ANNUAL REPORT 2009

Jersey Financial Services Commission

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

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

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

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

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

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

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

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

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

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

The Commission's key purpose is:

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

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

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

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

Non-Executive Commissioners

Colin Powell, CBE - Chairman (until September 2009)

Colin Powell became Chairman of the Jersey Financial Services Commission in October 1999 and retired in September 2009, having reached the age of 72, the age of retirement as set by the Commission Law.

He remains as Chairman of the Offshore Group of Banking Supervisors (**"OGBS"**), a position he has held since 1981, and represents the OGBS at meetings of the Financial Action Task Force.

He is currently co-chair of the Basel Committee Cross-Border Banking Working Group and an advisor on international affairs to Jersey's Chief Minister's Department, and in this capacity will sit on the OECD Global Forum's Peer Review Group as one of four vice chairmen.

Clive Jones - Chairman (from September 2009)

Clive Jones joined the Board of Commissioners on 23 October 2007 and was appointed Chairman in September 2009. Clive retired in June 2007 from a career in international banking spanning 36 years.

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

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

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

Jacqueline Richomme - Deputy Chairman

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

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

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

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

John Averty

John Averty joined the Board of Commissioners in December 2005.

He was born in Jersey and educated at Victoria College.

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

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

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

John Boothman (until June 2009)

John Boothman joined the Board of Commissioners in June 2006 and retired in June 2009 in order to focus on his appointment as Chairman of Jersey Telecom Group Limited.

After graduating from Oxford University, John took up a position with Morgan Grenfell (Jersey) Limited in 1974. In 1993, he became managing director of Deutsche Morgan Grenfell (CI) Limited and subsequently of Deutsche Bank International Limited until his retirement in 2002.

John is also the non-executive chairman of a private equity fund administration company.

Alastair Clark, CBE (from January to October 2009)

Alastair Clark, CBE, joined the Commission on 20 January 2009. He decided to resign on 31 October 2009 in order to become senior advisor on financial sector and financial stability at Her Majesty's Treasury. He retired from the Bank of England in April 2007 having held most recently the posts of Executive Director and then Advisor to the Governor (to which role he was temporarily re-appointed in September 2007 to assist in dealing with the current financial crisis). He continues to serve as a Trustee of the Bank staff pension fund and is chairman of its Investment Committee.

Alastair is currently also a non-executive director of the London International Financial Futures Exchange (LIFFE) and a member of the Supervisory Board of Euronext NV.

Non-Executive Commissioners

Advocate Debbie Lang

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

Debbie joined the law firm Bailhache Labesse (now Appleby) in 1984 where she was a partner from 1991 to 2005. She was appointed Managing Partner in 1998 and Managing Director of Bailhache Labesse Trustees Limited in 2000. Debbie previously held the position of chairman of the Jersey Child Care Trust and the States of Jersey Education Audit Committee, and was also a member of the States of Jersey Audit Commission and the Tourism Development Fund.

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

John Mills, CBE (from October 2009)

John Mills, CBE, joined the Board of Commissioners on 23 October 2009.

John's 33 year public service career, until his retirement in 2007, included appointments as Director of Rural Policy, Department for the Environment, Food and Rural Affairs; as Chief Executive, Policy and Resources, States of Jersey; as Chief Executive, Cornwall County Council; as Director of Consumer Affairs at the Office of Fair Trading; as a member of the Prime Minister's Policy Unit; and as a Principal Assistant Secretary in the Hong Kong Civil Service.

John currently holds two honorary positions in Jersey as a member of the States Members Remuneration Review Body and as an Income Tax Commissioner of Appeal. He is also vice-chairman of the Port of London Authority and a board member of the Commission for Rural Communities.

Frederik Musch

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

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

He was appointed as a Commissioner on 18 July 2001. He retired in mid-2007 as Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers (**"PwC"**).

Philip Taylor, FCA (from October 2009)

Philip Taylor, FCA, joined the Board of Commissioners on 23 October 2009. He retired as the Global Leader of PwC Assurance Quality Review in September 2009 following a 40 year career with PwC and its predecessor companies. He was the Senior Partner of the Channel Islands firm from 1992 to 2007. During his career Philip worked in London and Johannesburg as well as in the Channel Islands.

Philip is currently a Member of the Jersey Financial Services Advisory Board, Chairman of the Board of Governors of Jersey College for Girls and a director of several companies.

Sir Nigel Wicks

Sir Nigel Wicks joined the Board of Commissioners in July 2007. He is currently the Chairman of Euroclear, having previously been non-executive Deputy Chairman, and a director of the Edinburgh Investment Trust plc.

He was a member of the British Civil Service for 32 years. He held the position of Second Permanent Secretary and Director of International Finance at HM Treasury from 1989 to 2000. He has held senior positions in the offices of former British Prime Ministers. He served as Chair of the Committee on Standards in Public Life between 2001 and 2004.

Executive Commissioner

John Harris - Director General

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

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

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

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This is my first statement to you as Chairman, having taken up the post in October 2009, and I would like to begin by paying tribute to my predecessor Colin Powell, CBE. Colin has been the Commission's guiding hand since its creation and it has been significantly due to his influence that the Commission has evolved into what it is today, an effective and highly-rated regulatory authority in a small jurisdiction where international financial services contribute a substantial share of national income. By any measure, he is indeed a 'hard act to follow'. Fortunately, Colin retains an office within the Commission building in his role as Chairman of the Offshore Group of Banking Supervisors and so his wisdom, experience and advice continue to be available.

The publication of the International Monetary Fund's (the "**IMF**") assessment of Jersey's compliance with the international standards of financial regulation and anti-money laundering and the countering of the financing of terrorism ("**AML/CFT**") in September 2009 was an event not only important in itself, but also an event with far-reaching consequences for the Island. The results not only compared favourably with those of the previous IMF review in 2003, they also demonstrated a level of compliance in Jersey that, at the time of publication, was the equal of any other jurisdiction. In that context it is important to keep in mind that for the first time the IMF was using exactly the same methodology to assess Jersey as it uses to assess any large or 'onshore' jurisdiction.

Jersey's ratings (Compliant or Largely Compliant with 44 of the 49 Financial Action Task Force ("**FATF**") Recommendations and 15 of the 16 "core" or "key" FATF Recommendations), as reported by the IMF Team, evidently place it amongst the top-rated jurisdictions assessed to date. The value of this in the long term is considerable as it demonstrates Jersey's clear commitment to high international standards and its ability to put that commitment into practice. It will allow the Commission to build on these results as relationships with other jurisdictions develop, and indeed evidence has already begun to emerge that jurisdictions are now more willing to engage with the Commission. Although it is important not to overestimate the extent to which a welcome will be extended, the fact is that we now present very substantial credentials.

The results reflect great credit on the staff of the Commission, many of whom worked exceedingly hard throughout 2007 and 2008 towards the IMF review. I think it is also important to acknowledge the contribution of Jersey's finance industry (the "**Industry**"), which actively engaged with the numerous consultations that were necessary as legislation and regulations were updated.

A second publication that was almost as eagerly awaited as the IMF's assessment was Michael Foot's independent review of the long term opportunities and challenges facing the Crown Dependencies and the British Overseas Territories on behalf of HM Treasury (the "**Foot Review**") which was published in October 2009.

The Foot Review covered a number of areas not within the remit of the Commission and those are not commented upon here. As a group, the Crown Dependencies came out well in respect of their high level of compliance with international regulatory standards. Moreover the particular roles of Jersey and Guernsey-based banks in providing upstream liquidity into London were acknowledged as important.

Overall 2009 was a year in which the reputation of Jersey in respect of regulatory matters was both advanced and protected.

Throughout the year the daily work of the Commission continued. Of particular note is the fact that an increasing number of on-site examinations occurred during the year: exceeding the number undertaken in 2008 and in fact more than had been originally planned. Such on-site examinations are at the heart of the Commission's method of risk-based supervision. They provide the Commission with important insights into the regulatory health of the Industry and, it is to be hoped, in turn provide the Industry with valuable feedback. It was particularly pleasing to note that in 2009 the on-site examination programme spanned all Supervisory Divisions, using in-house resources. The on-site examination programme will continue in 2010.

A number of regulatory developments occurred during the year. Worthy of note amongst them were that the Commission's Licensing Policy in respect of deposit-taking business was revised, updated, consulted upon and published. A consultation paper on Codes of Practice for Certified Funds was published during 2009, and a Guidance Note on natural persons undertaking the activity of acting as a director was introduced. Commission staff also worked with Industry in drafting a voluntary code of practice for consumer lending, as well as contributing to the creation of Jersey's Depositor Compensation Scheme.

‘Overall 2009 was a year in which the reputation of Jersey in respect of regulatory matters was both advanced and protected.’

Areas where work continues and which are of importance to sectors of the Industry include the European Union (the **"EU"**) Payment Services Directive and possible admission to the Single European Payments Area and the EU's Alternative Investment Fund Managers Directive. Both are examples of initiatives taken elsewhere that have a potentially far-reaching impact on the Industry, yet where Jersey itself - as an outsider - has relatively little influence. It is in situations such as these that a close working relationship between the Government, the Commission and Industry is important in getting the Island's legitimate interests recognised and, to the extent possible, accommodated. Much still remains to be done in respect of both of these initiatives in 2010.

Enforcement activity will continue to be an important feature of the Commission's work. There should be no reason for there to be serious outliers in an Industry as compact as ours. The fact is that there are however, and the Commission is committed to taking proportionate action where it is needed.

Enforcement investigations can be protracted and costly. The Commission's Decision-making Process, while properly trying to ensure that the subject of enforcement proceedings has every opportunity to dispute errors and present their case, requires extensive and expensive effort in each case. The Commission is sensitive to the fact that such costs are borne by the Industry via licence fees and that as a result there is an argument that the compliant are being made to pay for the punishment of the non-compliant. Without wanting to rehearse both sides of that argument here, the Commission is beginning to explore whether some mechanism can be put in place such that the non-compliant bear a larger burden of the costs of their cases. More work will be done on this in 2010.

I have mentioned briefly the importance of close working relationships between the Commission, Government and Industry. During the year regular meetings took place between the Commission and the Minister for Economic Development and other relevant ministers. Similarly, the Board of Commissioners formally met Jersey Finance Limited twice during the year. These formal meetings together with the frequent informal interactions that take place are of great value in ensuring that, when needed, the Island presents a coordinated front.

In November 2009, Commissioners travelled to Guernsey to meet their counterparts in the Guernsey Financial Services Commission. It is hoped that further meetings with regulators in both Guernsey and the Isle of Man will take place in 2010.

Late in 2009 the Commission conducted an Industry survey (the "**survey**") through an independent facilitator, the results of which have recently been published. This was the first time such an exercise had been carried out by the Commission, and inevitably the results must be seen in that light. Nevertheless the survey contained much useful feedback, both negative and positive. The Commission is committed to addressing as many of the issues the survey raises as practicable and its meetings with the Industry will, it is hoped, provide a forum for achieving this. The real value of a survey such as this tends to emerge over time, and it can be anticipated that the exercise will be repeated in due course and in ways that provide better focus in respect of the feedback received.

During 2009 two Commissioners left the Board. John Boothman stepped down in June after serving a three-year term in order to focus on his recent appointment as Chairman of Jersey Telecom. John's contributions were invariably incisive and he will be missed. In addition, Alastair Clark, CBE, having joined in January 2009 stepped down in October having been called on by HM Treasury to become its senior adviser on financial stability. Although the Commission regrets losing Alastair so soon, it was gratifying to see him being recognised in this fashion and wish him well in what will be a challenging role. The Board is grateful to John and Alastair for their contribution to its work.

The Commission was fortunate to recruit two local Commissioners of exceptional talent during 2009. John Mills, CBE, joined in October as a 'public interest' Commissioner. He has had a distinguished 33-year public service career in the UK, Hong Kong and Jersey. Philip Taylor, FCA, also joined the Commission in October and has had a 40-year career with PriceWaterhouseCoopers and its predecessor companies which included 15 years as Senior Partner in Jersey. John and Philip bring valuable experience to the Board and I look forward to working with them.

The Board of Commissioners is supported by a first-class Executive team, led very effectively by the Director General, John Harris. John's range of experience as a practitioner, as a government adviser but above all as a professional manager of considerable ability has made a considerable difference to how the Commission works. During his 3 years in the position, he has brought focus to the Commission's operations, instilled a clear sense of purpose throughout the organisation and represented it most ably both in Jersey and internationally.

There will be many challenges in the year ahead. Some of these are anticipated in our Business Plan; others will be unexpected. The Commission will rise to meet them and to exercise its statutory remit and responsibilities effectively and efficiently.

'During 2009, the Commission took further steps to ensure that its supervisory capability and resourcing were at a level which both domestic financial services activity and increasing international regulatory standards demand.'

Introduction

In my Annual Report statement last year I drew attention to the strategic thread that can be said to have run through the Commission's activities in recent years in support of the Island's long held policies of international engagement, adherence to international standards, a robust and effective regulatory and supervisory approach and a general investment in the development in the Commission's capabilities. One year further on, a year that has seen significant events and particular challenges and achievements for Jersey, this strategic approach is still intact and forms the core of the Commission's efforts. Despite the extremely difficult economic climate seen throughout 2009, which has certainly had a discernable impact in the Jersey market place, it is my view that the year will be looked back upon as something of a watershed in which Jersey's long held ambitions of proper international recognition for its standards and the benefit of its careful approach to licensing financial services providers, particularly banks, and general investment in supervisory capability, came into their own.

International recognition

Quite clearly the headline event of 2009 was the publication in September by the International Monetary Fund ("**IMF**") of its Financial Sector Assessment Programme (FSAP), which brought to a close effectively a two year process of preparation, self-assessment, evaluation and report writing, culminating finally in the publication of the IMF's conclusions. As we had signalled in last year's Annual Report, the outcome was extremely pleasing for the Island in that the IMF's conclusions regarding the state of Jersey's compliance with the international standards of financial regulation of anti-money laundering and countering the financing of terrorism (**"AML/CFT"**) presented a very favourable picture. It was particularly encouraging to note that the rating of compliance with the Financial Action Task Force (FATF) 40 + 9 Recommendations on AML/CFT was at such a high level.

The positive IMF evaluation is critical in many respects, but most particularly it has, in my view, cemented yet further the growing international recognition that Jersey is a finance centre as compliant with international standards as most if not all G7 and G20 countries. At a time when the G20 grouping is now debating and setting post-financial crisis policy for the world through the various mechanisms it has established, in particular the Financial Stability Board, this can only stand to the credit of Jersey, and focus international commentators far and wide on the reality of standards in the Island. It provides an extremely good base from which to examine yet to be fully promulgated new international standards.

Furthermore, in keeping with its long held strategy, Jersey will aim to meet such new emerging standards in order to continue its policy of seeking international recognition and placing itself in the mainstream of international financial services provision.

In addition to the very positive IMF report, as foreshadowed at the end of 2008, the UK Chancellor of the Exchequer asked Michael Foot, formerly Head of Banking Supervision at the Bank of England and subsequently a Managing Director of the Financial Services Authority ("**FSA**"), to conduct an independent review of the long term opportunities and challenges facing Jersey, the other British Crown Dependencies and the British Overseas Territories as financial centres. The scope of the review covered financial supervision, transparency, taxation in relation to financial stability, sustainability and future competitiveness, financial crisis management and resolution arrangements, and international co-operation. The Commission engaged fully with Mr Foot's review and was extremely pleased when the conclusions were published in October 2009 to note that Jersey emerged once again with significant credit in all of the areas covered by the review. In addition, the tax component of the review also underlined something that has been known widely in Jersey for a long time, namely that financial services activities carried out on the Island overall act as a driver and a benefit to major neighbouring countries, particularly the United Kingdom, and that the corporate driven tax drain from the latter to the Island is in reality quite minimal. It is pleasing to see these conclusions in an official review, conducted by an independent and respected third party, and therefore objective in its conclusions.

Supplementing this further international awareness is the Organisation for Economic Co-operation and Development's ("**OECD**") recognition of Jersey as one of the initial "White List" jurisdictions that had implemented the OECD tax standard. This designation, as a consequence of the April 2009 G20 summit in London, gave yet further international recognition to the significant efforts made by the Island over many years to meet all relevant international standards including those for exchange of information for tax purposes.

In each of these three areas, the IMF evaluation, the Foot Report and the OECD "White Listing", the year can be said to have been of unquestionable benefit for Jersey in terms of enhanced international acceptance, and it is anticipated that these efforts will be consolidated and built upon in future years.

International regulatory development

Despite the significant steps forward in terms of international recognition for the Island in 2009, it is clear that important international regulatory moves are well advanced as an international response to the 2008/2009 crisis, and that Jersey will certainly be expected to meet these new emerging standards in due course. Thus, for example, the International Organisation of Securities Commissions' ("**IOSCO**") work on extending the scope of regulation to embrace previously unregulated markets and products, such as hedge funds (although Jersey has long licensed and supervised both hedge fund managers and the funds themselves), credit rating agencies and other unregulated vehicles must necessarily result in the Commission and the Island's Government considering whether some of the presently unregulated vehicles that Jersey uses, such as the unregulated fund and special purpose vehicles for capital raisings in the City of London, will need to be re-assessed to comply with any final consensus that emerges in this area.

In addition to the IOSCO effort, the year also saw the promulgation by the European Commission of the Alternative Investment Fund Manager Directive ("**AIFM Directive**"), which again seeks to apply a level of new regulation to hedge funds and hedge fund managers and, of particular significance to Jersey, also seeks to implement a third country dimension to the newly emerging European Union (the **"EU"**) prescription for such regulation, which at the time of writing, is still very much in the melting pot. This third country dimension needs to be understood and assessed by the Island to see how, in the final form of the AIFM Directive when it is eventually put in place, the specialist funds that the Island has offered for many years and the comprehensive regulation and supervision that applies to them, can be positioned. The goal would be to seek any equivalence necessary from the EU or EU Member States that allows for the continuation of and distribution of such funds throughout the EU, where they have a Jersey domicile and/or if the manager should be operating from Jersey. It is fair to say that there was a good degree of confusion over the way in which the AIFM Directive would evolve throughout 2009 and it is anticipated that this will continue into next year. However, the Commission and other agencies in Jersey are monitoring the matter extremely carefully and seeking to make representations, where possible and appropriate, in order to influence the debate so that Jersey's interests overall are maintained.

Other areas of major forthcoming regulatory significance revolve around the recommendations of the Basel Committee on Banking Supervision (the "**Basel Committee**") to enhance its Basel II framework. These recommendations have themselves been influenced by a number of reports and recommendations post financial crisis by such as Lord Adair Turner, Chairman of the FSA, (The Turner Report) and the de Larosière Report produced for the EU, as well as the emerging recommendations in the United States for an overhaul of banking supervision and the way in which banking regulators work together. Jersey will naturally look to ensure it is capable of emulating the revised framework in all its major components, including capital adequacy ratios, new proposals on liquidity management which are emerging (including some specific to the FSA which have implications for Jersey), recommendations on macro prudential regulation and crisis management, including failing bank resolution models, all of which are still being debated at the time of writing, but which are beginning to take shape in terms of international consensus. Given that the Jersey banking industry is a significant contributor of liquidity to European financial markets generally, particularly to London, many of these new recommendations require careful evaluation and, where there is a concern that they may impact upon the Jersey business model, there will be a need for representations to be made. Finally, in this area, it has become clear that participation in regulatory and supervisory colleges, particularly for large banking groups, will become a much more regular feature of the international regulatory landscape. Jersey has already been invited to three such pan-European colleges and would expect in the years ahead to be more and more active in this very visible form of supervisor-to-supervisor co-operation.

Another significant development during 2009, was the putting in place of a Depositor Protection Scheme for the Island for the first time. Whilst Island depositors have long been protected by the application of the licensing policy for banks operating in Jersey, which policy has come to be known as the "top 500" (but which in truth entails a number of additional criteria seeking to ensure that only the largest, best capitalised and, most importantly, systemically important institutions are actually able to conduct deposit-taking activity on the Island), it has become clear that the international consensus is now that deposit protection schemes should be in place in all significant financial centres. Jersey thus followed this course in this respect during the past year.

In terms of the Commission's other activity internationally, it has continued to work very closely with international standard setters, participating in the work of a number of international organisations either directly or through its continuing membership of the Offshore Group of Banking Supervisors (OGBS) and the Offshore Group of Insurance Supervisors (OGIS). Continuing contributions have been made to the work of the FATF, IOSCO, the International Association of Insurance Supervisors ("**IAIS**") and the Basel Committee. Through the Company Registry, which accounts for a significant part of the Commission's activity, a leading role has continued to be played in the European Commerce Registers' Forum, the European Business Register and other related international activities.

In addition, an application was made during the year for admission to the new Multi-lateral Memorandum of Understanding (MMoU) on information exchange currently being promulgated by the IAIS and this application by the Commission is currently being assessed by that organisation.

The Commission continues to be active by setting and promulgating standards for regulation of trust and company service providers as well as continuing to seek full EU recognition, including at member state level, for its standards of AML/CFT which was so positively underlined by the IMF evaluation in 2009.

Finally, the Commission has remained very engaged in bi-lateral relationships already maintained or new in 2009. Examples of the latter were the Memoranda of Understanding ("**MoU**") signed with the four US banking regulators, a separate MoU with the CBFA, the Belgium Supervisor, and also a MoU with the Polish Supervision Authority in the securities field. Jersey continued throughout the year to receive and service expeditiously numerous requests from counterpart regulators for international assistance. Once again insider dealing and market manipulation cases were to the fore in these requests, and the Commission considers its track record in this respect to be second to none, both in terms of assistance furnished and the speed with which it is done.

Relationship with the finance industry

During the year a close relationship was maintained between the Commission and the finance industry (the **"Industry"**), through Jersey Finance. This was further enhanced by direct contact and the Commission continued its policy of seeking to engage in full and effective consultation on any new regulatory developments planned, including the level of its own fees levied upon the different sectors of Industry. The usual range of the Commission's consultative activity was also carried out, including a meeting with the Chief Executive Officers of financial institutions to discuss the Commission's 2010 Business Plan, and a number of user groups were put in place in areas such as the Companies Registry and funds authorisation, which allowed for regular dialogue between market practitioners and Commission officers on operational issues arising from these two key interfaces with Industry.

Also during 2009, in specific recognition of the undertaking contained in the 2009 Commission Business Plan, an online survey of Industry views of the Commission, covering a number of areas of its operation, was taken forward. The results of the survey were overall extremely positive for the Commission in terms of the Industry view of its activities and capabilities but there were a number of important points for attention on the part of the Commission's Board and Executive. The Commission has published the results of the survey giving indications where it will seek to address some of the substantive points made.

'The Commission engaged fully with Mr Foot's review and was extremely pleased..... to note that Jersey emerged once again with significant credit in all areas covered by the review.'

Investor protection and education

Once again the last 12 months have seen a large amount of activity through the on-site examination and general supervisory process, which evidenced standards in certain licensed entities continuing to fall below that which is needed and where regulatory breaches were seen to have occurred. As a consequence, enforcement action was called for and this was taken forward in a number of different cases. Where appropriate, enforcement action may have culminated in the publication of a Public Statement in respect of firms or individuals, and the Commission considers this to continue to be necessary if it is to meet its statutory obligations to protect the interest of investors and the Island's reputation.

As a consequence of this and the ongoing financial crisis, it is perhaps unsurprising that the general topic of investor protection schemes, including compensation schemes, should remain at the forefront of debate in the Island. The Commission continues to believe that it is the States of Jersey that should primarily establish any such investor compensation scheme if that is the desired route and that it should be operated and funded separately from the regulator. However, the Commission is prepared to assist and make its experience and expertise available in any necessary way to aid this process, something which it was able to do for the Depositor Protection Scheme put in place in the Island in 2009.

However, it is not simply the case that enhanced supervision and compensation schemes will provide the overall mix of policy and prescription to avoid, to the extent possible in any finance centre, investor losses and poor practice. During 2009, the Commission also began preparation for a programme of consumer education targeting particularly the interface between investors and financial advisors, but also looking more widely. The fruits of this programme will be seen early next year by way of several initiatives on the part of the Commission, as part of an Island-wide consumer education programme which will be rolled out progressively over the coming years in conjunction with other agencies in the Island, including the States of Jersey.

The Commission is initially concentrating on website development and a programme of media pieces, which will aim to alert investors to the good sound practices they can follow to limit, to the extent possible, "mis-buying" and investor vulnerability to unscrupulous or incompetent advisors. It should be stressed that this activity complements that which the Commission already undertakes in the field of supervision, and the two very much go hand in hand, but 2009 has certainly seen the laying of key foundations stones for this ongoing initiative.

Supervisory programme

During 2009, the Commission took further steps to ensure that its supervisory capability and resourcing were at the level which both domestic financial services activity and increasing international regulatory standards demand. This was particularly so in the field of funds supervision, where the opportunity was taken to recruit a team to the full capacity required for numerous on-site examinations to be undertaken on fund service business entities. These began to be seen significantly towards the end of the year and will continue into 2010. Overall, on-site examination of regulated entities again rose from 197 in 2008 to 249 in 2009 and this can be expected to continue at the same level in the twelve months ahead.

Alongside this supervisory activity, significant policy development embracing revised and new Codes of Practices was undertaken as was excellent work seen from the Commission's relatively new Anti-Money Laundering (AML) Unit in terms of designated non financial service businesses and professions (DNFBPs) and non profit organisations. All of this underlines, once again, the relatively more mature supervisory capability that the Commission now has in place in all sectors of the financial services economy, which covers the full spectrum of regulatory and supervisory activity from authorisation all the way to enforcement action.

This is not to say that the Commission always feels it has sufficient resource to cover the entirety of the licensed entity community in Jersey and, as with all regulators, has had to adopt a risk-based approach in order to ensure the maximum coverage possible. The application of resource to licensed entity supervision both on and off-site is theoretically limitless, but the Commission has certainly tried, through its risk model processes and careful selection of different types of supervisory examination (themed, discovery or focused), to ensure that its actions in this area are as targeted and appropriate as possible.

Priorities for 2010

- Develop the Island's action plan arising out of the recommendations made in the IMF's Financial System Stability Assessment ("**FSSA**") published in September 2009, consulting with Industry as necessary;
- Monitor developments and outcomes arising from the Foot Review;
- Monitor and respond where appropriate to international regulatory developments including greater participation in international regulatory fora and development of further bi-lateral regulatory relationships;
- Continue and enhance further the on-site examination programme;
- Complete work on sector specific sections of AML/CFT Handbook and review the AML/CFT Handbooks for DNFBPs;
- Seek to take part in the IOSCO programme of assisted self-assessments;
- Complete preparations for the introduction of a regime to oversee the work of auditors of "market-traded" companies;
- Publish a summary of the results of the 2009 Industry Survey having fully considered and commented on the views of the Industry;
- Continue the investor education initiative by:
  - producing and distributing website content, concentrating on investment matters,
  - issuing guidance on the use of pension products, and
  - developing consumer guidance for bank depositors; and
- Work with Industry on monitoring and responding to the draft EU AIFM Directive and other emerging EU initiatives.

This represents yet again a significant programme of proposed activity for the year ahead. The Commission will continually evaluate progress against its Business Plan and also look carefully at the emerging international consensus on new regulatory standards, as well as taking great care to monitor new international initiatives such as the AIFM Directive for impact on the Island's ongoing financial services providers and customers. In this respect, it is no surprise that a degree of flexibility may be required on the part of the Commission in terms of its programme in order to ensure that it plays its full part in influencing, to the extent possible, such initiatives and their outcomes.

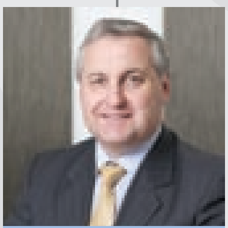
One example of this could be where the Commission decides to ask IOSCO for an assisted self-assessment of the Island's compliance against the recently revised new IOSCO principles. The Island is in the best possible position to claim regulatory equivalence and recognition in respect of the AIFM Directive should this component become of importance and relevance to third countries such as Jersey in the interface with the EU.

Finally, the year ahead in 2010 looms large and presents yet another set of no doubt difficult and demanding challenges for both the Commission and the Industry it regulates, together with other Island authorities, to address and surmount. However, 2009 can be seen overall as a year of significant progress in positioning Jersey as an international finance centre of repute - well regulated and co-operative and increasingly viewed by objective third parties, such as the IMF and others, as an example of best practice and proper intentions. I believe that the Commission's efforts throughout 2009 have contributed significantly to this relatively good state of affairs and I should like to end by paying tribute to the Commission's Directors and all its staff for the extensive commitment, work and positive intent displayed throughout the past twelve months and, indeed, over many years, in covering an extensive range of commitments and obligations that the Commission discharges.

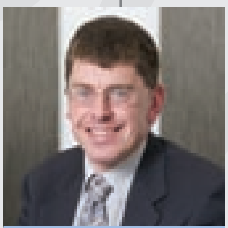
I should particularly like to pay tribute to Helen Hatton who, after many years as Deputy Director General, left the organisation in early 2009 to pursue a number of other interests, including very direct and regular participation in several areas of the international regulatory effort, such as playing a part in ongoing IMF and FATF evaluation exercises. Helen's contribution was a significant factor in the Commission becoming what it is today and I should like to thank her on behalf of us all for that contribution.

Overall the Commission's staff make a significant contribution to Jersey's international profile and relations by way of inter-regulatory activity with international counterparts and membership of relevant international organisations. I am privileged as Director General of the Commission to have such excellent staff who tackle their roles seriously, with energy, all seeking that essential balance between a regulatory and supervisory regime which is effective and stands up to scrutiny, whilst at the same time working with the Industry it regulates and supervises to allow the latter to operate commercially and with success.

Andrew Le Brun
Director International & Policy



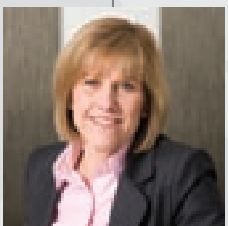
Barry Faudemer
Director Enforcement



Gary Godel
Chief Operations Officer

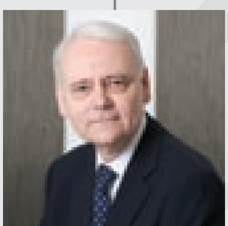
Nick Troy
Deputy Director AML Unit

Jamie Biddle
Deputy Director Enforcement

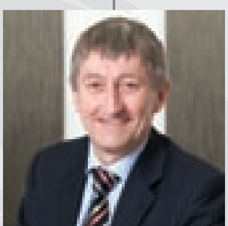


Gail Chadwick
Deputy Director Internal Audit

Mark Sumner
Director Banking and Insurance

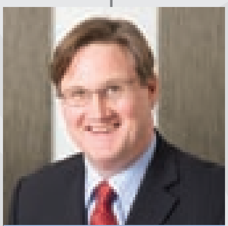


Richard Hands
Deputy Director Banking



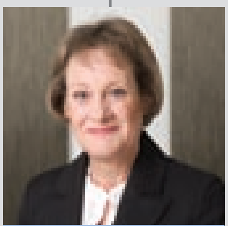
David Hart
Deputy Director Insurance

John Harris
Director General

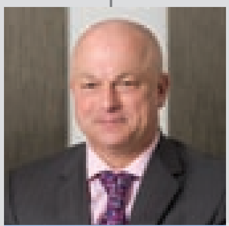


Julian Lamb
Director Registry

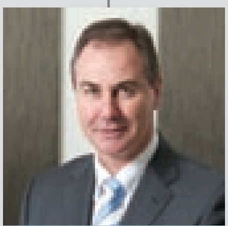
Nigel Woodroffe
Chief Financial Officer



Annette Cullen
Director Human Resources and Facilities Management

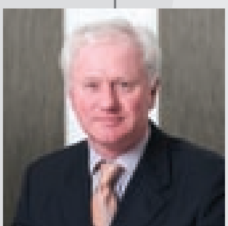


Shaun Roberts
Director I.C.T.

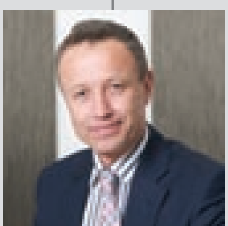


Chris Renault
Commission Secretary

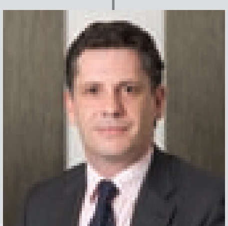
Debbie Sebire
Director Trust Company Business



David Banks
Director Securities



Chris Cooke
Deputy Director TCB



Darren Boschat
Deputy Director Securities

Michael Jones
Deputy Director Securities

‘Developments in Europe were followed, and consideration given to how the Commission, and the Island as a whole, should respond.....’

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

Review of 2009

Much of the Commission's assessment of international standards and development of policy was undertaken by the International and Policy Division. A significant amount of time was spent in 2009 on finalisation and publication of the International Monetary Fund's ("**IMF**") Financial System Stability Assessment ("**FSSA**") and detailed assessment reports, in particular the report on observance with the Financial Action Task Force ("**FATF**") Recommendations. The very positive conclusions of the FSSA and detailed reports are considered at length elsewhere in this report. Post publication, the Commission and other agencies have published a number of action plans to address recommendations made in the reports.

Developments in Europe were also followed, and consideration given to how the Commission, and the Island as a whole, should respond to those developments. In particular:

- The Commission consulted on proposals to introduce a regime to oversee the work of auditors of "market traded" companies - those companies that have securities traded on certain exchanges in the European Union (the "**EU**") - and legislation was adopted on 3 December 2009. The Commission also consulted on the detailed rules that it is intended will apply to auditors under such legislation. Preparation of legislation and the rules involved close liaison with Guernsey's Commerce and Employment Department, the Isle of Man Financial Supervision Commission, the Institute of Chartered Accountants of England and Wales (the "**ICAEW**") and the UK Professional Oversight Board.

- The Commission considered how the Island might implement the EU's Payment Services Directive to support an application to the European Payments Council for Jersey to join the Single Euro Payments Area (the "**SEPA**"). The Commission expects to publish a consultation paper on this matter during 2010.

- The Commission published a consultation paper in November 2009 on options for the future regulation of electronic money ("**e-money**"). The Commission's view is that the Island should implement a regulatory regime that is based on the new EU Directive on e-money.

- A memorandum of understanding ("**MoU**") between the UK and Jersey under the EU Payments Regulation took effect from 1 September 2009 with little publicity. Agreement of the memorandum was extremely important as it allows payments between payment service providers in the two jurisdictions to continue to be made using UK payment systems.

The Commission also continued its activity in countering money laundering and terrorist financing. In particular:

- A number of significant amendments were made to the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Financial Services Business regulated under the Regulatory Laws (the "**AML/CFT Handbook**"). In April 2009, Parts 2 (information resource) and 3 (supervision of compliance) were updated. In July 2009, Section 4 of Part 1 was revised to provide the requirements that apply where a foundation seeks to establish a business relationship or carry out a one-off transaction with a person that is carrying on business listed in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999. Finally, in December 2009, a sector specific section covering trust company business was added.

- In September 2009, the Commission published a consultation paper on a further amendment to the Money Laundering (Jersey) Order 2008. The amendment addresses a number of solutions to items that were identified by the IMF in its detailed assessment of Jersey's compliance with the FATF Recommendations, and the amendment - the Money Laundering (Amendment No. 4) (Jersey) Order 2010 - came into effect on 18 January 2010.

- In June 2009, the Commission hosted a visit of representatives of the World Bank and United Nations Office on Drugs and Crime to assist with the development of a policy paper on politically exposed persons. That paper has since been published. The Commission also supported an AML/CFT training session in July 2009 organised jointly by the People's Bank of China and EU-China Trade Project.

- The Commission represented the Offshore Group of Banking Supervisors on a number of Expert Groups which are reviewing the current FATF Recommendations.

Work started in the year on preparation of a possible amendment to the Financial Services Commission (Jersey) Law 1998 to provide for the Commission to be able to recover some or all of its costs and disbursements arising from enforcement action and investigations leading to such action. Work continues in this respect.

A 'Handbook on International Co-operation and Information Exchange' was published in April 2009 to assist overseas supervisory authorities when they seek to obtain assistance from the Commission in the discharge of a function that is the same as, or similar to, a function of the Commission.

The Commission agreed a MoU with the Polish Financial Supervision Authority covering the exchange of regulatory information and assistance in enforcement matters. In addition, as part of revised arrangements covering the takeover or merger of Jersey companies listed on a UK stock exchange, the Commission agreed a MoU with the UK Panel on Takeovers and Mergers and Jersey's Minister for Economic Development.

On the domestic legislative front, the Commission continued to review and comment on draft legislation that affects the Commission and the Industry that it supervises. Throughout the year, policy statements and guidance notes were reviewed and updated.

Policy and regulatory developments are considered further elsewhere in this report.

KEY TASKS FOR 2010:

Following publication of the IMF's FSSA in September 2009 and resulting action plans, work will continue to deal with the recommendations made. In or after September 2010, the Commission will publish its first annual progress update.

The Commission expects to finish its preparations for the introduction of a regime to oversee the work of auditors of "market traded" companies. The necessary secondary legislation has been made, and the Commission introduced the regime at the start of April 2010, at the same time as similar models were introduced in Guernsey and the Isle of Man. Under the requirements, auditors of "market traded" companies will be required to register with the Commission and the ICAEW will be required to oversee the audit work that has been carried out in respect of such companies.

The Commission will also continue to assist with legislative preparations for the Island's application to join the SEPA.

Work will continue on adding sector specific sections to the AML/CFT Handbook. It is intended to add a sector specific section for funds and fund services business, to join the section published in 2009 for trust company business. Additional guidance will also be added to the AML/CFT Handbook as time permits.

Following work started in earlier years, the Commission will consult on proposals to introduce a consistent regime that will allow it to object to the appointment (and continued appointment) of auditors of persons that are supervised under the regulatory laws, if it is not satisfied that the (proposed) auditor has the requisite qualifications, skill, resources or experience for a particular audit, or if it would not be in the best interests of clients/customers of a registered person.

The Commission will continue to add to and develop its extensive range of MoUs. Negotiations will continue with the *Commission Bancaire* in France to put in place a MoU covering the exchange of regulatory information and assistance in enforcement matters. This will involve (*inter alia*) the completion of an extensive questionnaire seeking information on Jersey's regulatory framework and laws.

The Commission also expects to update all of the Codes of Practice that have been issued under the regulatory laws. This will follow a period of consultation on the changes proposed, some of which are substantive changes, and others to bring provisions in the separate codes closer together.

On the domestic front, the Commission will continue to follow proposals to introduce freedom of information legislation and to create the Jersey Vetting Bureau, so that appropriate preparations can be made, and provisions introduced in a way that is supportive of the Commission's statutory functions.

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

Authorisations

The transfer of the regulation of fund service business providers to the Financial Services (Jersey) Law 1998 (the "**FS(J)L**") that occurred in late 2007 resulted in a high number of applications from prospective fund service business providers in 2008, and a continued flow of applications in 2009. Awareness of the 'Codes of Practice for Funds Services Business' has improved, resulting in fewer referrals when reviewing applications from new service providers.

As expected following the global economic downturn, throughout 2009 there was a significant increase in the number of requests for the restructuring of funds designed to merge or terminate poor performing funds or asset classes. The majority of fund applications processed concerning Jersey funds were for Jersey Expert Funds, Unclassified Jersey Funds, and the establishment of new sub-funds to existing Unclassified Jersey Funds.

More than 50 registrations to conduct fund services business were surrendered or revoked last year, partly due to rationalisations by fund services providers and partly due to market conditions. Some service providers may have paid the price for performing insufficient due diligence checks on promoters and other parties in relation to new funds.

Two new investment business registrations were granted in 2009 and four were surrendered.

During the year, the Commission authorised five Category A insurance business permit holders whilst eight surrendered their permits, leaving a revised total of 171 Category A permit holders. There were no new Category B insurance business permit holders, whilst three permits were surrendered, leaving a revised total of 10 Category B permit holders. Whilst 14 general insurance mediation businesses were registered, 14 permits were also surrendered, leaving a total of 125.

As in previous years, mergers and acquisitions in the finance industry (the "**Industry**") have led to the need for the submission of insurance transfer schemes. The Commission received three during the year for review and subsequent approval by the Royal Court.

Two banks registered for the first time in 2009 and three exited, leaving total registrations of 47 as at 31 December 2009.

There were 71 new trust company business applications determined during 2009, comprising 10 affiliation leaders or non-affiliated entities, and 61 participating members. The growth in participating members was partly driven by the implementation of the Foundations (Jersey) Law 2009, with a number of trust company businesses forming new participating members specifically to act as a member of the council of a foundation.

Included in the 10 new registrations were six individuals who are carrying on a single class of business, five as a director and one as a company secretary. The number of such applications may have resulted from the Guidance Note issued by the Commission during 2009 clarifying the Commission's expectations with regard to natural persons undertaking the activity of acting as a director.

During 2009, the Anti-Money Laundering Unit (the "**AML Unit**") registered 89 persons who were carrying on a business specified in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999, where that person was not carrying on a business already regulated by the Commission under one or more of the Regulatory Laws.

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

Examinations

The Commission has continued its focus on risk-based supervision through on-site examinations and following up any necessary action arising out of those examinations. The themes arising from the examinations have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers ("**Dear CEO letters**"), the Quarterly Newsletter and the Website. The Commission completed 249 examinations during 2009 against a target of 227 (including some examinations that were outsourced). There were 197 examinations during 2008.

Total Examinations 2009

Division	Themed	Focused	Discovery	Total
TCB	27	11	18	56
Funds	6	3	7	16
IB	8	1	22	31
Banking	21	2	1	24
Insurance	0	6	10	16
AML Unit	105	1	0	106
Total	**167**	**24**	**58**	**249**

Examination activity was a significant feature of 2009. The main issues that have arisen from the on-site examination programme during 2009 are summarised below by each Industry sector.

Banking

The Banking Division continued throughout the year its on-site themed programme on banks' adherence to their responsibilities in respect of countering money laundering and the financing of terrorism. This will be extended for a third year in 2010, until all banks have been examined in this respect. Updated guidance will be published in the first half of 2010.

A themed review focussing on credit provisioning commenced in 2009, in response to a recommendation contained in the IMF report. This will be completed in the first quarter of 2010 and summarised findings published for Industry guidance.

A number of focused examinations were also conducted, bringing the total number of examinations carried out in 2009 in line with the target set for the year of 21.

Insurance

The Insurance Division completed the planned programme of 16 on-site examinations. These included those Category A insurance business permit holders that have branch operations in Jersey, as recommended by the IMF. This will enable the Commission to better risk-assess these operations and include them within the Commission's risk-based approach to its supervisory activities.

Key findings arising out of the examinations included inadequate documentation of procedures relating to registered persons' corporate governance and compliance functions. In addition, there was some evidence that the focus which firms give to arranging appropriate insurance cover for clients can, for adequacy of resource reasons, be to the detriment of the adequate assessment of risks to the registered persons' business, such as business continuity planning, training of new staff and the recording and monitoring of complaints. Firms assessed have responded positively to the Commission's recommendations and evidence of improvement in the overall standard of compliance with the regulatory regime has been seen.

Investment Business

The programme of on-site examinations progressed during 2009 with the main theme being the quality of advice. The main issues arising from the on-site examinations were in relation to conduct of business, systems and controls, corporate governance, and compliance monitoring. Common findings included shortcomings with regard to updating procedures in line with the requirements of the revised Codes of Practice for Investment Business (the "**IB Codes**"), evidencing a business risk assessment, staff vetting procedures and financial resources, including adjusted net liquid asset ("**ANLA**") calculations.

Funds

In previous years the Commission has outsourced parts of the on-site examination programme for providers of fund services. During 2008, however, the Commission decided to invest in more resources in order to undertake the full examination programme in-house with its own staff, and to maintain the valuable industry insight within the organisation. Both the Commission and Industry are starting now to reap the benefits of that investment. In 2009, the Commission conducted 16 on-site examinations of funds services businesses, the majority of which were conducted during the latter part of the year. Looking ahead, the Commission expects to almost double the number of on-site examinations during 2010.

Although the standards of fund services businesses are steadily improving, the Commission did identify some areas of practice and individual businesses where further improvements could be made. The Commission identified certain businesses in need of raising awareness of the regulatory framework and implementing stronger corporate governance, especially among newly licensed entities. The valuation theme for on-site examinations will be continued into 2010, with particular focus on oversight and independence of the valuation process.

Trust Company Business

A total of 56 on-site examinations were conducted during 2009, compared with 53 in 2008. Of the 27 themed examinations, 23 comprised anti-money laundering ("**AML**") corporate governance themed examinations and four looked specifically at conduct of business. The remaining 29 examinations were split between discovery and focused examinations.

The results of the on-site examinations have been mixed, ranging from businesses demonstrating excellent working practices to the Commission finding material breaches of the regulatory regime.

As a result of the publication, in June 2007, of the Commission's 'Dear CEO' letter entitled: "Common regulatory shortfalls and completion of the transitional TCB phase", there has been an increase in the number of cases where the Commission has used the enforcement powers provided by the FS(J)L to address the most serious deficiencies that have been identified following an examination. As stated in the letter, following the end of the transitional regime, the Commission will no longer afford regulated businesses the intense levels of assistance and extended periods of remediation that have occurred in the past. Accordingly, enforcement cases in 2009 included cases that may have previously been dealt with under heightened supervision.

The main findings arising from the AML themed examinations related to the business risk assessment and strategy, customer profiling and transaction monitoring, together with the issues arising from the concessions available under the Money Laundering (Jersey) Order 2008 in respect of introducers and intermediaries.

During its review of customer profiles and transaction monitoring, the Commission noted a number of deficiencies. Whilst a number of businesses had not prepared profiles at all, the main finding was that profiles did not contain sufficient information to enable effective monitoring. Whilst most businesses carry out transaction monitoring on an arising basis, fewer businesses also conducted a retrospective review at regular intervals. The results of these examinations have led the Commission to designate the main theme for examinations in 2010 to be 'AML - customer profiling and transaction monitoring'.

AML Unit

The AML Unit conducted 106 on-site examinations, against their target of 100 for 2009. The issues of business risk assessment, the risk-based approach and international sanctions implementation continue to tax supervised entities, and advice and guidance on these matters is given on a majority of these visits.

Regulatory developments

One of the main activities in all the Supervision Divisions during 2009 was the review of the IMF Report. In addition, work continued to update the regulatory laws and associated Codes of Practice, Policies and Guidance Notes relating to all sectors of the Industry.

Banking

The Banking Business Licensing Policy was reviewed and redrafted in order to make more transparent the full range of considerations and requirements that the Commission applies in considering the authorisation of new banks to the Island and the continuing authorisation of existing banks. The Jersey banking sector was consulted prior to the revision.

A voluntary code for the Island's lenders was issued in 2009, which was the result of several years' effort on the part of various Industry and Government stakeholders. In addition to influencing the conduct of commercial lenders, the voluntary code also informs potential borrowers of the key information they should seek before taking on such financial commitments.

Industry guidance was issued in respect of Pillar 2 of the Basel II capital accord and workshops run on the subject.

The Division contributed to the development of a Depositor Compensation Scheme, which was introduced by the Banking (Depositors Compensation) (Jersey) Regulations 2009, during the year.

Significant drafting work was completed on a consultation paper that was issued early in 2010 on an Accounts Order to be issued under the Banking Business (Jersey) Law 1991, in partial replacement of the various Notices issued under Article 26 of that Law, and disclosure requirements in respect of depositor compensation schemes.

‘The Commission has continued its focus on risk-based supervision through on-site examinations.’

Preparatory work was also largely completed on a project to consolidate current requirements relating to the reporting of Large Exposures into the Codes of Practice for Deposit-taking Business (the "**Deposit-taking Codes**"). Completion was delayed pending incorporation of an IMF recommendation to withdraw the current blanket exemption from Large Exposure reporting currently applicable to exposures to banks of under twelve months maturity. A consultation paper will be issued during 2010.

Securities

The Funds and Investment Business Teams have continued to review and update the regulatory environment in their sectors.

Funds Team

During 2009, the Commission issued two consultation papers, the first on Codes of Practice for Certified Funds, and the second on Prospectuses for Certified Funds. Consultation with Industry on both subjects is nearing conclusion. The Commission has taken a keen interest in the progress of the EU Directive on Alternative Investment Funds Managers. Further discussions have taken place on updating the rules on Recognized Funds, being those collective investment funds that are recognized by the Financial Services Authority for marketing in the UK.

Investment Business Team

Groundwork in accordance with established requirements for a repeat of the "mystery shopping[2]" exercise began in 2009, including planning, fieldwork and developing the scenarios that will be used by mystery shoppers.

Work on developing the consumer education initiative progressed during 2009 in order to commence a major awareness campaign in 2010. The consumer education initiatives will include two main work streams. The first is a new website, to be launched in the first half of 2010, which will provide impartial guidance on matters relating to investments and financial services. The second will involve the use of other media such as flyers, posters, articles and information sessions to help the Commission reach out to targeted groups within the Island community.

2009 saw an increase in the volume of complaints referred to the Commission against businesses holding an investment business registration, which is unsurprising given the global economic crisis that followed a period of sustained growth.

Work began on revisions to the IB Codes ready for inclusion in the Consultation Paper to be issued in 2010 on amendments to the Regulatory Codes of Practice.

The IB Team is currently monitoring Industry developments in respect of local pension products and intends to issue a Guidance Note concerning Retirement Annuity Trust Schemes (RATS) later in 2010.

The IB Team has also been monitoring developments in relation to the UK Financial Services Authority's Retail Distribution Review ("**RDR**") in order to identify any revisions that the Commission may need to make to its regime as a consequence of the RDR proposals.

Trust Company Business

Following the increased level of legislative developments in 2007 and 2008 in preparation for the IMF visit, there has been less activity in 2009.

Perhaps the most important regulatory development during 2009 for the trust company business sector was the development and implementation in July of a regime to regulate the service of acting as a council member of a foundation. Following the Foundations (Jersey) Law 2009 coming in to force, the Commission has determined 97 applications to conduct trust company business "Class OA" (acting as a member of a council of a foundation). Applications were received from 65 trust company businesses (some businesses having applied for the appropriate registration for more than one member of their affiliation).

A Guidance Note in relation to the activity of an individual acting as a director was issued during the year, together with law drafting instructions regarding the introduction of a '*de minimis*' regime of six engagements for those individuals acting as a director that will be subject to consultation in 2010. An update to the Guidance Note in respect of an individual conducting a single class of trust company business was published in March 2010.

Towards the end of 2009 the Commission issued sector specific guidance for trust company business as an addition to the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Financial Services Business Regulated under the Regulatory Laws.

As part of its programme of regulatory development the Commission is also reviewing the regulatory regime for "Class O" businesses (i.e. those with a restricted registration to provide certain services to local customers), and has been gathering data during 2009 to assist in this process.

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

A focus for 2010 will be to update the Codes of Practice for Trust Company Business (the "**TCB Codes**"). This task will be undertaken in conjunction with a Commission wide project to ensure that the provisions within the TCB Codes are consistent through all the Supervision Divisions with any variances in the TCB Codes being on an exception basis with appropriate rationale.

The Division is currently working on providing formal guidance to the trust company business sector with respect to the Commission's expectations of both managers of managed trust companies and of the managed trust companies themselves in terms of corporate governance and oversight. This Guidance Note is expected to be published later in 2010.

Insurance

In April 2009, the Commission published a Licensing Policy in respect of those activities that require a permit under the Insurance Business (Jersey) Law 1996. The Division also completed a comprehensive review of the route planners that are used to plan and carry out on-site examinations of general insurance mediation businesses, in order to ensure the maximum effectiveness of the Division's on-site supervision.

AML Unit

The AML Unit continued to consolidate its supervision of the designated non-financial businesses and professions ("**DNFBPs**") and during the year completed supervision visits to over 50% of each sector. It is planned to complete the remaining DNFBPs during 2010, so that every newly supervised entity will have received appropriate advice and guidance at the earliest opportunity. 2009 has also provided an opportunity to review and adjust the infrastructure to support the Supervision Divisions, ranging from sector-specific handbooks to risk-modelling software.

Chief Operations Officer

The new regulatory database, Key Data Repository ("**KDR**"), was launched in March 2009.

Operations has facilitated the development of a Commission information strategy and within this development work has commenced on processes including the gathering of Industry statistics, such as collective investment funds valuations and the calculation and payment of regulatory fees as part of the work flows associated with KDR. It is anticipated that the improved statistics process will be launched in mid 2010 with the fees process being introduced at the end of 2010.

Operations has also been involved in controlling and developing procedures for the Supervision Divisions, training administrative staff in administrative processes and carrying out quality control checks on record-keeping and processes.

At the end of 2009, the internal audit function was separated from Operations to achieve greater independence and the Deputy Director, Internal Audit, was appointed in January 2010 to carry out that function.

Communication with Industry

The Commission has continued to communicate its strategic aims and objectives to Industry, providing feedback on best Industry practice, and the results of its examination programme. A series of workshop events was also held for Industry. In October 2009, communication and strategy were combined, at the start of the Commission's business planning cycle, with input from Industry on its priorities via the Chief Executive Officer Forum. The Commission also continued to publish its Quarterly Newsletter.

International communication

The Commission continued its active involvement in international regulatory fora.

The Commission was pleased to host the annual plenary of the Offshore Group of Banking Supervisors ("**OGBS**") in September 2009, which was attended by regulators from 17 international finance centres around the world plus representatives of several international bodies and mainland central banks.

Memoranda of Understanding were signed with the banking supervisors of the USA and Belgium and the Commission participated in a number of regulatory and supervisory colleges.

The Commission continued its active involvement in international regulatory fora, most particularly with the Offshore Group of Insurance Supervisors ("**OGIS**") and the International Association of Insurance Supervisors.

As a member of OGIS the Commission chaired the annual OGIS training seminar for regulators, which took place in Barbados, on the theme "Taking action when things go wrong", provided a case study and ran a number of presentations.

The Securities Division maintained its international obligations by attending International Organisation of Securities Commissions (**"IOSCO"**) meetings in Madrid, Rome and Basle, and is due to host a meeting of IOSCO's Standing Committee 5 (funds) in 2010. The Division also attended meetings of the Extended Contact Group of Securities Regulators and the Commission is due to host a meeting in 2010.

KEY TASKS FOR 2010:

- Continue and enhance further the on-site examination programme for all sectors.
- Conduct a Commission-wide project to ensure that the provisions within the various Codes of Practice are consistent, with any variances in Codes being on an exception basis with appropriate rationale.
- Seek to take part in the programme of assisted self-assessments against the standards set by the IOSCO to supplement the 2008/9 IMF review.
- Continue the investor education initiative by: producing and distributing website content, concentrating on investment matters; issuing guidance on the use of pension products; and developing consumer guidance for bank depositors.
- Carry out a "mystery shopping" exercise on investment business conducted within banks and independent financial advisers.
- Complete the consultation on, and drafting of, the planned Accounts Order, to be issued under the Banking Business (Jersey) Law 1991.
- Monitor the development of Solvency II and international standards for risk-based solvency, and consider any possible impact on Jersey's solvency requirements.
- Consider revisions to the AML/CFT regulatory requirements for Category A long term insurance business permit holders, whilst allowing for home regulatory requirements, and consult on any consequently proposed amendments.
- Consider amendments to the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005 to ensure: a) continued effectiveness; and b) consistency with other accounts Orders issued under the Financial Services (Jersey) Law 1998.
- Give formal guidance to the trust company business sector with respect to the Commission's expectations of managers of managed trust companies, and of those managed trust companies themselves, in terms of corporate governance and oversight.
- Complete changes to the Outsourcing Policy.

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

The Enforcement Division remained fully staffed in 2009 with a complement of six full-time members of staff and one part-time administrative assistant. The services of external experts, including lawyers and forensic accountants, were also called upon at various times throughout the year, but in general there was a greater reliance on utilising resources within Enforcement to complete investigations.

In 2009, the Enforcement Division worked on a total of 112 cases. 78 new investigations were opened and 71 cases were finalised during the year.

The Enforcement Division investigated 12 cases relating to the trust company business sector, but the majority of those cases were concerned mainly with overseas companies or individuals falsely claiming or holding out as being authorised to conduct financial services business in or from within the Island - in short, scam websites trying to use the good name of Jersey or Jersey institutions to perpetrate fraud.

During 2009, 70 notices were issued under the Regulatory Laws[1] requiring the production of documents in order to assist the Enforcement Division in its investigations. 23 tape-recorded interviews with individuals were also undertaken using the compulsory powers available to the Commission.

Following detailed investigations, two individuals were considered a risk to the finance industry (the "**Industry**") and were issued with directions effectively preventing them from obtaining employment in the Industry without the prior consent of the Commission.

There were 14 public statements issued and published on the Commission's website. Such statements have ranged from warning members of the public of the dangers of scam websites, to the publication of directions in respect of individuals who are prevented from obtaining employment in the Industry.

Protecting investors

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

Wrongdoers will, wherever possible, be held to account if they mislead investors or act dishonestly. Enforcement has adopted a more proactive stance in pursuing such cases, with several cases currently under consideration and investigation. During 2009, the Commission authorised the issue of a public statement setting out the learning points from an investor's perspective in the case of Alternate Insurance Services Limited and setting out in detail the serious misconduct in relation to its former principal persons. The public statement provoked significant media interest in the risks associated with traded endowment policies and in particular the impact on investors who fail to appreciate the risks associated with such products.

The use of public statements by the Commission continues to be an effective tool in alerting members of the public to criminals who seek to misuse the good name of Jersey in order to add an air of legitimacy to their fraud, whether by use of the internet or other media. Experience has shown that promptly countering such false claims, by issuing a public statement, acts as a warning to potential investors who have often been skilfully targeted after responding to bogus internet investment schemes or offers. Sadly, following the issue of such statements, investors, many of them pensioners in various jurisdictions, do contact the Commission and report losing money through the scam.

During the process of conducting regulatory investigations, the Commission has uncovered *prima facie* evidence of fraud and has referred these cases to the Police. In all cases, the regulatory investigation continued and, with the agreement of the Law Officers' Department, resulted in a limited public statement being issued.

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

'Wrongdoers will, wherever possible, be held to account if they mislead investors or act dishonestly.'

Working with the Industry

Giving feedback on generic trends, learning points or concerns is an important part of Enforcement's role. Presentations to the Industry have been regularly undertaken to raise awareness of emerging issues and to stress the importance of maintaining an effective compliance function in accordance with the Regulatory Laws, Orders, Codes of Practice and Guidance Notes. Such presentations have, during the year, prompted the reporting of a number of cases involving serious misconduct to the Enforcement Division.

The Commission has used the power to issue public statements as a sanction but also to provide feedback to the Industry on the type of misconduct coming to the attention of the Commission.

Investigating cases fairly, impartially and ethically

The Commission is committed to investigating cases fairly and collecting information and evidence in a sound and ethical manner. This includes interviewing those individuals who form the subject of the investigation and giving the subject of the investigation opportunity to provide the Commission with explanations and comments on findings. The process for considering cases resulted in the publication in May 2009 of the "Guidance Note: The Commission's Decision-making Process", which is published on the Commission's Website.

The Decision-making Process sets out that the Enforcement cases, which result in the recommendation of a sanction, are considered by a Review Committee consisting of: the Director General; two Directors, at least one of whom will not be connected to the case in question; and the Director of Enforcement. In addition to the Review Committee, all sensitive cases which may require the use of enforcement powers or investigations that may warrant the issue of a public statement involving regulated persons, are referred to the Board of Commissioners.

International cooperation

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

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

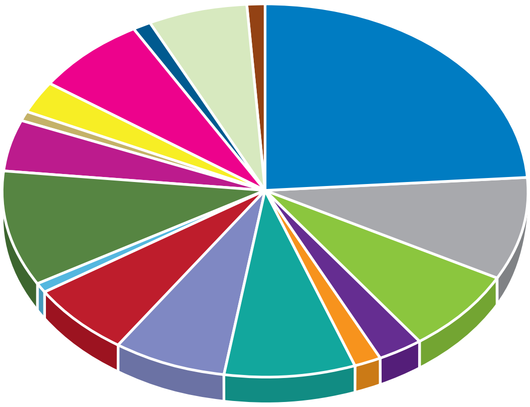
In 2009, the Commission assisted the US Securities and Exchange Commission in the investigation of a securities fraud and was instrumental in the return of several hundred thousands of dollars to a liquidator appointed to return the proceeds to the victims of the securities fraud.

KEY TASKS FOR 2010:

- Consider the introduction of legislation for the recovery of investigation costs or similar measures.
- Use enforcement powers to ensure that those individuals who act with a lack of integrity or competency are subject to regulatory scrutiny and, if appropriate, regulatory sanction.
- Introduce an anonymous whistleblowing telephone line at the Commission to ensure the timely and effective receipt of information relating to regulatory misconduct.
- Ensure the effective investigation of cases.
- Provide feedback to the Industry of general trends and developments arising from Enforcement cases.

Enforcement case statistics

Percentage breakdown of Enforcement Division activity during the year ended 31 December 2009



Total Enforcement Cases during the period from 1 January to 31 December 2009

Law	Active 1 January 2009	New Cases in Year (to 31/12/09)	Total during year (to 31/12/09)	Total shown as percentage	Active 31 December 2009
Financial Services (J) Law - Investment Business 24.1%	12	15	27	24.1	11
Financial Services (J) Law - Trust Company Business - Non Regulated 8.9%	4	6	10	8.9	3
Financial Services (J) Law - Trust Company Business - Regulated 7.1%	1	7	8	7.1	7
Financial Services (J) Law - Money Service Business 2.7%		3	3	2.7	1
Financial Services (J) Law - General Insurance Mediation Business 1.8%	1	1	2	1.8	0
Financial Services (J) Law - Fund Services Business 8.0%	1	8	9	8.0	5
Financial Services (J) Law - Insider Dealing 7.1%	1	7	8	7.1	0
Financial Services (J) Law - Market Manipulation 6.3%	1	6	7	6.3	2
Financial Services (J) Law - Misleading Statements and Practices 0.9%		1	1	0.9	1
Banking Business (J) Law 9.8%	3	8	11	9.8	0
Collective Investment Funds (J) Law 4.5%	5		5	4.5	4
Control of Borrowing Order 0.9%		1	1	0.9	0
Companies (Jersey) Law 2.7%	2	1	3	2.7	1
Proceeds of Crime (Jersey) Law 7.1%		8	8	7.1	4
Insurance Business (J) Law 0.9%	1		1	0.9	1
Investigation of Fraud Law 0.9%		1	1	0.9	1
Other Activities 6.3%	2	5	7	6.3	0
Total	34	78	112	100.0	41

The Commission operates Jersey's Companies Registry (the "**Registry**"). The Registry registers Jersey statutory bodies, for use by the finance industry and the wider public, to aid entrepreneurial endeavour and the free flow of capital. Under the Registry banner are registers for companies, limited liability partnerships, limited partnerships, business names and foundations. The Registry's primary function on an ongoing basis is to maintain these registers and provide an efficient and effective service. The Registry's work complements the Commission's aim to "ensure that all entities it authorises meet fit and proper criteria".

The Registry incorporated 2,329 companies in 2009, a decrease of 15.6% compared with the previous year. The decrease shows the change in business activity as the global economy progressed further through the recession. However, the number of companies on the Register at the 31 December 2009 was 33,074 a fall of less than one per cent on the previous year.

Limited partnership formations during the year were 94 compared to 125 during 2008.

Nearly all other Registry registrations and processing, such as special resolutions and searches, have significantly increased particularly where supplied online. The filing of public company accounts was in line with the previous year. This is a result of the Registry's continued drive to improve public company filings, which effort is set to continue into 2010 and beyond.

The Registry adheres to published response time-scales, which were met in 2009, as shown in the table on page 40.

In February 2010, the Registry User Group (the "**Group**"), comprising Registry representatives and a number of market practitioners, met and discussed a number of issues such as the quality of service provided by the Registry, online services, business volumes flowing through the Registry, new products and fees. The progress of Sub-Groups through 2009 was reviewed. The Group considered the changing environment facing the users of the Registry and one notable evolution in relation to the greater number of complex structures being formed. The Group reported that standards of service were high in the Registry and that this had been evident through 2009. However, the Group emphasised the need for the Registry to keep pace with Industry developments particularly with regard to the expertise of its personnel.

During 2009, the revised Business Names Law was progressed. Work continued on the development of the automated disputes resolution system, which is a fundamental part of the new Business Names Law. Amendments were introduced for the Companies (Jersey) Law 1991 and the Limited Partnerships (Jersey) Law 1994. Work on the proposed revisions to Jersey's intellectual property rights laws continued in 2009.

In July 2009, the new Foundations (Jersey) Law 2009 came into force and Registry launched an online foundation registration service. Registry users now have the ability to file, search, monitor and retrieve foundation documents online.

Amendment No. 10 to the Companies (Jersey) Law 1991 came into force during 2009 and the Registry has adapted to the changes introduced by the amendment, which include provisions relating to the use of premises as a registered office.

Automation and e-commerce projects

During 2009, the online search facility, online monitoring and the upgraded online filing system were enhanced. All systems continued to be embedded in our new Website format known as Easy Company Registry ("**ECR**").

Training

The Registry unveiled an ambitious training programme to help launch ECR. The programme, which is free and ongoing, is aimed at shareholders, directors and company secretaries who would benefit from the filing, searching, and monitoring of Jersey company documents. The monitoring aspect of ECR is also a useful tool for others wishing to keep informed of changes to a Jersey company, such as investors or other stakeholders including listing agencies and regulators. Registry staff received special training in order to run this programme.

‘The Registry unveiled an ambitious training programme to help launch the “Easy Company Registry”.’

International development of the Registry

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

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

In May 2009, the Director, Registry, attended and spoke at the International Association of Commercial Administrators (**"IACA"**). IACA represents the company registries of the United States (**"US"**) and Canada. The Director, was again elected to be the chair of the international section of IACA and a director of the IACA Board. The US continues to review its disclosure requirements for the beneficial ownership of US companies and other global issues affecting registries. Canada and the US are regarded as the leading jurisdictions for the administration of secure transactions. With Jersey's new Security Interests Law being developed in 2010, access to such expert support will be beneficial.

Jersey continues to promote greater communication between registries globally. During 2009, contributions to Business Registries Interoperability Through Europe (BRITE), an EU funded research project, have kept initiatives on cross border migration to the fore, ensuring that the Registry continues to be active internationally.

KEY TASKS FOR 2010:

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

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

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

ICT

ICT has continued to develop the Commission's technical infrastructure adding resilience to systems and the network on which they run. The first phase of the new regulatory database, known as KDR, was rolled out in 2009. Web service solutions are being added to KDR to improve business-to-business ("**B2B**") processes using the internet, and KDR will be further developed in order to meet the operational needs of the Supervision Divisions. A specialist in the SharePoint platform and Web service design has been recruited to enable the Commission to produce a number of solutions in-house, which include a case management and intelligence system for the Enforcement Division and a new online professional development review ("**PDR**") system.

The Registry has continued its development of the OneSys solution and completed the upgrade to a Dot. Net web platform. This will provide major advantages in adding B2B services essential to the Registry in an easier, controlled and more cost-effective manner.

The Director of ICT produced the main and technical strategies for the development of the European Business Register ("**EBR**"). The work undertaken on the EBR effectively supports the activities of the Companies Registry in the development of this important area of business.

The levels of service to the Commission have been maintained throughout the year despite some staffing challenges in the Division. The introduction of controlled change management to promote user ownership of software and processes, to better instruct the Commission's software suppliers and above all to control costs of systems development has also assisted in this context.

The Commission finished the year in a favourable situation, being the first organisation in the Channel Islands to achieve the international standard ISO27001 for information security. This is a prestigious accreditation and reflects the Commission's commitment to protecting its information assets and its working environment. This involved attaining compliance in relation to 133 processes. ICT has created a paperless environment to manage all of the processes in SharePoint, with each having automated workflows to initiate reviews.

HR

The HR Division's mission is to provide excellence in human resource leadership by capturing and nurturing quality talent. The success of the Division is driven by the core values of attracting and inspiring excellence, professionalism, integrity, teamwork and respect for one another. This was recognised in the Commission successfully obtaining its re-accreditation of the Investors in People standard in November 2009.

The Commission now considers itself fully staffed with an appropriate complement of qualified and skilled personnel and the HR Division will strive to maintain employee engagement, employee productivity and commitment to organisational values. The Commission's intention is to consolidate during 2010 given the recruitment levels seen in 2009. This will be supported by the Commission's Learning and Development Strategy, which includes Executive, Advanced Management and Management development programmes and other related workplace learning.

The HR Division is committed to working strategically and identifying and responding to both the Commission's and the Island's changing needs.

‘The Commission successfully attained its re-accreditation of the Investors in People standard.’

KEY TASKS FOR 2010:

ICT

- Complete the OneSys VI programme of development for the Registry to increase B2B activity and simplify internal workflows.
- Progress the development of processes in KDR and continue to develop the SharePoint platform.
- Enhance the performance of the Commission network, server farm and data storage, and conduct a full technology infrastructure review for the Registry systems and future business needs.
- Maintain the ISO27001 Information Security Standard.

HR

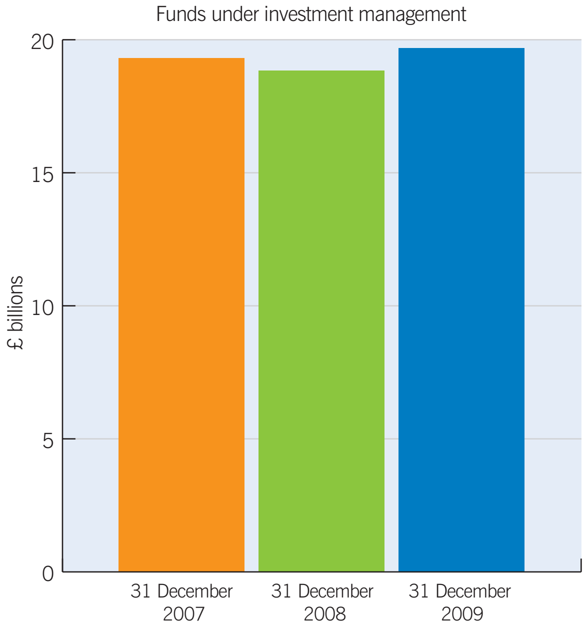
- Maintain employee engagement, employee productivity and commitment to organisational values.
- Continue the Executive, the Advanced Management and the Management development programmes.
- Devise an internal secondment programme for all Divisions and develop international and local secondment opportunities.
- Migrate absence management from the current system to a new absence management database.

Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998) = £19.7 billion.

The total number of clients of investment managers = 14,765

Date	Funds under management (£ billions)	Number of clients
31 December 2007	19.297	17,629
31 December 2008	18.844	15,584
31 December 2009	19.686	14,765



Insurance Business

Total number of insurance licences = 181 of which:

Category A = 171
Category B = 10

At 31 December 2009 there were 125 registered general insurance mediation businesses.

Companies

Registry Processing - performance against target

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

Registry Processing - items processed

Date	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2007	14,900	178,125	713	120	1,999
2008	29,007	95,806	747	125	2,155
2009	48,464	8,313	775	94	1,922

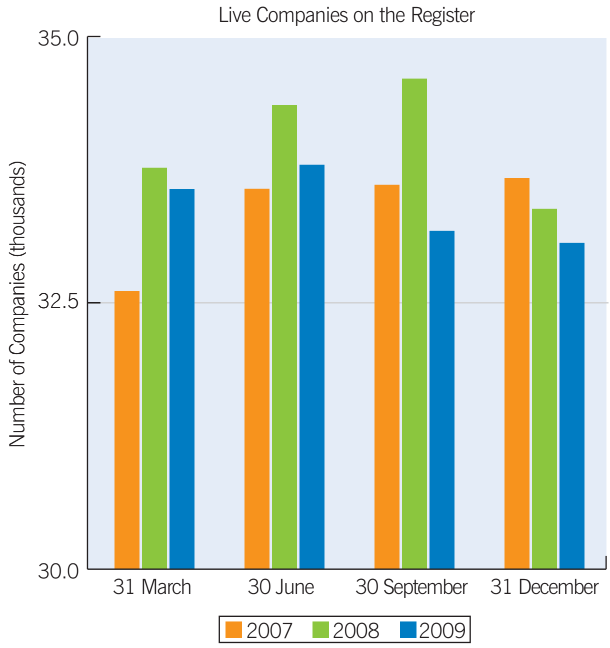
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2007	830	1,549	873	798	4,050
2008	761	799	661	537	2,758
2009	577	533	628	591	2,329

Live Companies on the Register

At 31 December 2009 (2008) there were 33,074 (33,395) live companies registered in Jersey.

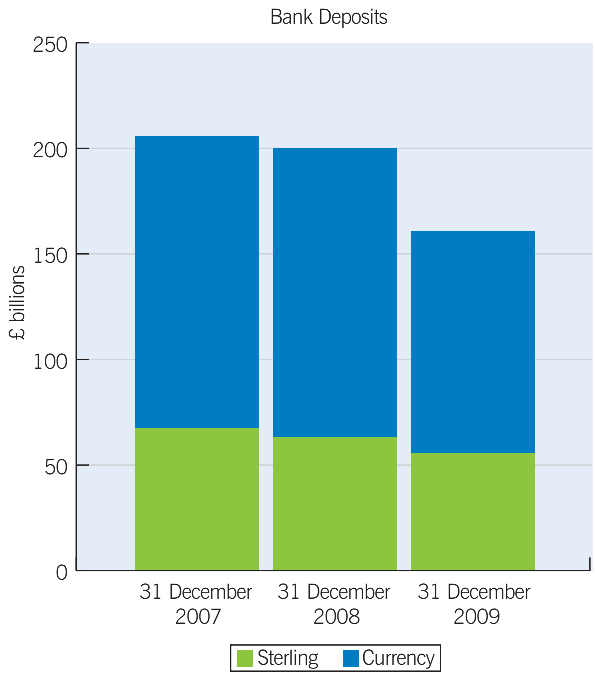
Date	31 March	30 June	30 September	31 December
2007	32,617	33,587	33,624	33,683
2008	33,784	34,372	34,622	33,395
2009	33,579	33,811	33,187	33,074



Banking

Banks and Bank Deposits - £ billions

Date	Number of banks	Sterling	Currency	Total
31 March 2007	46	63.481	135.104	198.585
30 June 2007	47	66.476	145.270	211.746
30 September 2007	48	69.614	149.912	219.526
31 December 2007	48	69.401	142.918	212.320
31 March 2008	47	68.838	141.090	209.928
30 June 2008	47	68.794	128.072	196.866
30 September 2008	47	69.392	127.584	196.975
31 December 2008	47	65.050	141.030	206.080
31 March 2009	46	63.025	132.885	195.910
30 June 2009	45	59.520	114.692	174.212
30 September 2009	47	57.379	113.219	170.599
31 December 2009	**47**	**57.471**	**107.749**	**165.220**

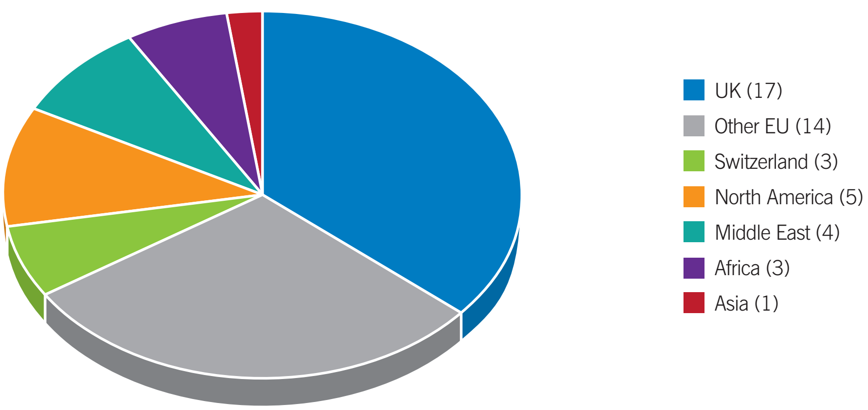


Banking

Analysis of Deposits - 31 December 2009 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	8.852	4.600	13.452
Jersey Financial Intermediaries etc	5.301	6.836	12.136
U.K., Guernsey & I.O.M. + unallocated Jersey,UK etc	25.809	16.396	42.204
Subtotal	**39.961**	**27.832**	**67.793**
Other EU Members	3.205	13.792	16.998
European Non EU Members	3.951	34.110	38.061
Middle East	1.450	16.245	17.696
Far East	2.275	3.492	5.766
North America	2.346	7.762	10.107
Others, Unallocated non Jersey,UK etc	4.283	4.516	8.800
Subtotal	**17.510**	**79.918**	**97.427**
Overall total of deposits	**57.471**	**107.749**	**165.220**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	5.4%	2.8%	8.1%
Jersey Financial Intermediaries etc	3.2%	4.1%	7.3%
U.K., Guernsey & I.O.M. + unallocated Jersey,UK etc	15.6%	9.9%	25.5%
Subtotal	**24.2%**	**16.8%**	**41.0%**
Other EU Members	1.9%	8.3%	10.3%
European Non EU Members	2.4%	20.6%	23.0%
Middle East	0.9%	9.8%	10.7%
Far East	1.4%	2.1%	3.5%
North America	1.4%	4.7%	6.1%
Others, Unallocated non Jersey,UK etc	2.6%	2.7%	5.3%
Subtotal	**10.6%**	**48.4%**	**59.0%**
Overall total of deposits	**34.8%**	**65.2%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2009



Funds

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

Summary of Statistical Survey of Regulated Funds Serviced in Jersey as at 31 December 2009

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

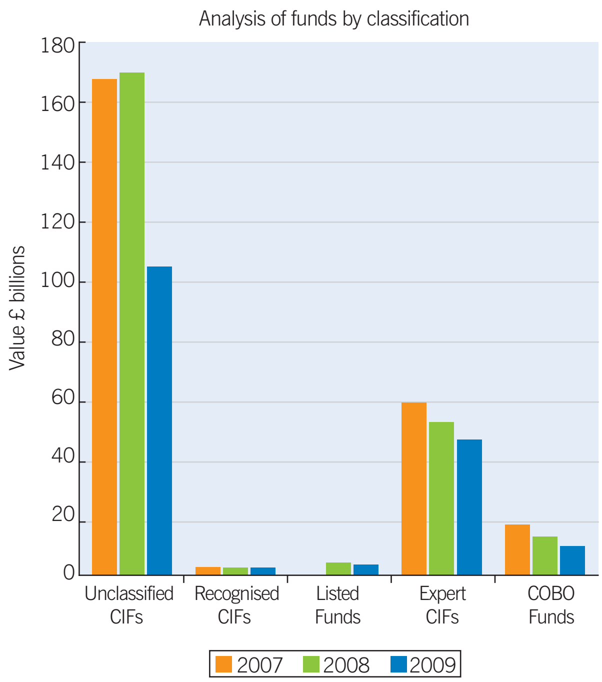
Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2007	246.150	1,311	2,934
31 December 2008	241.172	1,472	3,129
31 December 2009	166.156	1,294	2,725

Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	76.251	472	573
CIFs	Open	80.106	622	1,926
	CIF Sub Total:	**156.357**	**1,094**	**2,499**
COBO Funds	Closed	6.271	169	177
COBO Funds	Open	3.528	31	49
	COBO Sub Total:	**9.799**	**200**	**226**
	Total:	**166.156**	**1,294**	**2,725**

Analysis by Class - 31 December 2009

Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	104.490	664	1,788
Recognised CIFs	2.486	10	53
Listed Funds	3.540	24	25
Expert CIFs	45.841	396	633
CIFs Sub Total	**156.357**	**1,094**	**2,499**
COBO Funds	9.799	200	226
CIFs & COBO Funds Total	**166.156**	**1,294**	**2,725**

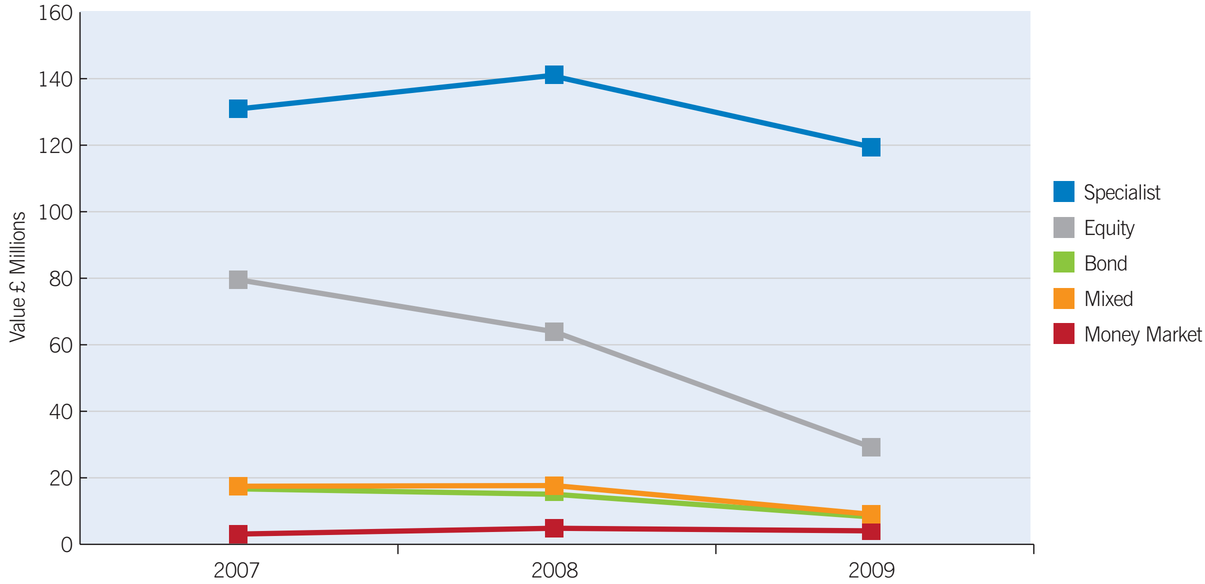


Funds

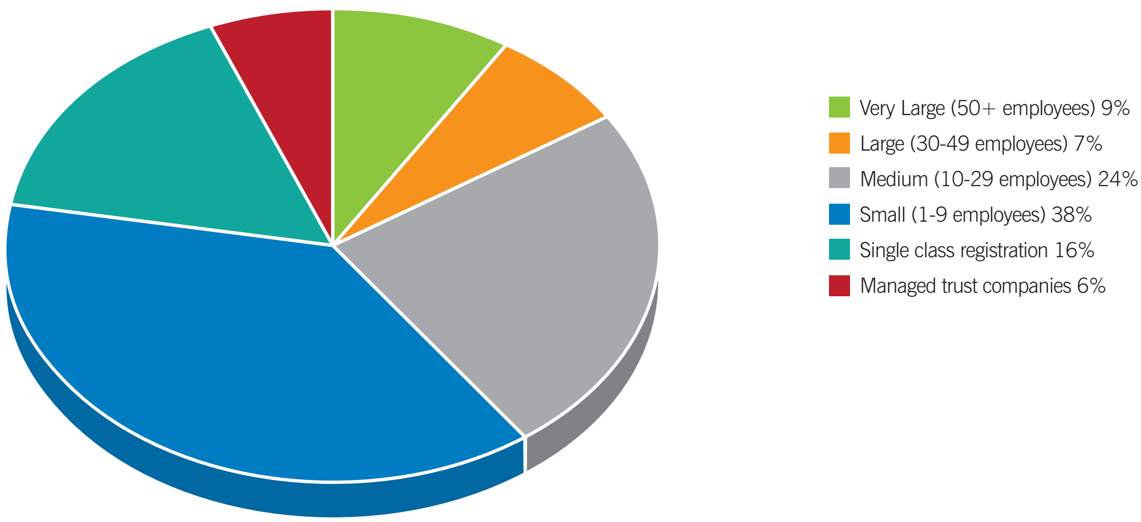
CIFs & COBOs - Analysis By Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	4	47	590	485	3,981
B02 - Bond-UK Debt	3	15	41	47	1,394
B03 - Bond-US Debt	1	8	25	33	739
B04 - Bond-Europe	1	30	586	224	1,632
B05 - Bond-Other	3	38	108	68	1,018
Sub Total Bond	**12**	**138**	**1,350**	**857**	**8,764**
E01 - Equity-UK	13	23	28	15	1,267
E02 - Equity-Europe (Including UK)	16	20	568	130	6,928
E03 - Equity-Europe (Excluding (UK)	10	7	23	25	770
E04 - Equity-US (North America)	9	16	53	42	1,099
E05 - Equity-Japan	2	4	46	12	118
E06 - Equity-Far East (Including Japan)	6	6	25	33	1,158
E07 - Equity-Far East (Excluding Japan)	3	5	36	50	291
E08 - Equity-Global Emerging Markets	6	7	220	111	844
E09 - Equity-Global Equity	23	135	650	693	13,288
E10 - Equity-Other	50	58	129	166	3,028
Sub Total Equity	**138**	**281**	**1,778**	**1,277**	**28,791**
X01 - Mixed-Mixed Equity and Bond	13	214	240	242	5,844
Sub Total Mixed	**13**	**214**	**240**	**242**	**5,844**
M01 - Money Market-Sterling	1	12	27	101	391
M02 - Money Market-US Dollar	1	13	123	164	640
M03 - Money Market-Euro	0	9	434	612	2,050
M04 - Money Market-Swiss	0	3	72	113	595
M05 - Money Market-Other	0	5	2	4	28
Sub Total Money Market	**2**	**42**	**658**	**994**	**3,704**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	45	0	22	15	3,839
S02 - Specialist-Venture Capital/Private Equity - Other	226	12	411	79	21,180
S03 - Specialist-Real Property	166	50	585	215	20,083
S04 - Specialist-Derivatives	6	15	217	96	1,055
S05 - Specialist-Traded Endowment Policies	15	26	153	97	1,273
S06 - Specialist-Hedge/Alternative Investment Funds	376	686	6,918	4,775	51,243
S07 - Specialist-Other	76	186	2,094	1,852	20,380
Sub Total Specialist	**910**	**975**	**10,400**	**7,129**	**119,053**
Grand Total	**1,075**	**1,650**	**14,426**	**10,499**	**166,156**

Funds - Analysis by Investment Code Policies



Breakdown of Trust Company Businesses by size



‘The Board monitored key risks during 2009 in compliance with the guidance, “Internal Control: Revised Guidance for Directors on the Combined Code”.’

FINANCIAL STATEMENTS

Under the provisions of Article 19 of the Financial Services Commission (Jersey) Law 1998, the Commission has historically paid an annual financial contribution to the States of Jersey Treasury. However, 2008 was the final year in which such a financial contribution was made, because under an amendment to this legislation that came into force with effect from 1 January 2009, a proportion of the companies annual return fee became payable to the States of Jersey in lieu of the previous annual financial contribution.

Fee income in 2009 was approximately £11.4 million compared to £15.3 million in 2008. To achieve a meaningful comparison between the two years, the 2008 income figure needs to be adjusted by the amount of the financial contribution paid to the States of Jersey. After taking this payment into account, the Commission's net fee income in that year was £10.9 million.

Bank deposit interest received in 2009 was £51,000, nearly half a million pounds less than in 2008, as a result of the decrease in interest rates during the year. The overall income available to the Commission to cover its costs was therefore c. £11.5 million in 2009, the same as in 2008.

The Commission's major item of expenditure is staff costs. The Commission has been increasing staff numbers to a level that is sufficient for it to be able to properly carry out its functions, and to be able to deal with the increasing scope of regulation. During 2009, ten additional staff were recruited, and the increase in staff costs included in the financial statements reflects this.

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

During the year, the Commission began to scale back the practice that it began in 2005 of employing external professional firms in order to maintain an appropriate level of on-site examinations of regulated businesses. It was able to do this as a direct consequence of the successful recruitment programme in 2009.

Expenditure on business travel and on staff training continued at a similar level to previous years. It is expected that travel, particularly to overseas regulatory authorities and to international standard-setting organisations, will become more frequent in the coming years due to the increasing importance of regular liaison and information exchange. The Commission also remains committed to staff development, education and training, so these costs are anticipated to rise in line with headcount.

The net amount spent on investigations during the year fell to £108,000 from £462,000 in 2008. The decrease arose mainly from the recovery during the year of a significant proportion of these costs from the regulated businesses that have been under investigation, and partly by the increased use of in-house staff to handle these cases rather than by the employment of external service professionals. During the year, the Commission has continued its efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Overall, the level of operating expenses increased from £10.7 million in 2008 to £11.3 million in 2009. The net result for the year was an operational surplus of £189,000 and a consequent rise in reserves to £5.9 million. The Commission's policy in respect of its accumulated reserve is to build up such a reserve equal to six months' operating expenditure plus the average of the last five years' cost of investigations and litigation, in order to meet contingencies.

The auditors, PKF (UK) LLP, who were appointed in accordance with Article 21 of the Financial Services Commission (Jersey) Law 1998, have indicated their willingness to continue in office.

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

The 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 Accounting Standards and applicable Jersey law. The financial statements are required to give a true and fair view of the state of affairs of the Commission and of the surplus or deficit of the Commission for that year. In preparing these financial statements the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the ongoing concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commissioners are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the financial statements comply with the Financial Services Commission (Jersey) Law 1998. 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
12 May 2010

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

We have audited the financial statements of the Jersey Financial Services Commission for the year ended 31 December 2009 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out herein.

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

Respective responsibilities of Commissioners and Auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with applicable Jersey law and United Kingdom Generally Accepted Accounting Standards, of the state of the Commission's affairs as at 31 December 2009 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Statutory auditors
Bristol
United Kingdom

12 May 2010

	Note	£000	2009 £000	£000	2008 £000
Income:					
Regulatory fees	4 (a)		9,008		9,026
Registry fees	1(g) & 4 (b)		2,437		6,283
Bank deposit interest received			51		541
Total income			11,496		15,850
Contribution to States of Jersey	1(g)		-		4,400
Net income			11,496		11,450
Operating expenses:					
Staff salaries, social security and pension contributions	5	8,260		7,338	
Operating lease expenditure		462		436	
Other premises costs		307		277	
Computer systems costs		566		468	
Legal and professional services		205		423	
Investigations and litigation	6	108		462	
Public relations costs		25		48	
Travel costs		187		180	
Staff training		237		250	
Recruitment costs		103		66	
Other operating expenses		253		241	
Auditors' remuneration		14		14	
Depreciation of tangible fixed assets	7	580		537	
Total operating expenses			11,307		10,740
Excess of income over expenditure			189		710
Accumulated reserve brought forward			5,697		4,987
Accumulated reserve carried forward			5,886		5,697

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

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

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

The notes on pages 54 to 58 form an integral part of these financial statements.

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed Assets:					
Tangible assets	7		1,121		1,186
Current Assets:					
Fee income receivable		14		1	
Sundry debtors		42		50	
Prepayments		255		260	
Cash at bank and in hand	8	8,925		8,450	
		9,236		8,761	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	3,963		3,863	
Creditors and provisions	9	508		387	
		4,471		4,250	
Net Current Assets			4,765		4,511
Total Assets less Current Liabilities			5,886		5,697
Represented by:					
Accumulated reserve			5,886		5,697

The notes on pages 54 to 58 form an integral part of these financial statements.

The financial statements on pages 51 to 58 were approved by the Board of Commissioners, and signed on their behalf on 12 May 2010 by:

C S Jones
Chairman

J A Richomme
Deputy Chairman

		2009		2008
	£000	£000	£000	£000
Reconciliation of net income to net cash inflow from operating activities				
Net income for the year		189		710
Interest received		(51)		(541)
Depreciation charges		580		537
(Increase) in debtors and prepayments		-		(39)
Increase in creditors		221		61
Net cash inflow from operating activities		939		728

Cash Flow Statement

		2009 £000		2008 £000
Net cash inflow from operating activities		939		728
Returns on investments and servicing of finance				
Interest received		51		541
Capital expenditure				
Payments to acquire tangible fixed assets		(515)		(552)
Increase in cash		475		717

Reconciliation of net cash flow to movement in net funds

		2009 £000		2008 £000
Increase in cash in the year		475		717
Net funds at 1 January		8,450		7,733
Net funds at 31 December		8,925		8,450

1. Accounting policies

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

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

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

c) Fixed assets are stated at cost less depreciation.
Depreciation on tangible fixed assets is calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives.
Computer equipment is depreciated over three years.
Computer software costs are written off as incurred to the Income and Expenditure Account, except for purchases in respect of major systems. In such cases, the costs are depreciated over three years.
Computer systems under construction are not depreciated. Depreciation is charged when a system has been completed and is in operation.
Office furniture, fittings and equipment are depreciated over five years.

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

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

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

g) The contribution to the States of Jersey in 2008 was shown as a deduction from total income in order to reflect clearly the amount available to fund the activities of the Commission. Amendments to the Financial Services Commission (Jersey) Law 1998 have removed the Commission's obligation to make such annual financial contributions from 2009 onwards. The contribution has been replaced by a share of the Registry income arising from companies' annual returns.

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

2. Related party transactions

Whilst there are transactions on an arms' length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions. However, Jacqueline Richomme is a Commissioner and also a partner of Mourant du Feu & Jeune. During the year, the Commission used Mourant du Feu & Jeune to provide certain professional services. Costs incurred were £139,000 (2008 - £293,000), of which £28,000 (2008 - £nil) remained to be paid at the balance sheet date. These services were contracted on an arms' length basis, and are not considered to be significant in the context of the business of the parties.

3. Taxation

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

4. Income

	2009	2008
	£000	£000
a) Regulatory fees		
Banking	1,325	1,365
Funds	3,413	3,246
Insurance companies	667	559
General insurance mediation	97	70
Investment business	1,221	1,137
Trust companies	2,275	2,299
Anti-money laundering unit	-	340
Money services business	10	10
	9,008	9,026

b) Registry fees

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

c) Regulatory fees received in advance	2009	2008
	£000	£000
Banking	1,464	1,366
Funds	1,547	1,608
Insurance companies	525	472
General insurance mediation	-	2
Investment business	425	382
Trust companies	2	33
	3,963	3,863

5. Staff salaries, social security and pension contributions

	2009	2008
	£000	£000
Staff salaries	6,959	6,165
Commissioners' fees	221	233
Social security payments	279	255
Pension contributions	558	467
Permanent health and medical insurance	149	138
Other staff-related costs	94	80
	8,260	7,338

The average number of staff employed during the year was 114 (2008 - 106).

6. Investigation and litigation costs

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

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

Costs incurred in 2009 amounted to £444,000 (2008 - £482,000), against which there were recoveries of £336,000 (2008 - £20,000). Net costs incurred during 2009 therefore amounted to £108,000 (2008 - £462,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	Computer Equipment	Computer Systems under construction	Total
	£000	£000	£000	£000
Cost of assets at 1 January 2009	488	1,898	-	2,386
Additions during year	72	378	65	515
Disposals during year	-	(3)	-	(3)
Cost at 31 December 2009	560	2,273	65	2,898
Depreciation at 1 January 2009	158	1,042	-	1,200
Charged during year	104	476	-	580
Eliminated on disposals	-	(3)	-	(3)
Depreciation at 31 December 2009	262	1,515	-	1,777
Net book value at 31 December 2009	298	758	65	1,121
Net book value at 31 December 2008	330	856	-	1,186

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

8. Financial instruments

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

9. Creditors and provisions

	2009	2008
	£000	£000
General expense creditors	228	86
Accruals	238	282
Provisions	42	19
	508	387

Accruals contain an amount of £182,000 (2008 - £198,000) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

10. Contingent liabilities

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

11. Financial commitments

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

	2009	2008
	£000	£000
The annual rentals payable under this operating lease are:		
For a period of more than five years	**490**	490

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

12. Commissioners' remuneration

		2009	2008
		£	£
Fees paid to Commissioners were as follows:			
Colin Powell	Chairman (retired 17 September 2009)	**33,552**	47,000
Clive Jones	(appointed Chairman 18 September 2009)	**26,997**	19,000
Jacqueline Richomme	Deputy Chairman	**25,000**	25,000
John Averty		**19,000**	19,000
John Boothman	(resigned 30 June 2009)	**9,500**	19,000
Michael Clapham	(retired 30 November 2008)	**n/a**	17,417
Alastair Clark	(appointed 20 January 2009, resigned 31 October 2009)	**22,556**	n/a
Scott Dobbie	(retired 30 November 2008)	**n/a**	26,583
John Harris		**nil**	nil
Deborah Lang	(appointed 30 November 2008)	**19,000**	1,583
John Mills	(appointed 23 October 2009)	**3,654**	n/a
Frederik Musch		**29,000**	29,000
Philip Taylor	(appointed 23 October 2009)	**3,654**	n/a
Sir Nigel Wicks		**29,000**	29,000

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 £266,000 for the year (2008 - £252,000) in his capacity as Director General.

13. Interest in wholly-owned companies

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

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

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

During 2009 the Commission incorporated JFSC Pension Trustees Limited to act as the corporate trustee of the Jersey Financial Services Commission Staff Pension Scheme. The company has no assets or liabilities and therefore has not been consolidated in the financial statements.

14. Pension costs

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

Salaries and emoluments include pension contributions for staff to this scheme amounting to £83,000 (2008 - £84,000). The Commission has adopted Financial Reporting Standard 17 "Retirement Benefits" (**"FRS17"**). Because the Commission is unable to readily identify its share of the underlying assets and liabilities of PECRS under FRS 17, contributions to the scheme have been accounted for as if they are contributions to a defined contribution scheme.

The contribution rate paid by the Commission during the year was 13.6% of salary, and this rate is expected to continue to be payable during 2010.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2007. The main purposes of the valuation are to review the operation of the scheme, to report on its financial condition, and to confirm the adequacy of the contributions to support the scheme benefits.

The conclusion of the latest published valuation is that there is a deficiency in the scheme assets at the valuation date of £63.2 million. Because the scheme is accounted for as if it is a defined contribution scheme, no account has been taken of the Commission's share of this deficiency.

In addition to this, as at the date of the valuation, there was also a debt due to the scheme from the States of Jersey that relates to the period pre-1987. The Commission settled its share of this liability during 2005.

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

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

Salaries and emoluments include pension contributions for staff to this scheme amounting to £475,000 (2008 - £383,000). The increase is due to rising staff numbers.

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

Introduction

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

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

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

Constitution of the Commission

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

Functions of the Commission

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

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

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

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

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

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

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

Constitution of the Board

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

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

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

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

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

(c) individuals representing the public interest.

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

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

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

When seeking to fill vacancies that arise, the Board follows the procedures recommended by the Jersey Appointment Commission - a body set up by the States of Jersey to overview all public sector appointments - adapted where necessary to fit the circumstances. A vacancy is advertised and once a suitable candidate is identified a recommendation is made to the Minister. Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States of Jersey. If the Minister is satisfied with the Commission's recommendation, the Minister will take an appropriate proposition to the States for debate.

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

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

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

Operation of the Board

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

During 2009 the Board of Commissioners met ten times. Attendance was as follows:

Colin Powell	6/7
Clive Jones	10/10
Jacqueline Richomme	10/10
John Harris	10/10
John Averty	9/10
John Boothman	5/5
Alastair Clark	7/8
Debbie Lang	10/10
John Mills	2/2
Frederik Musch	9/10
Philip Taylor	2/2
Sir Nigel Wicks	10/10

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

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

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

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

On an annual basis, the Board holds an Away Day which is also attended by the Director General and Divisional Directors, that provides an opportunity to discuss strategic issues for the year ahead.

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

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

The Board monitored key risks during 2009 in compliance with the guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Board maintains a Risk Management Schedule that identifies the risks faced by the Commission and the controls that are in place to keep each risk within an acceptable level. The Board reviews this Schedule at least once a year to ensure that it continues to reflect the perceived risks. Regular reports are submitted to the Board to enable it to ensure that appropriate controls remain in place.

The Commission's financial control processes have been in place throughout the year and have been kept under regular review.

During 2009, the Board identified the need to strengthen the Commission's internal audit function and, on 4 January 2010, the newly created post of Deputy Director, Internal Audit, was successfully filled.

Committees of the Board

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

Audit Committee

The key duties of the Audit Committee are:

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

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

The members of the Audit Committee during 2009 were John Averty (Chairman), John Boothman (until June 2009), Sir Nigel Wicks, and Philip Taylor (from November 2009).

The Audit Committee met three times during 2009.

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

Nomination Committee

The key duties of the Nomination Committee are:

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

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

The Nomination Committee met three times during 2009.

Colin Powell retired on 17 September 2009, having reached the maximum age for a Commissioner and having served as Chairman of the Board for ten years. Clive Jones was appointed as Chairman on 18 September 2009 to succeed him following an extensive formal recruitment exercise.

Having served one term of office, John Boothman retired on 30 June 2009. John Mills, CBE and Philip Taylor, FCA, were appointed to fill the two locally-based vacancies. Alastair Clark, CBE, who was appointed on 20 January decided to resign on 31 October 2009, in order to become senior advisor on financial sector and financial stability at Her Majesty's Treasury, thereby creating a vacancy for a UK-based Commissioner which has recently been filled by Lord Eatwell of Stratton St.Margaret.

The Chairman reported on the annual evaluation of the performance of the Board, its Committees, and individual Commissioners at the Nomination Committee meeting held in September 2009.

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

Remuneration Committee

The key duties of the Remuneration Committee are:

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

The members of the Remuneration Committee during 2009 were Jacqueline Richomme (Chairman), Colin Powell (until September 2009), Clive Jones, and Debbie Lang (from November 2009).

The Remuneration Committee met twice during 2009.

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

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

Accountability arrangements

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

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

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

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

NOTES

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