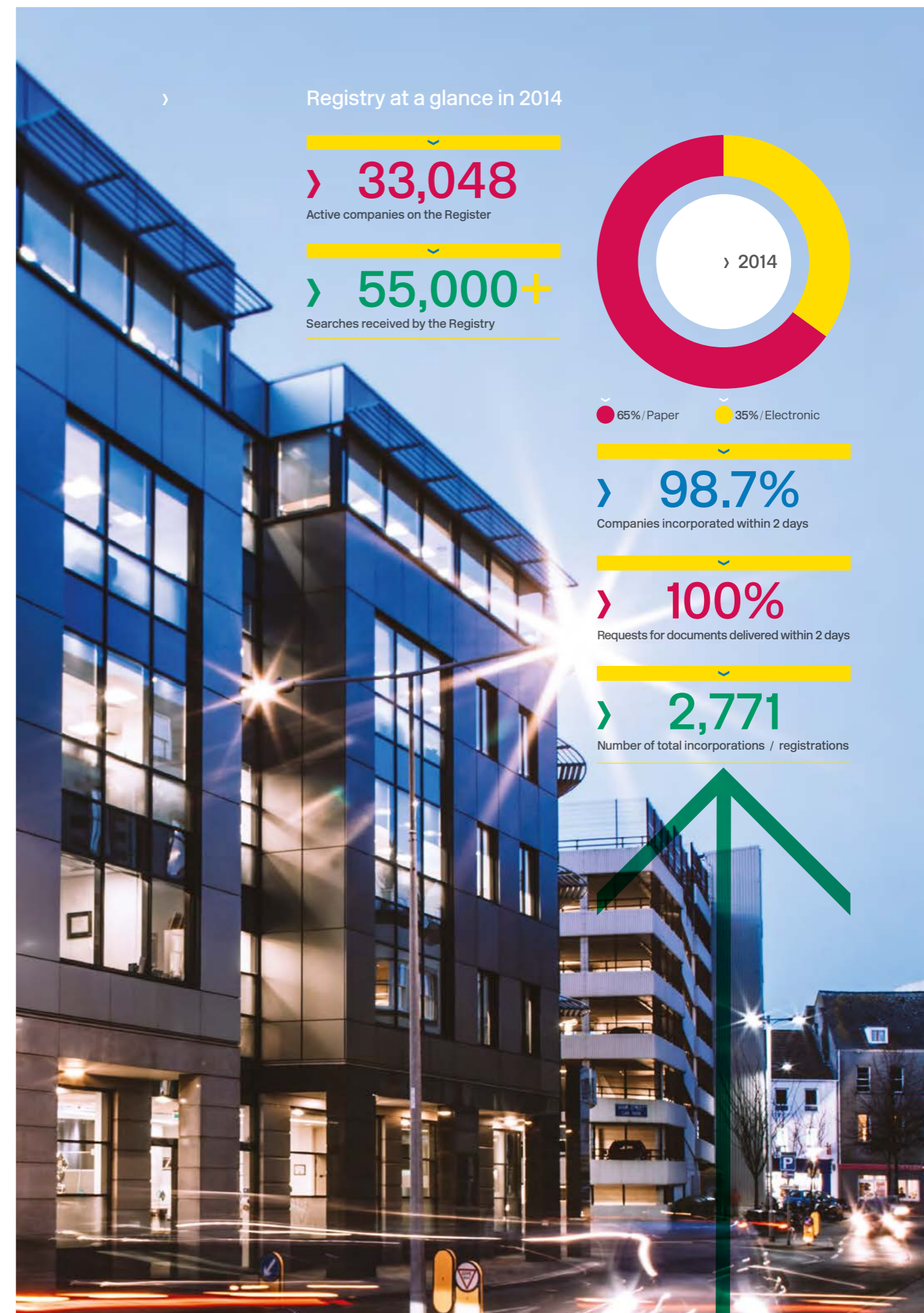
The Director of Registry is a board member of EBR and was elected to the European Commerce Registers' Forum Working Group.

Registry also continues to work with the group set up to consider the requirements of the Directive on the Interconnectivity of European Union and non European Union (third countries) business registries.

As part of its strategy to maintain key international involvement, Registry continues to provide input to a number of international surveys which in turn help to promote Jersey and ensure that it maintains visibility with global counterparts.

› International Achievements

During 2014, we were awarded the International Association of Commercial Administrators Merit Award for the establishment of the Security Interests Register (SIR) in 2013.



06.5

› Finance and Resources Strategic Report

- › The Commission achieved a net surplus for the 2014 year compared to a budgeted net deficit. Lower than expected fee income was mitigated by containing operating costs where possible.

› Bearing down on costs

The Finance department commenced an ongoing review of costs during 2014 which has continued into 2015. Cost control will be a core objective for our Finance team during 2015. Improvements in reporting, departmental budget monitoring and procurement control are central to this objective. As such, these

will form key focus areas for the team. A review of significant contracts will be carried out within the scope of this review. Several savings have been identified and realised since commencing this review.

› Regulatory fees

Total fee income increased to £13.76 million in 2014 from £13.62 million in 2013. This rise was due to an increase in fee income from company incorporations, the Security Interests Register and company searches. Regulatory fee income decreased 2.6% from the previous

year owing to several factors including bank licence consolidation, overseas bank branch closures and a decrease in one category of licensed funds due to the closure of funds at one provider.

› Operating costs

Operating expenditure amounted to £14.65 million compared to a budget of £14.38 million. The variance is primarily due to increases in staff costs, investigation and litigation costs, unexpected one-off costs and the impact of completed capital projects which resulted in increased depreciation charges. Increases in expenditure were mitigated by lower costs associated with recruitment, computer systems and public relations.

Staff costs remain the Commission's most significant item of expenditure. The average number of staff employed increased marginally from 124 FTEs in 2013 to 125 FTEs. Staff costs have increased despite the limited overall increase in staff numbers due to the appointment of several vacant senior positions, costs associated with these senior appointments and specific one-off payments which were incurred during 2014.

Investigation and litigation costs incurred during the year increased to £0.85 million due to two significant ongoing enforcement cases. However, a notable amount of investigation and litigation costs were exceptionally recovered from regulated entities subject to enforcement action resulting in an overall net surplus of recoveries over expenditure during the year.

The Commission's reserves remain in line with the current reserves policy. The 2015 Budget assumes that fees for certain regulated activities will be increased marginally in order to limit future decreases in the reserves. However, the Commission will be undertaking a strategic review of its current funding arrangements and reserves levels during 2015 to ensure that appropriate reserves levels are maintained.

07

> Corporate Governance



07



Corporate Governance

What did the Board do?

› The Board met monthly during 2014 and held an 'away day' to think about strategic issues outside of its usual environment. In addition the Board found it necessary to meet on four additional days to consider a number of 'fit and proper' cases. As a consequence Commissioners typically spent significantly more time on Commission business when compared to 2013.

› Risk appetite and policy development

The Board spent more time than in previous years on strategic risk assessment and policy development, responding to the many new regulatory requirements promulgated at global, regional and national level, which have a profound effect on Island business. Topics covered a wide range of matters from UK bank regulation to anti-money laundering and terrorist financing.

The Board regularly debates risk appetite and strategy and how this impacts on policy. During the year, the Board continued to discuss its approach to Bank Licensing recognising that continued industry consolidation has reduced the choice available to both domestic and international customers. The Board also devoted significant time to a number of individual licensing decisions ranging from a proposal from an African sovereign wealth fund to whether restrictions should be placed on the existing licence conditions for a bank.

› Consultations on legislation, requirements and guidance

The Board approves the content of consultations on regulatory legislation and requirements, and participates in the evaluation of consultation responses from industry. The Board has delegated consultations on guidance to the Executive (see also the section on the delegation of powers).

During the year the Board devoted significant time to the finalisation of our response to the EU's AIFMD to ensure that Jersey based alternative investment fund managers are able to take advantage of the new directive. The Board also spent significant time on the development of a civil financial penalties regime, including detailed consideration of comment letters and listening to the feedback from industry.



› Fit and proper requirements

The Board makes the final decision about whether individuals are fit and proper to be employed in the financial services industry where a settlement is contested or of such significance that it cannot be dealt with appropriately at an Executive level.

The Board considered carefully any potential conflicts of interest and three Commissioners excused themselves from participating in certain cases. The Board received detailed reports about the facts and circumstances, together with transcripts

of interviews with the individuals in question. The Board also met each individual, together with their legal advisers, to hear their explanations and listen to their representations.

The Board concluded in some of the cases that an individual had demonstrated a lack of integrity, and in others a level of incompetence that necessitated retraining and subsequent close supervision by their employers.

› Recruitment of Commissioners and Executive Directors

The Board spent time towards the end of 2013 and in the first quarter of 2014 defining the future role of the Chairman of the JFSC, stimulated by the vacancy that arose on the retirement of Clive Jones in the latter part of 2013. The Board recognised that the role had taken on more importance given the speed of change and other challenges being faced by Jersey.

The Board concluded that the future role required a significant increase in the time to be spent by the Chairman and required an individual able to assist the JFSC develop further its external relationships at UK, European and Global levels. The Board also concluded that an appropriate level of financial compensation would need to be available to ensure that high quality candidates would apply.

A sub-committee of the Board was formed, led by the Deputy Chairman, and a member of the Jersey Appointments Commission (JAC) was co-opted. Following a competitive recruitment process, the Board concluded the Lord Eatwell should be offered the post. As part of the process, the Board considered Lord Eatwell's other significant commitments and concluded that there were no conflicts with the Commission or its operations. This appointment also complies with the Codes' provision that the Chairman should not have been the Chief Executive previously. A recommendation was then made to the Chief Minister and the appointment was subsequently made by the States of Jersey.

The Board reviewed its strengths and weaknesses in the light of the issues that it expects to address over the next few years and identified that the balance of the Board skills and knowledge would best be enhanced by the addition of a lawyer with experience of UK and European financial services policy matters, and a Jersey based financial services practitioner with experience of the private wealth industry. Appointments in these two fields have been made.



Governance and Statutory Information



Constitution of the JFSC

The JFSC is a statutory body corporate established under Article 2 of the Financial Services Commission (Jersey) Law 1998 (the Commission Law). The governing body comprises the Board of Commissioners, which is responsible, in particular, for agreeing the strategy of the JFSC and ensuring that the necessary financial and human resources are in place for the JFSC to meet its objectives.



Compliance with FRC Corporate Governance Code

The Board believes that high quality governance is essential for well-run organisations. There are no specific codes or standards for the governance of regulatory bodies. The Commission believes that the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council is an appropriate benchmark for the Commission. The Code requires boards to comply with its principles or explain how those principles are met in practice.

The Board has complied in full with the Code issued in September 2012. Although the Commission does not have shareholders, instead it has a wide range of stakeholders and seeks to have 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.

The last update to the Code was issued in September 2014 and will first apply to the Commission in 2015. The Board is committed to complying with the amendments contained within the updated Code.



Composition of the Board

The Board currently consists of the Chairman, Deputy Chairman and eight other Commissioners. With the exception of the Director General, all Commissioners are independent non-executive members of the Board. Six of the Commissioners live in Jersey, and four in the United Kingdom. A chart of the Board of Commissioners is included in appendix 11.01. The Commission Law requires the Commissioners to include:

- › Persons with experience of the type of financial services supervised by the JFSC

- › Regular users on their own account or on behalf of others, or representatives of those users, of financial services of any kind supervised by the JFSC
- › Individuals representing the public interest

The Board reviews its composition as and when vacancies arise to ensure that there is 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.



Separation of roles of Chairman and Chief Executive

The roles of the Chairman and Chief Executive (Director General) 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 JFSC'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.



Appointment and reappointment of Commissioners

The appointment of Commissioners is a matter reserved for decision by the States of Jersey. Where a vacancy exists the Board follows the procedures recommended by the Jersey Appointments Commission (JAC) and a member of the JAC participates in the process. The Board identifies the skills and experience that would be of most benefit to the future function of the JFSC, advertises and uses search consultants and then evaluates the candidates. The Board recommends appointments to the Chief Minister who takes a proposition for any appointment to the States for debate and vote.

On appointment, Commissioners receive an induction to the work of the Board and each Division of the JFSC. 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 recognised 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. The Chairman takes soundings, near the end of their first term, to determine whether the individual wishes to be appointed for a further term and obtains feedback on their performance before making a recommendation to the Board, which is then conveyed to the Chief Minister.

› Delegation of powers

The Board is empowered to delegate any of its powers to the Chairman, one or more Commissioners, or an officer of the JFSC. 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 JFSC. The Board's approach to delegation is set out in two policy statements which can be viewed on its website at www.jerseyfsc.org/the_commission/about_us/board_of_commissioners/corporate_governance.asp

The Board retains those regulatory powers which relate to:

- › The authorisation of new applicants under the Banking Business (Jersey) Law 1991
- › The refusal of an application or the revocation of a permit or registration
- › The determination of the amount of a civil financial penalty

The Board receives a monthly summary of the use of the high level powers that it has delegated to the Executive and at each meeting probes items that appear unusual or potentially controversial.

› Planning, budgets and monitoring progress

The Board maintains a rolling three-year business plan and an annual budget. In the last quarter of each year, the Executive of the JFSC prepares a draft business plan and budget incorporating, amongst other things, the strategic issues discussed by the Board at its annual away day.

The JFSC publishes an abridged version of the detailed internal business plan used by the JFSC's staff for comprehensive planning and monitoring purposes and uses this publication to stimulate a dialogue with industry.

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.

› Internal controls

The JFSC's 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.

› Committees of the Board

The Board has established two Committees; an Audit Committee and a Remuneration Committee. The Board appoints the members of the Committees. The terms of reference of the two Committees are published on the JFSC's website.

› Audit Committee

The Audit Committee's terms of reference include recommending the appointment of the auditor and agreeing their remuneration, supervising and assessing the work of internal audit, supervising reviews and assessing risk management framework and the effectiveness of internal controls.

The members of the Audit Committee during 2014 were Commissioners Ian Wright (Chairman), Stephan Wilcke and Cyril Whelan. The Committee met twice during the year and its Chairman reported on the system of governance and control to the Board of Commissioners. The meeting scheduled for December 2014 was postponed until early January 2015.

The audit committee is constituted of Commissioners with relevant knowledge, experience and qualifications to carry out an effective audit committee function as summarised below:

Ian Wright: Qualified accountant (ACA), former Senior Partner of PricewaterhouseCoopers in the Global Corporate Reporting Group. Ian is currently a member of the Financial Reporting Council's Monitoring Committee;

Stephan Wilcke: Graduate of Oxford University with a Masters in Politics, Philosophy and Economics, Chairman of OneSavings Bank PLC and Audit Committee Chairman of Milvik (Bima). Stephan was formerly the Chief Executive Officer of the Asset Protection Agency.

Crown Advocate Cyril Whelan: Senior Crown Advocate for the Island of Jersey. Currently a Senior Consultant at Baker & Partners and former senior legal adviser in the Law Officers' Department in Jersey.

During the year the Audit Committee reviewed the scope of the external audit and work proposed by the Internal Audit function and concluded that it would be sufficient to provide the assurance required over the Commission's financial statements. Internal and external audit reports relating to the adequacy and effectiveness of key financial controls including essential controls covering cash payments, contracting and physical security enabled the Audit Committee to conclude that there were no significant matters to address and that the system of financial

controls in relation to these key items was effective throughout the year. The Audit Committee reported this to the Board. The Audit Committee took a significant interest in the continued development of the JFSC's key risk register and KPIs to enable the Board to monitor progress towards achieving key regulatory outcomes.

The Audit Committee also reviewed work undertaken by Internal Audit in respect of certain key non-financial controls. This included work relating to internal whistleblowing arrangements. Whilst noting that supporting procedures needed minor updates, the Committee concluded that arrangements were sufficiently robust to enable Commission staff, to raise concerns about possible improprieties in matters of financial reporting or other matters in confidence and, furthermore, that arrangements were sufficient to ensure that any such matters would be adequately investigated.

Following its review of the annual report and accounts and of assurance work undertaken during the year by BDO and Internal Audit, the Audit Committee was able to advise the Board of Commissioners that, in its opinion, the annual report and accounts, taken as a whole, were fair balanced and understandable and provided the information necessary for stakeholders to assess the Commission's performance, business model and strategy.

In July the Audit Committee considered a proposal from management to obtain better use of resource during a period of significant organisational change. It was agreed the Internal Audit role would be replaced by a Risk and Assurance role to help develop the Commission's risk management framework. To safeguard the quality of assurance being provided to the Audit Committee, it was agreed that the Risk and Assurance role would have a dual reporting line so that it could maintain a reporting line into the Chair of the Audit Committee. Furthermore, it was agreed that the engagement of third parties to provide independent assurance work would be considered as appropriate to supplement assurance activities provided by management and the new Risk and Assurance role.

Audit Committee / Continued

The Audit Committee met with BDO LLP, the external auditor, during the year. The Commission had concluded in 2013 that it wished to comply in full with corporate governance best practice. This allowed the auditors to expand their audit report to comment on their assessment of materiality and the areas of corporate governance and reporting specified for their review by the Code. 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. BDO LLP continued 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 noted in the prior year that the audit partner should be rotated for the 2014 audit following his seventh year as engagement partner on the audit. This rotation was duly actioned by BDO LLP following the conclusion of the 2013 audit. BDO LLP did not provide any non-audit services to the Commission.

Remuneration Committee

The terms of reference of the Remuneration Committee are set out on our website and include advancing and approving the JFSC's remuneration strategy ensuring that performance related compensation arrangements support the strategy, and assisting the Chairman with the annual performance review of the Director General.

The members of the Remuneration Committee during 2014 were, Debbie Prosser (Chairman), John Mills (until retirement), Markus Ruetimann and Lord Eatwell who joined the committee on the retirement of John Mills. The Committee met eight times during the year. The Remuneration

Committee was particularly active during 2014. The Committee undertook its normal role of considering the relevant remuneration including bonus levels of the Executive Directors including the Director General.

During the year the Committee has taken an active role in assisting with the development of the JFSC's future competency framework and input into the initial planning for the Change Programme regarding performance and remuneration.

Nomination Committee

The Board has concluded that it is 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 Board identified that the balance of the Board's skills and knowledge would best be enhanced by the addition of a lawyer with experience of UK and European financial services policy matters, and a Jersey based financial services practitioner with experience of the private wealth industry.

The Committee selected Thomas & Dessain to perform recruitment services for these potential appointments. There were no other connections between the Commission and Thomas & Dessain. The roles of Commissioner were 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 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 JFSC complied in full with the Procedures for Appointments made by the States of Jersey.

Attendance at meetings

Board and Committee attendance during 2014 was as follows:

Commissioner	Meeting		
	Board	Audit	Remuneration
John Averty	12/12		
John Harris	11/12		
Lord Eatwell	12/12		4/4
John Mills	10/10		4/4
Debbie Prosser	12/12		8/8
Markus Ruetimann	12/12		8/8
Cyril Whelan	10/12	2/2	
Stephan Wilcke	9/12	2/2	
Ian Wright	12/12	2/2	

Simon Morris and Peter Pichler were appointed Commissioners after the year end.

07

**Accountability arrangements**

The JFSC is an independent regulatory body, but it is accountable for its overall performance to the States through the Chief Minister.

As part of its accountability arrangements, the JFSC's Business Plan, Budget and Annual Report are presented to, and discussed with, the Chief Minister. An Annual Report is provided to the States by 31 July each year. These reports are then published and available to industry and consumers. The JFSC ensures that the annual report provides a fair, balanced and understandable assessment of its position and prospects.

Under Article 12 of the Commission Law the Chief Minister may, after consulting the JFSC and where the Chief Minister considers that it is necessary in the public interest to do so, give to the JFSC guidance or give in writing general directions in respect of the policies to be followed by the JFSC. The JFSC 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 Chief Minister.

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

**Relations with stakeholders**

Whilst the JFSC 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.

**Assessing effectiveness**

The Board conducted an externally facilitated effectiveness review three years ago and was scheduled to repeat the exercise during 2013 which is the time frame contained in the Code. However, given the recent appointment of the Chairman and the other changes being made at JFSC and at Executive Director level the Board concluded that a period of time should pass before commissioning an external review to maximise its benefit. Accordingly the Board decided to defer an externally facilitated review until the latter part of 2015.

Instead, the Board conducted a self-evaluation of its performance during the last quarter of 2014 which was completed in early 2015. The self-evaluation included a trend analysis which showed that progress was being made across a range of issues when comparing 2014 with prior periods.

Good scores were reported for a number of topics assessed in the effectiveness review, including whether the Board itself has the right balance of skills and experience of JFSC and the extent of delegation and quality of decision making. However, the review identified that the Board's succession planning needed significant work and that progress needed to be made to ensure that the Board spent more time on strategic issues and less on routine. The Board discussed the conclusions in early 2015 and has scheduled a number of actions to address the identified weaknesses.

› Effective understanding to refine our approach to oversight



› Financial Statements

The Financial Details

› Introduction

This financial report and the annual financial statements are made by the Commissioners of the JFSC under the requirements set out in Article 21 of the Financial Services Commission (Jersey) Law 1998.

It is made to the Chief Minister of the States of Jersey to be laid before the States and covers the period from 1 January 2014 to 31 December 2014.

Pursuant to Article 21(3)(a) The financial statements –

- › Shall be audited by auditors who are qualified for appointment as auditors of a company by virtue of Article 113 of the Companies (Jersey) Law 1991; and
- › Shall be prepared in accordance with generally accepted accounting principles and show a true and fair view of the profit or loss of the Commission for the period and of the Commission's affairs at the end of the period.

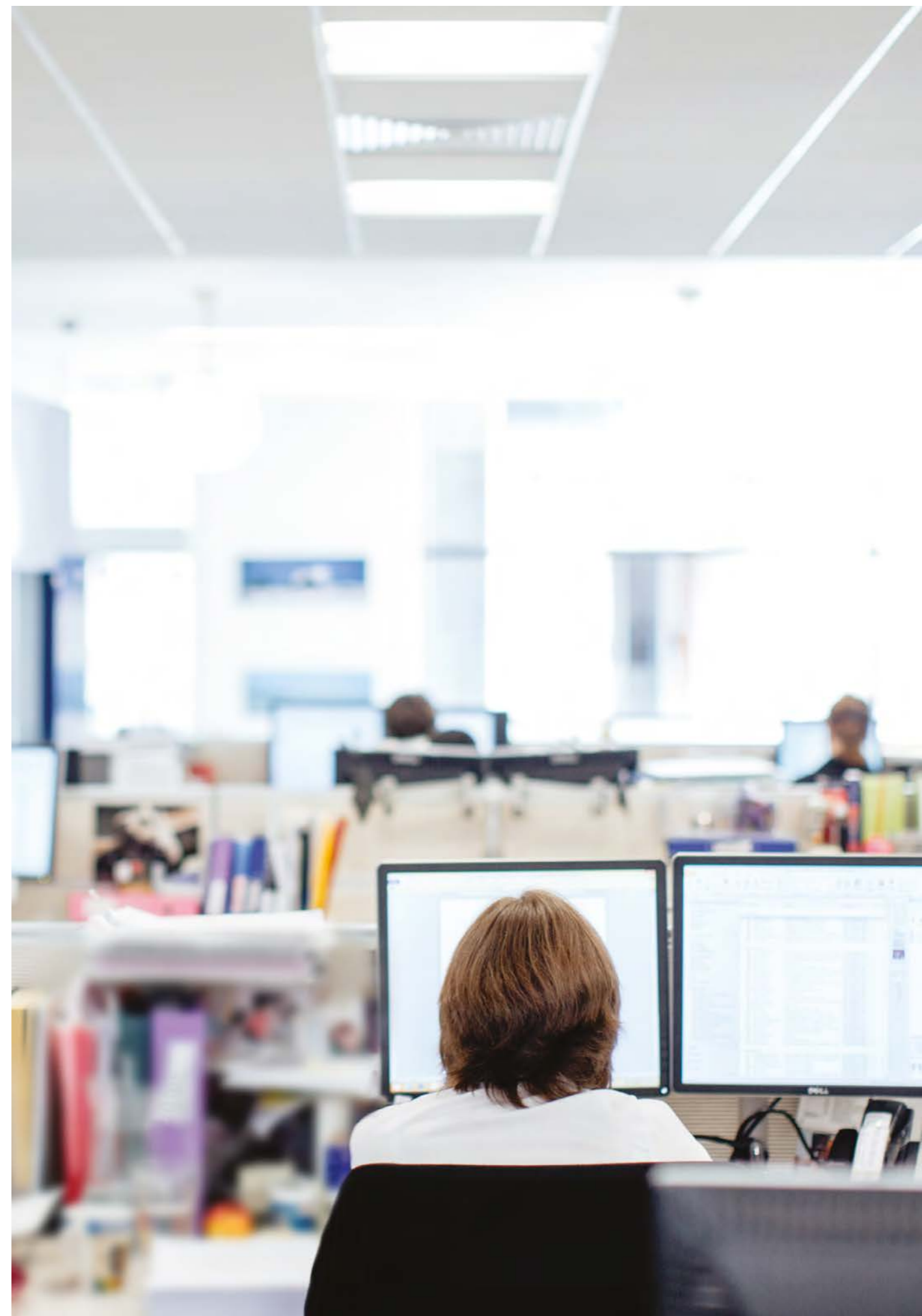
The Commissioners have considered in detail the whole of the annual report and financial statements and concluded that it is, taken as a whole, balanced, fair and understandable and provides the information necessary for stakeholders to assess our performance as a regulator, our regulatory model ensuring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

› Going concern

The Board has reviewed progress against the budget for 2015, the current level of its financial reserves and the potential impact of unexpected events on its financial resources. It has concluded that it is appropriate to prepare the financial statements on a going concern basis and that there are no significant matters that require disclosure in the financial statements. The Board has also considered the viability of the JFSC for periods after 12 months from the date of this report and has not identified any matters that might impact its viability for the foreseeable future.

› Auditor

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.





08



Statement of Commissioners' responsibilities



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 accounting 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 adequate accounting records that are sufficient to show and explain the Commission's transactions and disclose with reasonable accuracy at any time the financial position of the Commission.

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
7 May 2015

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



Changing
structures
create
challenges,
but also
provide
opportunities
to innovate

› Independent auditor's report to the Chief Minister of the States of Jersey

› 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 2014 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:

Revenue consists of regulatory and registry fees. Revenue recognition is a presumed risk under International Standards on Auditing (UK & Ireland).

For regulatory fees we performed analytical reviews on the various streams, developing expectations based on the movement in the number of regulated entities together with any fee changes. We also 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 performed analytical reviews on the various streams, developing expectations based on fee changes and any other relevant changes, such as movements in the number of searches and incorporations. We also 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.



› 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 and final 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.

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

Bristol
United Kingdom
Date: 14 May 2015

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

Financial Reports

Income and expenditure account For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Regulatory income			
Regulatory fee income	3	10,717	11,002
Registry fee income	4	3,039	2,616
Total regulatory income		13,756	13,618
Other income	6	1,024	46
Interest income		59	64
Total income		14,839	13,728
Expenses			
Staff costs	5	(10,300)	(9,250)
Investigation & Litigation	6	(855)	(701)
Computer Systems		(832)	(1,026)
Depreciation of tangible fixed assets	7	(487)	(405)
Operating lease expenditure		(462)	(463)
Legal & professional services		(400)	(457)
Other premises costs		(336)	(318)
Other operating expenses		(330)	(266)
Travel costs		(251)	(219)
Staff learning and development		(244)	(204)
Recruitment costs		(132)	(291)
Auditors' remuneration		(18)	(16)
Public relations costs		(5)	(19)
Total expenses		(14,652)	(13,635)
Excess of income over expenditure		187	93
Accumulated reserve brought forward		7,340	7,247
Accumulated reserve carried forward		7,527	7,340

All the items dealt with in arriving at the net surplus for the current and preceding year relate to continuing operations. There are no recognised gains and losses in the current and preceding year other than those included in the net surplus above, therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 82 to 88 form an integral part of the financial statements.

Balance sheet as at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed Assets			
Tangible fixed assets	7	816	852
Current Assets			
Fee income receivable		-	2
Sundry debtors		1,133	60
Prepayments		370	606
Cash and bank balances	8	10,978	11,330
		12,481	11,998
Total Assets		13,297	12,850
Creditors - Amounts falling due within one year			
Fee income received in advance		4,637	4,381
Trade creditors		537	631
Accruals		139	168
Deferred rental incentive		106	122
Sundry creditors		351	208
		5,770	5,510
Total Assets less Current Liabilities		7,527	7,340
Represented by			
Accumulated reserves		7,527	7,340

The notes on pages 82 to 88 form an integral part of the financial statements.

The financial statements on pages 79 to 81 were approved by the Board of Commissioners on 7 May 2015, and signed on its behalf by:

- › Lord Eatwell Chairman
- › J R Harris Director General

› Cashflow statement
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Net income for the year		187	93
Interest received		(59)	(64)
Depreciation charges	7	487	405
Deferred rental incentive		(16)	(15)
(Increase)/Decrease in debtors and prepayments		(835)	(296)
(Increase)/Decrease in creditors		276	(89)
Net cash inflow from operating activities		40	34
Returns on investments and servicing of finance			
Interest received		59	64
Net cash flow from returns on investments and servicing of finance		59	64
Capital expenditure			
Payments to acquire tangible fixed assets		(451)	(378)
Net cash flow from capital expenditure		(451)	(378)
Net decrease in cash and bank balances		(352)	(280)
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and bank balances		(352)	(280)
Cash and bank balances at 1 January		11,330	11,610
Cash and bank balances at 31 December		10,978	11,330

The notes on pages 82 to 88 form an integral part of the financial statements.

› Notes to the Financial Statements

› For the year ended 31 December 2014

› 1 Significant accounting policies

› Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting practice in the United Kingdom. The financial statements have been prepared on a going concern basis.

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 subsidiary is not material for the purpose of giving a true and fair view.

› Income

Income is accounted for on an accruals basis. Regulatory and Registry annual fees received in advance are recognised as income on a straight-line basis over the relevant period. Annual registry fees include only the share of annual fees attributable to the Commission. All other fees are recognised on receipt as this approximates the timing of the services provided.

Recoveries of enforcement costs are accounted for only when they have been awarded and it has become virtually certain that they will be received. Interest received on bank deposits is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable. Sundry income is recognised on receipt as this approximates the timing of the services provided.

› Expenses

All expenses are accounted for on an accruals basis.

› Foreign currency

Foreign currency balances are translated to Sterling at the rate of exchange ruling on the last business day in the financial period. Foreign currency transactions are translated into Sterling at the rate of exchange ruling on the date of the transaction. Profits and losses on foreign exchange are included in the income and expenditure account.

› Investigation and litigation costs

Investigation and litigation costs are recognised as incurred. No provision is made for the cost of completing current work unless a present obligation exists at the balance sheet date.

10

Cash and bank balances

Cash and bank balances comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation of fixed assets is calculated so as to write off their cost less estimated residual value on a straight-line basis over their expected useful lives. The estimated useful lives used for this purpose are:

› Motor vehicles	3 years
› Office furniture, fittings and equipment	3 to 5 years
› Computer equipment	3 years
› Computer software	3 to 5 years

The cost of computer software in respect of major systems is capitalised within fixed assets. All other computer software costs are expensed as incurred. Computer systems under construction are not depreciated. Depreciation is charged when a system has been completed and is ready for use.

Gains and losses on disposals of fixed assets are determined by comparing the proceeds with the carrying amount and are recognised in the income and expenditure account.

› Leases

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the lease.

Lease incentives received to enter into operating lease agreements are released to the income and expenditure account on a straight-line basis over the period ending on the date of the first lease break.

› Pension costs

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 10).

› 2 Taxation

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

› 3 Regulatory fee income

	2014	2013
	£'000	£'000
Banking	1,205	1,277
Funds	4,601	4,685
Insurance companies	728	745
General insurance mediation	101	107
Investment business	1,141	1,192
Trust companies	2,393	2,446
Designated non-financial businesses and professions	514	518
Recognised auditors	22	22
Money services business	12	10
	10,717	11,002

› 4 Registry fee income

Registry fees arise 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 include amounts collected on behalf of and remitted to the States of Jersey.

The number of annual returns received during the year was:

	2014	2013
	2014	2013
	£'000	£'000
Annual returns received	33,043	32,988
Total annual return fee income	4,956	4,948
Less: collected on behalf of the States of Jersey	3,800	3,794
Retained by the Registry	1,156	1,154
Other Registry income	1,883	1,462
Total Registry income	3,039	2,616

5 Staff costs

	2014	2013
	£'000	£'000
Staff salaries	8,543	7,670
Commissioners' fees	269	249
Social security contributions	404	375
Pension contributions	725	645
Permanent health and medical insurance	242	218
Other staff costs	117	93
	10,300	9,250

Contributions to staff pension schemes are payable monthly to pension scheme administrators. Contributions amounting to £100,001 (2013: £90,375) were payable to the schemes at year end and are included in sundry creditors.

The average number of staff employed during the year was 125 (2013: 124).

6 Investigation and litigation costs

	2014	2013
	£'000	£'000
Costs incurred	855	737
Recoveries*	(1,000)	(36)
	(145)	701

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. In a few cases, some or all of the Commission's costs may be recoverable.

*Recoveries of investigation and litigation costs are included in total other income of £1,024,000. In the prior year, the amount recovered of £36,000 was offset against Investigations and litigation costs due to its immateriality.

7 Tangible fixed assets

	Office furniture, fittings & equipment	Computer systems under development	Computer systems & equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2014	668	48	3,221	10	3,947
Additions	79	182	190	-	451
Systems completed during period	-	(211)	211	-	-
Disposals	(5)	-	-	-	(5)
At 31 December 2014	742	19	3,622	10	4,393
Accumulated depreciation					
At 1 January 2014	(590)	-	(2,504)	(1)	(3,095)
Charge for the year	(43)	-	(441)	(3)	(487)
Disposals	5	-	-	-	5
At 31 December 2014	(628)	-	(2,945)	(4)	(3,577)
Net book value at 31 December 2014	114	19	677	6	816
Net book value at 31 December 2013	78	48	717	9	852

8 Cash and bank balances

	2014	2013
	£'000	£'000
Current accounts	133	80
Deposit accounts	10,843	11,247
Petty cash	2	3
	10,978	11,330

The Commission's accumulated financial reserves less the funds invested in fixed assets and working capital are invested in

bank deposit accounts. In order to mitigate the credit risk, these deposit accounts are maintained with five different banks.

9 Commitments under operating leases

The Commission has entered into an agreement through JFSC Property Holdings No.1 Limited 9 (a company wholly owned by the Commission) to lease premises for the Commission's occupation.

	2014	2013
	£'000	£'000
For a period of more than 5 years, the annual rentals payable under the premises lease are:	490	490

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

10 Pension costs

JFSC 2012 Staff Pension Scheme

In 2012, the Commission closed the Jersey Financial Services Commission Staff Pension Scheme and replaced it with a new defined contribution scheme, the JFSC 2012 Staff Pension Scheme. The new Scheme is open to staff whose initial employment by the Commission occurred after 1 January 1999. Member's interests in the old scheme were automatically transferred to the JFSC 2012 Staff Pension Scheme. All transfers of interests were completed in 2013.

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 £692,464 (2013: £604,128). Contribution rates have remained unchanged. Aggregate contributions increased due to changes in membership numbers, ages and employment grades.

Public Employees Contributory Retirement Scheme

Staff employed by the Commission before 1 January 1999 are members of the Public Employees Contributory Retirement Scheme (PECRS) which is a final salary 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 amounted to £32,777 (2013: £40,665). The decrease is due to staff retirement. The average contribution rate paid by the Commission during the year was 13.1% (2013: 13.6%) of salary. The contribution rate may be adjusted following the results of the 31 December 2013 actuarial valuation which are due during 2015.

The Commission is unable to identify its share of the underlying assets and liabilities of PECRS in accordance with Financial Reporting Standard 17 (FRS17) and accordingly accounts for contributions to the scheme as contributions to a defined contribution scheme.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2010 which reported a surplus of £40.6 million.

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.

› 11 Commissioners' remuneration

	2014	2013
Fees paid to Commissioners were as follows:	£	£
Clive Jones* (Retired 22 October 2013)	-	42,000
John Averty (Deputy Chairman)	28,350	28,350
Lord Eatwell of Stratton St. Margaret** (Chairman)	96,519	31,500
John Harris	-	-
John Mills (Retired 22 October 2014)	17,500	21,000
Deborah Prosser	21,000	21,000
Markus Ruetimann	31,500	31,500
Cyril Whelan	21,000	21,000
Stephan Wilcke	31,500	31,500
Ian Wright	21,000	21,000
	268,369	248,850

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 £314,188 for the year (2013: £293,000) in his capacity as Director General.

*Clive Jones resigned as Chairman of the Commission on 22 October 2013.
**Lord John Eatwell was appointed as Chairman of the Commission following a selection process commenced during December 2013.

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 increased previous to that date. Fees payable to the Chairman were revised upwards following the Chairman Selection process. There were no increases in other Commissioner fees during 2014.

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.

There were no other transactions with Commissioners during the period other than the reimbursement of expenses incurred for Commission purposes.

12 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 treated as a related party.

13 Future changes in accounting policies

Financial Reporting Standard 102 (FRS 102) was issued during 2014 to replace the statements of generally accepted accounting principles in the United Kingdom (UK GAAP), currently in issue. FRS 102 is effective for accounting periods beginning on or after the effective date of 1 January 2015. Accordingly the Commission will need to adopt FRS 102 or International Financial Reporting Standards (IFRS) for its 2015 annual report and financial statements.

Comparative figures will be restated where there are material differences between UK GAAP and the financial reporting framework adopted. The financial effect of adopting FRS 102 or IFRS, during the 2015 financial year, has been assessed by the Commissioners and is not expected to have a material effect on the Commission's future financial statements.

› Building effective strategies

for the future of Jersey



> Appendices

> 01 Commissioners



Lord Eatwell
Chairman



John Averty
Deputy Chairman



John Harris
Director General



John Mills



Debbie Prosser



Markus Ruetimann



Cyril Whelan



Stephan Wilcke

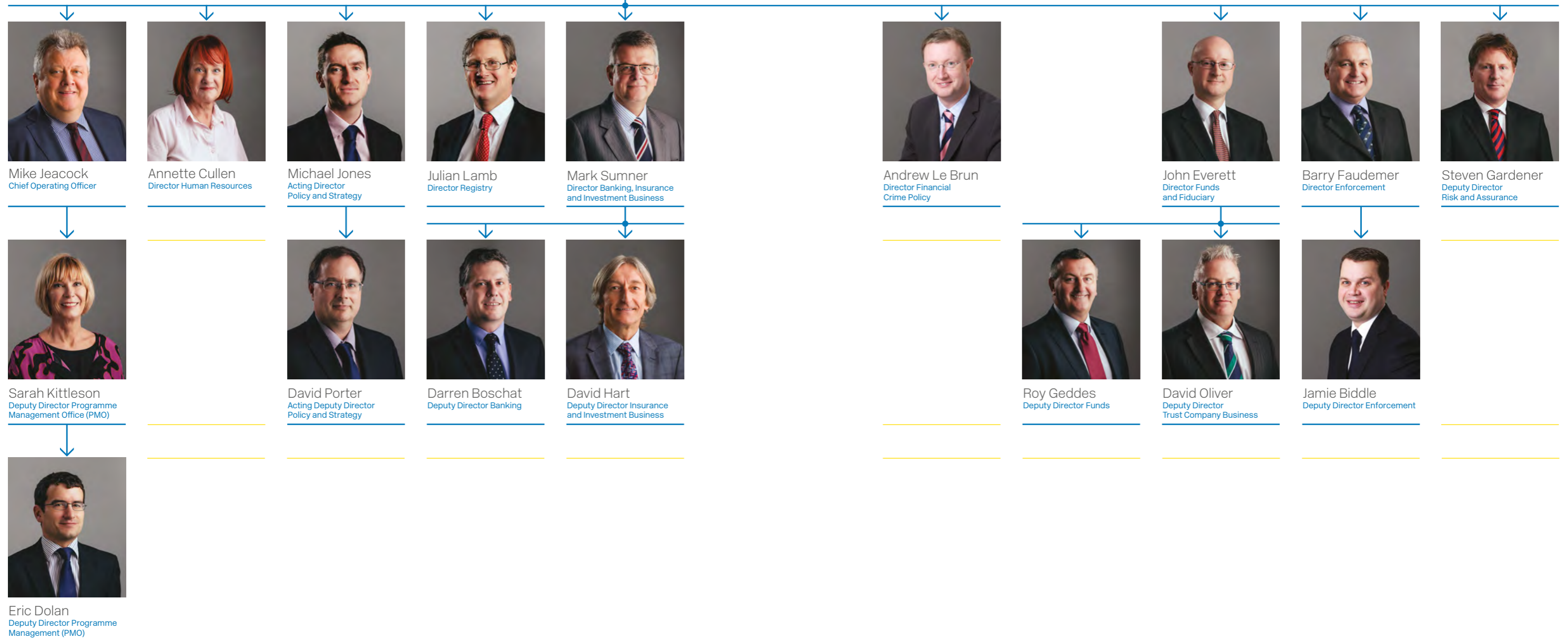


Ian Wright

> 02 Executives



John Harris
Director General



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Notes

- › International Regulatory Bodies of which the JFSC is either a member or associated with:
 - › 1 Full Member of:
 - › International Organization of Securities Commissions (IOSCO)
 - › Group of International Finance Centre Supervisors (GIFCS)
 - › International Association of Insurance Supervisors (IAIS)
 - › Group of International Insurance Centre Supervisors (GIIFCS)
 - › International Federation of Independent Audit Regulators (IFIAR)
 - › 2 Participate fully in the processes, and subject to the procedures, of:
 - › Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)
 - › 3 Participates in the work of the following through its membership of GIFCS:
 - › Basel Committee on Banking Supervision (BCBS)
 - › Financial Action Task Force (FATF)

› **A commitment to working closely with the industry to strengthen key intelligence and efficiency**



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