



› › Jersey Financial
Services Commission
› › Annual Report – 2017

- › **Delivering a first-class public service to both Industry and the Island**

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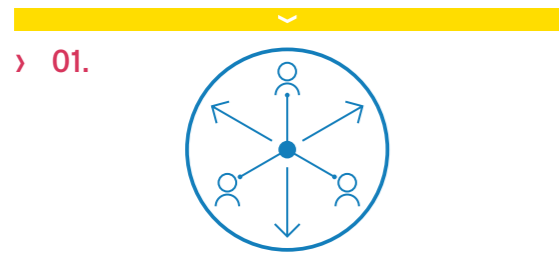
› Jersey Financial Services Commission

› Annual Report

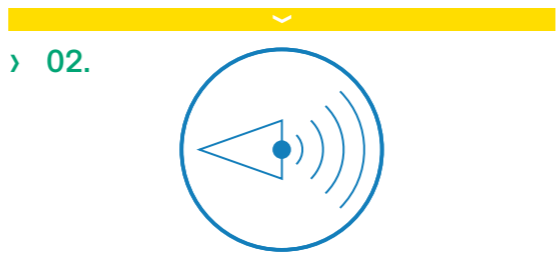
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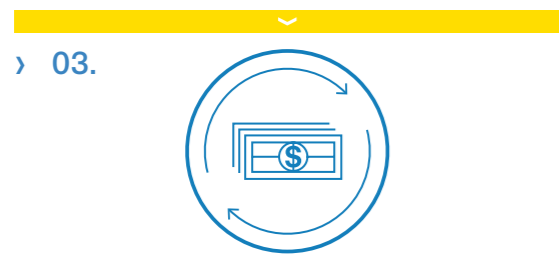
Highlights & Achievements 2017



› 01. Successfully delivered Central Register of Beneficial Ownership and Control on time and within budget. Our work was recognised with an international merit award from IACA (see page 40)



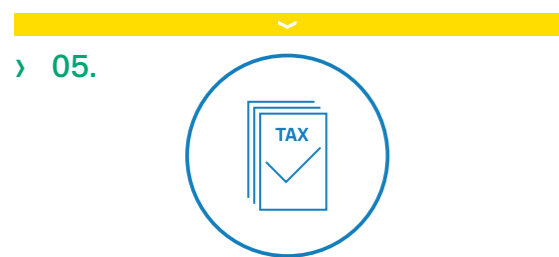
› 02. Launched inaugural public awareness campaign to highlight investment mis-selling in Jersey



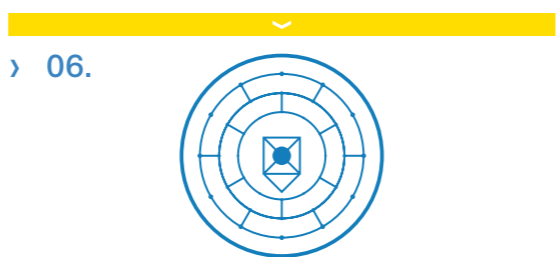
› 03. Co-hosted conference with Government of Jersey on combating terrorist financing with global expert speakers from the UN, Israel, France and UK



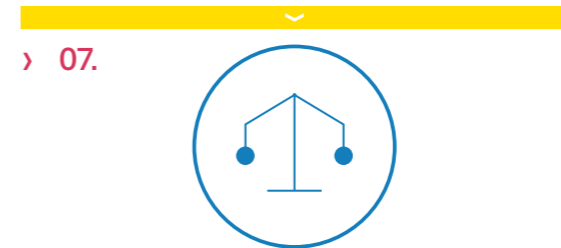
› 04. Annamaria Koerling appointed as Commissioner



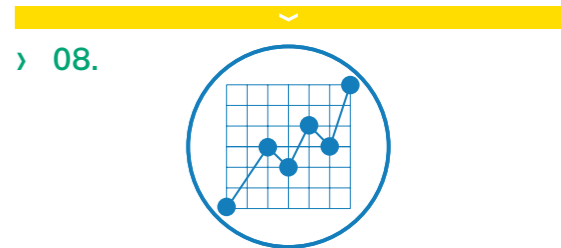
› 05. Contributed to OECD assessment which resulted in 'fully compliant' rating in tax transparency for Jersey



› 06. Hosted cyber-security masterclass for Industry leaders



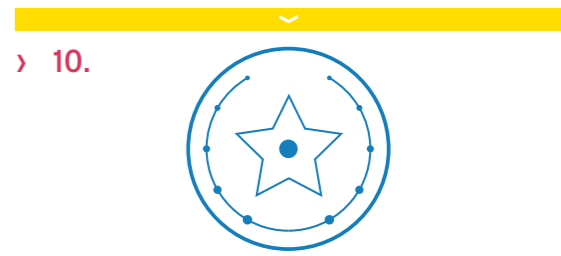
› 07. JFSC and other agencies work led to £3million in proceeds for Jersey's Criminal Offences Confiscation Fund



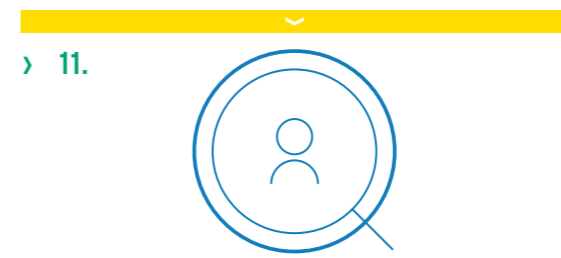
› 08. Launched new Jersey Private Fund to modernise Island's funds regime. 81 structures were authorised by the end of the year



› 09. Members of the Serious Fraud Office spoke at joint JFSC and Law Officers' conference on financial crime



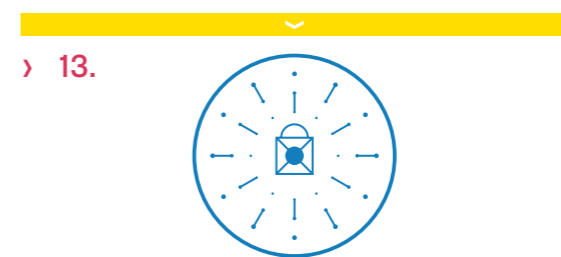
› 10. JFSC staff won CIPD award for corporate social responsibility initiatives and raised more than £11,000 for charitable causes



› 11. Held first in-house careers drop-in session at JFSC offices for prospective recruits to learn more about the organisation



› 12. Participated in IOSCO's first World Investor Week to educate and protect investors



› 13. Conducted and published results of first Industry cyber-security survey



› 14. Financial education programme reached 2,000+ Jersey secondary school students



› Jersey Financial Services Commission: Our role

What we do

The Jersey Financial Services Commission (JFSC) is the financial regulator for Jersey. We aim to deliver balanced, progressive, risk-based financial regulation for the Island, built on insight, integrity and expertise.

Our mission is to maintain Jersey's position as a leading international finance centre, with high regulatory standards, and to adhere to our guiding principles:

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

Our statutory responsibilities are set out in the Financial Services Commission (Jersey) Law 1998 (the Commission Law) and include:

- › Authorising, supervising, overseeing and developing financial services in Jersey
- › Enforcing the Commission Law
- › Reporting, advising, assisting and informing the Government of Jersey (Government) and public bodies
- › Developing policies
- › Operating the Companies Registry.

We aim to fulfil these responsibilities by:

- › Ensuring that all authorised financial services businesses and individuals meet the appropriate criteria and that we, as the regulator, match international standards of banking, securities, trust company business, and insurance regulation
- › Playing our role in combatting the financing of terrorism and financial crime as part of the wider international effort
- › Working closely with fellow regulators and law-makers to ensure access to efficient and effective markets for financial services
- › Reacting to and, where appropriate, anticipating changes in markets and the financial services industry (Industry) by developing policy and the way we supervise
- › Acting as an agile, thoughtful, proportionate and listening regulator that gives fair consideration to both the costs and benefits of regulation.

01.

Priorities for 2017

Our strategic priorities for 2017 centered around focusing regulation on the areas of greatest risk, interacting efficiently and effectively with Industry, facilitating market access, safeguarding the sustainability, efficiency and independence of the JFSC, and delivering our business-as-usual. Considerable progress was made throughout the year in these areas.

Performance against 2017 Business Plan Objectives

2017 Priority	Objective	Commentary
Central Register of Beneficial Ownership and Control	Achieved	Met UK Government deadline to deliver the enhanced register, including launching a new, secure interface to share sensitive information with international law and tax authorities on request
Supervision and Risk <i>Risk Model</i>	Partially achieved	Designed the new supervisory risk model and produced a clear set of business requirements. We will implement the new model in 2018 as part of our Change Programme
<i>Supervision IT Functionality</i>	Achieved	Delivered the first of a series of technological enhancements covering the examination process and using case management functionality in our Customer Relationship Management system
<i>JFSC Data Collection</i>	Achieved	Issued Consultation Paper 7 in August on JFSC data collection and published feedback in early 2018
<i>Competency Framework</i>	Partially achieved	Laid foundations to deliver the full framework in 2018 as part of our Change Programme, building on risk and core supervisory knowledge training
Cyber and information security	Achieved	Examined and provided feedback on Industry cyber-security measures through thematic supervisory process. Published results in September Enhanced our own internal protection environment with staff training and additional controls
National Risk Assessment	Partially achieved	Rescheduled data collection for 2018 and undertook consultation
MONEYVAL	Achieved	Completed 2017 objectives. Progressed plans to address recommendations from 2016 evaluation report and undertook internal work to prepare for 2018 consultation
Funds Regime Review	Partially achieved	Rationalised and consolidated private funds space with launch of Jersey Private Fund. Consultation on regulatory approach to public funds planned for 2018
Basel III	Achieved	Completed 2017 objectives. Continued work to effect local adoption of the international set of banking standards with final target implementation of 2018
MiFID II	Achieved	Completed 2017 objectives. Formulated a number of enhancements to the regulatory regime for investment business. Consultation planned for Q2 2018
Digital Channels	Partially achieved	Began initial planning for new website, undertook internal work for single external user account and new data services - Phase 1 of risk-based supervisory data collection planned for 2018
Organisational Readiness	Partially achieved	Introduced a more robust induction programme for new staff and started to develop formal leadership programme
Financial Education	Achieved	Undertook first public awareness campaign on investment mis-selling, expanded and developed further our secondary schools education programme

The Industry that we regulate

Jersey continues to be an attractive international finance centre thanks to its effective and proportionate regulation, its modern and respected legal system and flexible corporate law regime, its political and economic stability, and its independence and tax neutrality.

The key Industry sectors include:

Banking

Jersey's 28 banks attract clients from more than 200 countries and a sizeable share of the Island's total deposits are held in foreign currencies - a reflection of Jersey's international appeal as a banking centre. The sector is a sizeable employer and a significant contributor to the local economy.

- › Jersey's banking model is stable and diversified and the sector's average capital ratios remain strong and well above Basel III requirements
- › There has been a trend of decline in licence numbers. In part, this has been prompted by rationalisation due to the prolonged low interest rate environment and also by structural reform of the UK banking sector. However, this is now largely stemmed and the sector is well placed to benefit from any future interest rate increases
- › Re-structuring to comply with the UK's ring-fencing regime is well under way and will be finalised in 2018. These changes provide opportunities for banking businesses in Jersey to develop more profitable asset books
- › The JFSC's Banking Business Licensing Policy provides a workable and flexible framework for a wide variety of banks to operate within a strong regulatory framework.



01.

Trust and Company Business

Jersey was one of the first jurisdictions to regulate trust and company service providers, and the sector consequently reflects a maturity and breadth of firms ranging from trust businesses owned by the largest banks through to owner-managed businesses of many years standing.

At the end of 2017, Jersey was home to 180 regulated trust and company service providers, holding between them 843 trust company business licences.

Jersey also remains a key player on the international stage:

- › Jersey first introduced its own Trust Law in 1984 and leads the field in the continuing development of the principles of trusts globally
- › Jersey is an active contributor to the ongoing development of regulatory standards under a dedicated Working Party of the Group of International Finance Centre Supervisors (GIFCS).

Funds

Jersey has been a prominent player in delivering fund services since the 1960s, with the emphasis today on institutional, specialist and expert investors. Funds in Jersey may be established as companies, limited partnerships, limited liability partnerships or unit trusts, and can be open or closed-ended, providing significant flexibility for investor needs.

›

£291.1 billion

The total net asset value (NAV) of funds under administration in Jersey stands at £291.1 billion

›

1,104

Jersey has 1,104 regulated collective investment funds

›

NAV of £3,000,000,000

The Private Placement Fund regime was introduced in May 2013 and there are currently 57 Private Placement Funds with a reported collective NAV of £3 billion.

›

81 Approved

The JFSC introduced the Jersey Private Fund Guide in April 2017 to modernise the Island's private funds regime, amalgamating the Private Placement Fund, the COBO-only fund and the Very Private Fund. The Jersey Private Fund can be marketed to up to 50 professional investors and as at year end 81 funds had been approved.

Investment Business

At the end of 2017, 84 businesses were licensed to undertake investment business in Jersey, ranging from small owner-managed firms to branches and subsidiaries of large multinational financial services groups. Services provided by those businesses to both local and international clients included discretionary investment management, investment advice and other services.

In 2017 we saw a slight increase in the number of clients of discretionary investment managers from 14,030 with £20.6 billion of assets under management to 14,172 clients with £22.2 billion. The number of Qualifying Segregated Managed Accounts increased from 16 to 22 in the same period, however the assets under management dropped from £1.9 billion to £1.6 billion.

We granted seven new investment business licences during 2017 and we continue to receive enquiries from potential new applicants.

Capital Markets

Jersey is considered to be a jurisdiction of choice for corporate entities seeking to list. The Island has been attracting deposits and investments from institutions and private clients across the world for more than 50 years.

Having developed specialist expertise, Jersey supports cross-border capital markets transactions structured by the world's leading investment banks and professional services firms.

›

£323.42 billion

↑ £220 billion ↑

Jersey listed companies on global exchanges held a total combined market capitalisation of £323.42 billion (compared to £220 billion in 2016)

›

89

Jersey has 89 companies listed on global stock exchanges from the LSE to the NASDAQ

›

FTSE100

Jersey still has the greatest number of FTSE 100 companies registered outside the UK

02.

› Vision from the top:
Chairman's statement



› Vision from the top: Chairman's statement

The activities described in this Annual Report amount, at one and the same time, to a culmination and a preparation.

The culmination is the near completion of our Change Programme. This has already and will continue to transform the way we work within the JFSC and how we relate to Industry. Building the digital infrastructure required has involved a substantial investment of time and money and we are already beginning to enjoy some of the benefits. The shift to entity risk-based supervision is resulting in a better informed supervisory process and the new digital portal is now saving time and money, whilst accommodating an enhanced information flow to and from Industry. But as every Chief Operating Officer knows, these days digital investment never stops. We have moved the JFSC's operations onto an entirely new trajectory - sustaining and updating are now the challenge.

The preparation involves building the capability to handle what we believe will be a period of significant and even disruptive change in Industry.

Top of the list will be the impact of whatever deal the UK reaches with the EU, as Jersey will inevitably be caught up in the backwash (we have seen already the postponement of Jersey's assessment for Alternative Investment Fund Managers Directive (AIFMD) equivalence). At the JFSC we have worked hard over the past year to enhance our already good relationships with regulatory authorities in EU member states in the hope of mitigating any adverse circumstances. We will also be liaising with the UK Financial Conduct Authority (FCA) in their 'Brexit preparation programme'. The FCA is, like all of us, still in the dark as to the likely outcome, but the UK regulator has launched a very comprehensive options study from which we hope to benefit.

We have also been preparing to deal with other political waves. The outstanding work done by the Registry team and Industry, to ensure that our updated Central Register of Beneficial Ownership and Control was completed to the deadline agreed with the UK government, has placed Jersey in a

strong position in an ongoing political debate. Much will depend on the outcome of the review of the UK's own Companies House Register, currently being undertaken by the Financial Action Task Force - the intergovernmental organisation founded on the initiative of the G7 to develop policies to combat money laundering and terrorism financing.

Preparing to deal with the impact of technological change on Industry is another focus of our Change Programme investment. As we all know the impact is both bad (cyber-crime) and potentially good (the development of Fintech).

As an organisation, we are investing heavily to combat cyber-crime. But, as with the fight against terrorism, we have to be successful all the time, whilst the criminal only needs to be successful once. Recent events, such as the Paradise Papers with which we are all familiar, have demonstrated that data loss can be the source of serious reputational damage. Serious incidents in Jersey pose a risk to the reputation of Industry as a whole. We and Industry must work together to prevent cyber-crime and secure Jersey's data and reputation.

On a more positive note, whilst it is very difficult to predict what Industry will look like in five to ten years' time, with the innovations in processes and products that Fintech will bring, there will be opportunities for the Island. Once again, regulator and Industry will need to work together to exploit these. What is predictable from the JFSC's point of view is that the regulatory environment will need to change, and change rapidly, to facilitate beneficial innovation. We will become inevitably a digital regulator. So whilst our investment in the Change Programme has been an important step down the digital road, it is the beginning not the end.

This Annual Report describes the progress made by the JFSC over the past year. The main lesson is that Industry and the regulator must work together with the Government of Jersey to build a financial services environment that is flexible and forward-looking. We have to. In the most competitive of markets that is what is necessary in order to survive. I believe that we are heading in the right direction and I must thank Government and especially Industry for this progress. It is not always easy engaging with the regulator, particularly with the increasing regulatory requirement we place upon local businesses. I ask Industry regularly to communicate with us and I am delighted that this interaction is increasing in frequency and positivity.

On the theme of working together, once again I thank the Commissioners for their time and dedication to the JFSC over the past twelve months, during what has been another challenging but successful year. They have been a great support to me in my position as Chairman, in particular Deputy Chairman Debbie Prosser who continues to provide invaluable advice, as does Commission Secretary Lizzy Roe who I must acknowledge for her exemplary assistance in co-ordinating Board activities. In 2017 we welcomed Commissioner Annamaria Koerling to the Board, following the retirement of Commissioner Stephan Wilcke. With further Commissioners reaching the end of their tenures imminently, succession planning continues to be very much at the forefront of our minds. Therefore we will be recruiting again in 2018.

My thanks also go to the Director General and all the staff at the JFSC for their continued efforts and commitment. None of the enhancements we are making to the way we operate or our other significant achievements would be possible without the teamwork, expertise and pride they display in delivering a first-class public service to both Industry and the Island.

John Eatwell
Chairman

Working with Industry and Government to build a financial services environment that is flexible and forward-looking

03.

› **Delivering against
our objectives:
Director General's
Statement**



› Delivering against our objectives: Director General's Statement

Regulatory engagement has been a central focus for the JFSC in recent times and in 2017 we made substantial progress in becoming a more interactive and engaged regulator. We have developed this engagement both at home and abroad, working closely with overseas authorities, international standard setters, regulator and registry counterparts, and interacting locally with Industry, Government, other Island agencies and of course the people of Jersey. To do our job and achieve the regulatory goals laid down for us in statute, we have to achieve high level and constructive interaction with those stakeholders who have a bearing on our current and future success.

Five years ago, we set ourselves the goal of being an agile regulator, responsive to the ever-changing financial services markets, and to being a listening regulator, working with Industry to build an efficient regulatory system. Our Change Programme, now in its third year, has focused on those objectives and central to its success is the consistent and greater Industry engagement that has been made possible thanks to our new digital information systems and revised supervisory structure.

Our Supervision and Operations teams worked incredibly hard in 2017 to implement what were undeniably demanding changes, from both technical and personnel perspectives. This work is ongoing and so is the burden for staff, particularly with the restructuring that was naturally unsettling for all. I wish to commend my colleagues in Supervision for successfully adopting this new methodology – in my mind their exemplary efforts to implement this proportionate approach to regulation will reap long-term benefits, bringing value for money and better outcomes for Industry.

Once fully implemented, the shift to focusing on the entity rather than individual licences will enhance interaction between supervisors and firms, as will the flow of reciprocal information through our digital portal. These are significant advancements on our side to make it easier for firms to interact with us.

But our engagement with Industry will only be successful if it is a two-way process; we need Industry's observations and ideas to help us to continue to improve our service to regulated entities. In particular we look forward to receiving feedback on our new supervisory systems and structure once they are fully embedded in 2018. Industry reaction is vital – we are all in this together.

Engagement is not always comfortable. On occasion, we need to take enforcement action to ensure that regulatory codes are adhered to. But we are proud that well over 90% of cases result in agreed remediation. Moreover, our approach to settlement, adopted over the past few years, is intended to make sure that any differences between the regulator and regulated entities are dealt with effectively.

With our increasingly proactive approach to thematic reviews and onsite examinations we envisage not just addressing any key risk areas but also agreeing early corrective action with firms.

Each year we endeavour to host events of particular interest and benefit for Industry participants. During the year we delivered a cyber-security masterclass for local Industry leaders; co-hosted a conference with Government on combating terrorist financing with presentations from global experts from Israel, France and the UN; and invited directors from the Serious Fraud Office to speak at a joint event with the Law Officers' Department.

Working together with Government and the Law Officers' Department in this collaborative way was a current theme throughout 2017. Three areas where this was particularly relevant were assisting with the Island's response to EU Code of Conduct matters; working with Government Departments and Law Officers to achieve Jersey's 'fully compliant' rating in tax transparency from the Organisation for Economic Cooperation and Development (OECD); and undertaking with Government the preliminary work on the National Risk Assessment.

There is no doubt in my mind that our engagement with the media, on a local, national and international level, has significantly progressed in recent years. There are inevitably times when this interaction can be less than comfortable, as in the case of the Paradise Papers in late 2017, but we know that keeping open and transparent lines of communication with the various agencies is paramount for the reputation of the organisation and the Island.

As everyone is well aware, many of the decisions that will affect Jersey's future are made outside of the Island. A concern for us all must be the terms on which the UK leaves the European Union. Whilst Jersey has never been a member of the EU, we have sought to engage with EU members, both individually via Memoranda of Understanding with national regulators and collectively through the various EU-wide regulatory organisations. Nonetheless, the Island is caught up in the slip-stream of the UK negotiations. Not least because the EU is re-thinking its financial relationships with third countries, now that a very large third country will be sitting right on its doorstep from next March. At the time of writing, it is impossible to say exactly what will be the outcome of the negotiations between the UK and the EU, but we will continue to build on the already good relationships we have with EU regulators in order to mitigate any harmful outcomes.

We see interaction with overseas counterparts and other agencies as a crucial component of our engagement strategy, the most important being the UK government and regulatory institutions. 2017 saw increased interfacing with the former to enhance the Island's Central Register of Beneficial Ownership and Control, and I am

particularly proud that we met all our obligations in this regard – and on time. Over the past few years, our relationship with the FCA has also been significantly strengthened, most recently through their invitation for our staff to participate in training programmes and related activities. We will continue to engage closely with the UK authorities to build confidence in the stability and probity of the financial services industry in Jersey.

Our regulatory relationship building also continued with the signing of the Multilateral Memoranda of Understanding with the GIFCS – a long-established group of financial services supervisors with a core interest in promoting the adoption of international regulatory standards, especially in banking, fiduciary and Anti-Money Laundering /Countering the financing of terrorism (AML/CFT). In 2017 Jersey was the first jurisdiction to be assessed against these standards and the review findings will be published in early 2019. We have a prominent role within the GIFCS, providing secretariat services, and during the year this involved organising the two plenary meetings in London and Bermuda.

Overseas visits which stand out from 2017 were presenting to Tracfin in Paris on trust regulation (as we were the first overseas jurisdiction to visit the French intelligence agency) and accompanying Jersey's Attorney General to Washington to meet with US authorities following international collaboration on a criminal case. That case, after many years of hard work, led to confiscated assets of circa £6 million being shared between the two jurisdictions and a clear message that Jersey is no hiding place for the proceeds of crime.

One of our core responsibilities as a regulator is to protect the public from financial loss. We take financial education seriously and have a number of initiatives that we continue to develop locally. We do not promote this work enough so I want to take this opportunity to commend our Policy team for the successful and ongoing roll-out of our comprehensive outreach programme for local secondary schools. During the year our 'teachers' reached more than 2,000 students, educating them about finance and financial crime, a commendable element of our corporate social responsibility activities which are set to grow further in the coming years.

In January we ramped up our consumer activities with an Island-wide public awareness campaign to highlight the growing issue of investment mis-selling. This was the first time that we had ever embarked on such an initiative and we were incredibly pleased with the results, particularly the response from Islanders but also the support we received from Government and the local community of independent financial advisers. We partnered with the Personal Finance Society for the campaign and this has led to an ongoing relationship with the UK professional body and further initiatives planned for 2018.

03.

As a jurisdiction, we are proud to have mounted this initial effort, which saw us leading the way internationally with our consumer awareness initiatives and we intend to remain at the forefront of this activity. This is destined to be a permanent feature for us, especially given the increasing expectation for regulators globally to undertake such work. The two week campaign had significant reach in Jersey and, following its success, we have presented our work to fellow regulators, law enforcement, international bodies and other overseas agencies including the FCA, the Isle of Man, Financial Crime Information Network (FIN-NET), GIFCS and IOSCO (International Organization of Securities Commissions).

An active member of IOSCO's Committee 8, which is committed to investor protection through education and financial literacy, we were one of more than 70 jurisdictions globally to take part in the organisation's first World Investor Week in October, flying the financial education flag in the Island. Our campaign involved media interviews, a public talk at our offices for Islanders to learn more about finance, competitions for young children, and a comprehensive social media strategy.

Our engagement with the public using our digital platforms saw very positive results in 2017. We used Facebook, Twitter and LinkedIn extensively to publicise our consumer awareness messages, to communicate warnings instantly about frauds and scams, to promote our latest news events, to recruit talented individuals, and to share the work our employees do for the community.

As I look back on yet another pivotal and productive year for the JFSC, I am reminded that the great progress we have made must be attributed to our people. It is their hard work, dedication, and commitment that drives the organisation and ensures that we realise our objectives. Their enthusiasm and engagement is evident across the many varied activities that we undertake, both locally and overseas, and I am exceptionally proud of the team and the work that we do.

I take this opportunity to thank the Chairman and the Commissioners for their invaluable insight and wise counsel, my fellow directors for their continued support, and every member of the JFSC community for their significant and invaluable contributions to the organisation and the Island.

John Harris
Director General

“Hard work, dedication and commitment drive the organisation and ensure we realise our objectives”



03.



“Leading the way internationally with our consumer awareness activities”



04.

Principal Risks & Uncertainties



Principal Risks & Uncertainties

In 2017 we continued to develop further our Enterprise Risk Management framework. This framework covers the risks and uncertainties that we face from a number of directions - from complex global political and economic issues to the local risks presented by regulated firms and our own JFSC operations.

This section of the Annual Report focuses on identifying those key risks whereas the subsequent pages dedicated to our Supervision activities outline how we manage them (see p33).

Through a robust assessment, our Board of Commissioners, in partnership with key stakeholders and our own internal Risk Unit, identified what we currently consider to be our principal risks.

Loss of data/cyber-security

In 2016, the loss of data from cyber-attacks was at the forefront of our efforts to manage risk, in particular the fallout from the Panama Papers. This threat has far from receded and in 2017 we faced the next instalment with the Paradise Papers. Once again this was a targeted attack on the Island's financial services sector and fellow offshore centres which resulted in negative international media coverage, although shortlived.

In 2017 we also saw the impacts of the WannaCry attack on the NHS and the global spread of the NotPetya ransomware attack, which started in the Ukraine but quickly spread around the world, causing an estimated \$1.2 billion of damage. Both attacks prompted us to issue guidance to Industry around cyber-security.

In response to this growing threat, during the year we continued our efforts to proactively manage and mitigate the risk to our own operations and also looked at the control frameworks Industry had in place. While we do not explicitly regulate local firms' cyber-security practices, we do monitor how companies are assessing and reducing the risks to their business and we expect them to notify us if a cyber incident has taken place.

Our cyber-security survey, conducted in mid-2017, gave Island firms the opportunity to examine their own controls and we highlighted some of the key areas for improvement in our feedback paper, issued in September. Overall the findings were

mainly positive and indicated a reasonably high level of cyber-security maturity, albeit developing.

We demonstrated our commitment to highlighting the critical importance of cyber-security to local firms by hosting a masterclass in March, in partnership with the Security Awareness Special Interest Group (SASIG). We brought a number of global cyber-security experts to the Island to speak to Industry leaders about the threats and how to better protect their firms. We have since worked with the SASIG to develop our own in-house cyber-security training programme for staff.

From our own perspective, we have been, and will continue to remain, vigilant about the amount and sensitivity of the data we hold. Ongoing exercises and commitments such as data collection for the Central Register of Beneficial Ownership and Control and the National Risk Assessment in 2018 ensure that we prioritise this risk.

Although the security of data has always been of paramount concern for the JFSC, in 2017 we started work in readiness for the introduction of the General Data Protection Regulations (GDPR) which sees a significant increase in the penalties associated with failing to protect personal data. We appointed a Data Protection Officer and began a review of all our policies and procedures for handling information in anticipation of the new GDPR regulations which came into force in May 2018.

Transparency and the external view of International Finance Centres

In 2017 we saw the international focus on the transparency of international finance centres continue, in particular following the release of the Paradise Papers. Jersey continued to counter these negative perceptions and, as mentioned in the Director General's statement, in November the Island was given a 'fully compliant' rating by the OECD's Global Forum on Transparency and Exchange of Information on Tax Matters.

Working with Government, we continue to contribute in this arena, playing an important role in demonstrating that Jersey is a well-regulated jurisdiction that complies with international standards.

Our commitment to the transparency agenda was recognised in May 2017 when we won a prestigious international award for implementing the secure channel to exchange highly sensitive information and intelligence with law enforcement and tax authorities in the UK. And, as mentioned elsewhere in this Annual Report, the Island met its international obligations on transparency by our Companies Registry collecting the extensive data required for beneficial owners and controllers and meeting the UK Government's requirements.

The UK leaving the EU

The uncertainty surrounding the UK's exit from the EU continued through 2017. Following the triggering of Article 50, and as negotiations progressed and major issues around border controls, trade and immigration were discussed, there was a danger that Jersey's interests could be overlooked.

In March 2017 the House of Lords EU Committee called on the UK government to remember its responsibilities to the Crown Dependencies, ensuring that they are fully engaged in Brexit negotiations.

Jersey has maintained a consistent line that it is not looking to change the relationship with the EU, but the risk remains that the loss of the UK as a liberal EU member state may have implications for the perceptions of Jersey as an international finance centre among the remaining EU members.

Regulator and Industry working together to prevent cyber-crime and secure Jersey's data and reputation

04.



Consumer protection

Consumer protection has always been a key feature of our work and in 2017 we took a number of actions to address the risks to consumers of financial services.

Other than for bank deposits, Jersey does not have a financial services compensation scheme, and ensuring that Industry has adequate Professional Indemnity Insurance (PII) cover to protect clients was a key focus. A number of supervisory cases raised concerns over the adequacy of PII cover and in April our Supervision team reviewed a cross-section of policies from the Investment, Fund Services, Trust Company and General Insurance Mediation Business sectors. Following the review, we identified some concerns and published additional guidance to help firms understand the need to provide adequate cover.

In January, as already mentioned in the Chairman and Director General's statements, we launched a major public awareness campaign to highlight the growing issue of investment mis-selling.

It followed a number of cases where local investors had lost some or all of their life savings through high risk investments. In a low-interest economic environment, investors seeking higher returns were increasingly at risk. The campaign included television, radio, social media and press coverage, advertising and a dedicated website.

During the year we continued to progress all our consumer engagement activities with the primary aim of educating all Island demographics about making more informed financial decisions and protecting themselves from falling victim to financial crime. Other highlights included our community work as a leading member of the Jersey Fraud Prevention Forum, our social media warnings to the public about frauds and scams, and our secondary school education programme. We also issued warnings to the public on Initial Coin Offerings following international concerns surrounding the risk of financial loss to the investing public.

Increasing litigation costs

2017 saw a marked increase in the cost of litigation in respect of our enforcement action. The issues under investigation are growing in complexity, are being harder fought, and potentially involve novel issues that need to be tested before the Courts. All of this exposes the organisation to spiralling costs. As a relatively small regulator, these rising litigation overheads are a concern for us and we have to make difficult risk-based decisions around which cases to pursue and how far they will be taken.

Reliance on key JFSC personnel

Recruiting and retaining staff is challenging for any organisation but, as a financial regulator in a small jurisdiction, we face the more specific issue of requiring a particularly niche and specialist workforce. Sourcing these relevant skills can be difficult and in-house training and development is critical to bolstering existing expertise and corporate knowledge. Ensuring we proactively mitigate the risk of losing unique skillsets is a key focus for the organisation and we have retention strategies in place to lessen the potential impact of high turnover.



05.

› Summary of Activities





Policy

Our policy work is primarily split between two teams: the Financial Crime Policy team which focuses specifically on AML/CFT and Sanctions matters and the Policy team which covers other areas. Both teams work closely with our Supervision teams.

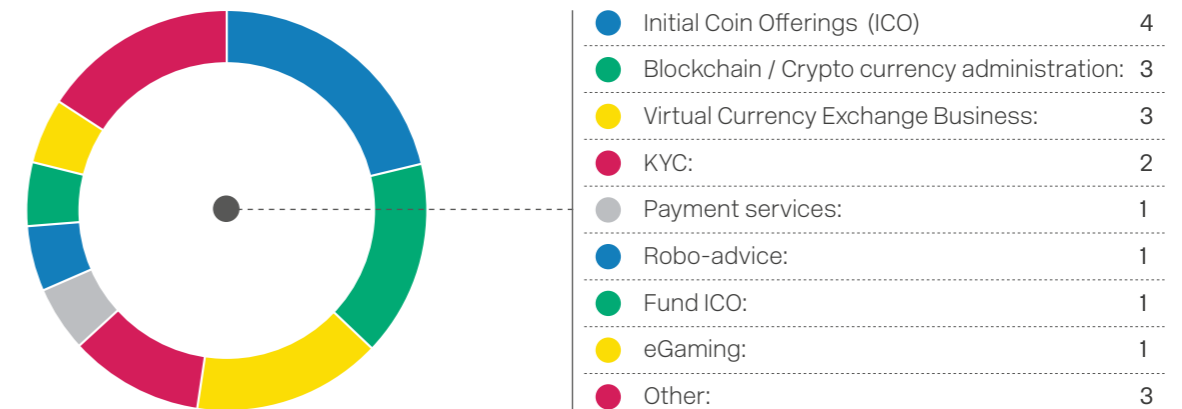
Developing proportionate policy responses to changes in international regulatory standards is one of the key responsibilities for the teams. In fulfilling this responsibility, both engage extensively with our stakeholders, including Government, Industry, overseas agencies, standard setting bodies and financial services regulators across the world.

Other policy responsibilities include acting as a knowledge resource for fellow JFSC staff and leading other one-off significant pieces of work such as evaluations by external standard setters.

Stakeholder engagement formed a major part of our policy work in 2017 as we continued to build on significant areas of work. Working closely with colleagues in other JFSC divisions and external agencies, we realised significant policy achievements including:

- › Supporting Supervision in identifying Industry data for risk-based supervision and working with Government on the data requirements for the Island's National Risk Assessment
- › Continuing to progress local adoption of Basel III standards through completion of a consultation and feedback exercise on revised liquidity management requirements. Working on implementing the revised capital quality for banks in order to meet the Basel Committee's deadline on these areas by 1 January 2019
- › Rationalising and consolidating Jersey's private funds space with the launch of the Jersey Private Fund in April 2017, achieved by working closely with Government and Industry.
- › Commencing, in partnership with Government, the modernisation of the Control of Borrowing legislation
- › Publishing additional guidance for the application of AML/CFT requirements to Funds and Fund Operators
- › Formulating enhancements to the investment business regulatory regime through engagement with Government, Industry and other stakeholders. This followed the 2016 consultation, related JFSC feedback paper, and a number of working group meetings on the potential implementation of MiFID II
- › Publishing the JFSC's amended outsourcing policy
- › Expanding significantly the JFSC's financial education outreach, including participating in the first IOSCO World Investor Week and developing our student programme which in 2017 covered two thirds of the Island's secondary schools
- › Managing enquiries and requests for support from businesses and individuals looking to launch or utilise Fintech products or services

Fintech enquiries/ requests for support



Other key areas of work

We also progressed a number of other important policy areas during 2017 such as:

- › Amending legislation to maintain market access to the EU's Single Euro Payments Area
- › Receiving recognition from the Swiss Federal Audit Oversight Authority regarding the auditor oversight system of Jersey as equivalent, following EU recognition in 2016
- › Delivering a consultation and feedback paper in respect of annual maintenance amendments to Codes of Practice
- › Attending Government meetings with both HM Treasury Department of International Trade and the Foreign and Commonwealth Office in relation to the UK leaving the EU
- › Attending Channel Islands Brussels Office meetings with EU Commission staff and EU member states regarding EU equivalence, Capital Markets Union and AIFMD
- › Performing, in conjunction with other members of the Jersey Financial Crimes Strategy Group, a gap analysis of the AML/CFT regime against the Financial Action Task Force 2012 Recommendations and 2013 Methodology
- › Coordinating the Island's assessment of compliance with the GIFCS Standard on the Regulation of Trust and Company Service Providers, a recently implemented peer review process of GIFCS
- › Signing a Memorandum of Understanding with the Jersey Gambling Commission and the Multilateral Memorandum of Understanding with the GIFCS
- › Developing further our outreach programme for AML/CFT with more than 1,000 Industry participants attending our events during the year.

05.1



A proportionate approach to regulation will reap long-term benefits, bringing value for money and better outcomes for Industry



› Supervision

Our core responsibility as a regulator is to supervise firms by establishing how they comply with the relevant regulatory standards. As we communicated in 2016, we have adopted a risk-based approach to supervision to make sure that we are deploying our resources to the firms that pose the greatest potential risk to our guiding principles (see page 03).

Our approach to risk-based supervision focuses on impact risk - those risks that have a direct and negative impact, causing harm, and are the result of an individual or set of actions/omissions by a firm. We consider the firm's strategy, business model and structure, together with other inherent risk factors. To identify and assess risk, we operate a combination of on-site visits, desk-based reviews, business review meetings, business risk assessments and 'fit and proper' evaluations of regulated persons.

Throughout 2017 we laid the foundations to move towards this more risk-based approach to supervision. This involved transitioning to new systems, incorporating the risk model, and embarking on a restructure of the division, all of which were understandably disruptive and burdensome for our supervisory teams, but conducted with absolute professionalism and the sole aim of providing a better and more cost-effective service for Industry.

As with many organisations, we had a number of old legacy systems that were reaching the end of their lifespan; they were expensive to maintain and did not have the flexibility required to provide a modern and adaptable platform to serve the needs of our Supervision division. To improve interactions between us and the regulated community, we replaced some of these legacy systems with a new Customer Relationship Management (CRM) system. While this replacement does not seem an obvious and externally visible change, implementing CRM is often considered to be the most difficult phase of any organisation's Change Programme. Its successful implementation is a significant step forward for us and will enable more evident change for Industry in 2018 and beyond.

Running alongside the CRM project, we undertook an intensive exercise to determine what additional system development we needed for the structured recording of activities. This will give us, regulated firms, and international standard setters insight into Jersey's finance sector, providing evidence that the Island is a well-regulated and safe jurisdiction.

As part of the move to risk-based supervision, we drew up supervisory plans for three categories of supervision - enhanced, proactive and reactive - and these were communicated transparently to each entity. We subsequently undertook an increased number of face-to-face meetings and interactions with those we regulate, leading to more focused and better informed supervision.

In 2017 three new units became fully operational: the Supervision Examination Unit, the Central Support Unit and the Supervisory Risk Unit. Establishing these teams was essential to achieving efficiencies and demonstrating further compliance with international standards, where the emphasis is on proving that our regulatory framework works in practice.

Aligned with the need to demonstrate our ongoing effectiveness and to ensure future supervisory capacity and capability, we introduced a 'grow your own' talent policy in 2017 with a comprehensive learning and development framework for all Supervision staff. This was in addition to recruiting a number of Trainee Supervisors.

Desk-based reviews enable us to assess key risks across Industry and more specifically within particular sectors. Such reviews are particularly beneficial for assessing areas of concern. We undertook two desk-based themed reviews in 2017 - cyber-security and PII. We published the findings of both reviews in September and December respectively and further follow-up work is planned for 2018.

Key visit findings

Responsible for coordinating and delivering our on-site examination programme, the Supervision Examination Unit in its first full year of operation focused on themed examinations. In particular the team looked at enhanced and simplified due diligence across the Fund Services Business, Trust Company Business and Designated Non-Financial Business and Professions sectors, as well as the suitability of investments across the Investment Business sector.

The unit also carried out entity risk and event driven examinations, which allowed for a more targeted approach with particular entities. As well as delivering the above and learning from early experiences, the team evolved and refined its examination process and issued an Examination Guide to help firms.

We published detailed feedback papers on our themed examinations and below are some of the key areas where further improvement is required:

Investment Business

› We once again found customer fact finds and suitability letters did not clearly document all the advice or recommendations being provided. Both documents are key for evidencing the suitability of investments for clients. In addition, we found fees and charges were not always transparent and consequently the investor had to work out any associated costs. Systems and

controls for recognising and handling vulnerable clients (those requiring additional care, assistance or support) were not always in place. There were also failures to record changes in client circumstances, which again could impact the suitability of any current investment product or services provided by the firm.

Banking

› We found group influence led to instances where group policies and procedures, followed by the Jersey branch or locally incorporated banks, did not fully reflect all relevant Jersey regulatory requirements. There were continued instances of a failure to recognise local AML/CFT requirements when identifying a politically exposed person. Consequently related client due diligence and ongoing monitoring were considered to be

insufficient. It was surprising to note that on numerous occasions the differences between source of funds and source of wealth were not always fully understood, which in turn led to generic references for both being recorded. Further findings related to account operation (trigger events and red flag indicators) and the control environment.

05.2



Trust Company Business and Fund Services Business

› We noted a number of failings relating to AML/CFT control weaknesses, for example failing to maintain up-to-date policies and procedures for identifying and scrutinising business relationships with persons, countries or territories subject to financial sanctions. With regard to business risk assessments, businesses continued to insufficiently reflect the risks relevant to their business model and operations, or the considerations were too high level in nature to be fully effective. The absence of formalised compliance monitoring programmes and effective board oversight of the compliance function were again repeat findings and did not appear to be receiving sufficient priority. Further results related to conflicts of interest (non-identification or appropriate handling) and record keeping.

We were disappointed that some of the above are repeat findings which we identified and addressed in previous publications such as our Thematic Feedback Papers, Guidance Notes and Annual Reports.

It would, however, be remiss not to mention the good practice that we saw in our thematic exercises and we shared these with Industry in our feedback papers. For example, when we conducted themed examinations on the suitability

of investments, we noted that some firms set up committees to review investments for consistency quality and suitability, they sent clients clear, concise and balanced letters explaining their investments, and staff attended regular meetings to discuss good practice and suitable advice.

When we reviewed practices for dealing with vulnerable clients, we were pleased to see that some firms had internal policies and procedures in place to identify and treat these clients accordingly. And we highlighted areas of good practice in our PII thematic study including Boards taking responsibility for the appropriate levels of cover for firms.

Our cyber-security survey equally revealed some positive findings about the control frameworks firms have in place, for example two thirds of those surveyed had a documented risk assessment process and expected to increase spending on cyber-security in the coming years, 80% reviewed their policy at least once a year, and on average three quarters of employees at surveyed firms received cyber awareness training.

Other activities

› During the year we continued to engage and maintain close links with key external stakeholders including meeting with trade bodies, providing speakers for a variety of Industry events, responding to regulatory requests and working with law enforcement agencies. We also continued to build strong relationships with overseas regulators.

We saw a number of new entrants and products enter the Funds sector and several large public alternative asset funds were launched in 2017, seeing net assets under management rise to a five year high by the end of year.

We worked closely with Jersey's banking sector and, as a result of UK ring fencing, oversaw changes to some banking business models. We also progressed our development of banking policy in respect of the Basel III liquidity requirements.

Our supervisory approach towards Trust Company Business was assessed in October 2017 by the GIFCS against its set of international standards and the report is expected to be published no later than early 2019.



› Enforcement

Enforcement is responsible for conducting investigations into serious or serial regulatory breaches, dealing with cases of unauthorised financial services business (including ‘policing the perimeter’ enquiries), and responding to formal requests for assistance from overseas, relevant supervisory authorities.

As a division, we often act in conjunction with our Supervision colleagues, with the primary aim of working constructively with regulated businesses and individuals to seek remediation as our first port of call, rather than action.

We also manage the JFSC’s intelligence function, receiving, collating and disseminating intelligence to ensure that we focus our resources on those entities and individuals considered to pose the greatest risk.

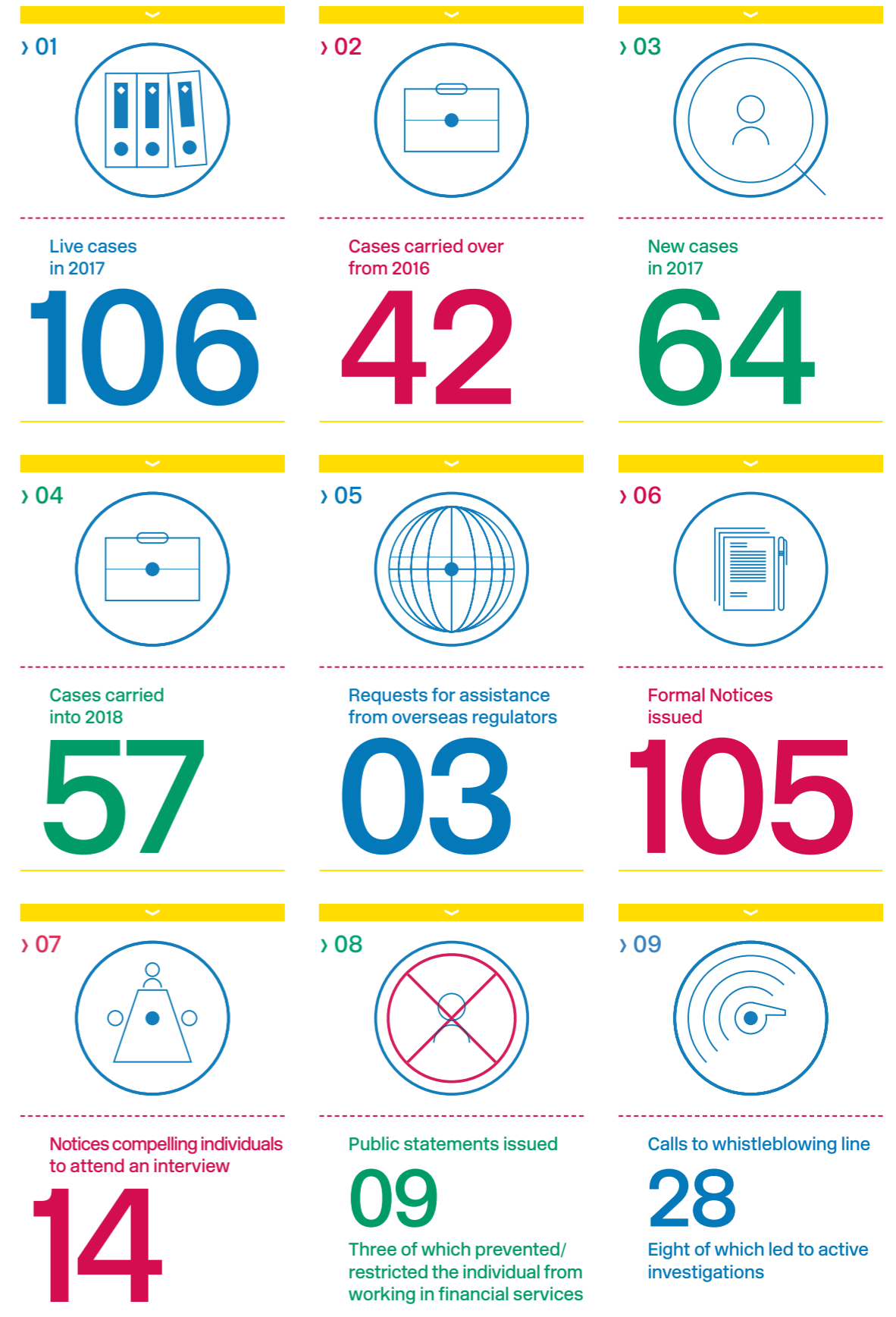
In 2017 we conducted 64 new investigations which led to 14 interviews and 105 Notices being issued. We formally referred two cases to the Police and/or Attorney General and, due to the complexity of many of the cases we are investigating, we carried 57 active investigations forward into 2018.

When we conduct an investigation, our key aim is to work with entities to achieve compliance with regulatory standards. The introduction of the civil penalties regime in 2015 allows the JFSC to issue formal warnings if a business fails to notify us of a reportable issue. If further failures occur then we have the power to levy a civil penalty. While we did not issue any civil penalties in 2017, we did issue three formal warning notices and agreed six remediation plans. Regarding the latter, if a business does not adhere to a plan to remediate regulatory shortcomings then we can issue a civil penalty. The introduction of civil penalties has resulted in firms engaging meaningfully in tough discussions with Enforcement to ensure that remediation plans are achieved within agreed time frames and to required standards, rather than incurring penalties.

Throughout 2017, as interest rates remained low, we continued to observe the ongoing trend of members of the public falling victim to investment mis-selling, as they seek out higher returns without properly understanding the risks. The JFSC’s public awareness campaign in early 2017 proved highly effective and demonstrated the regulator’s pro-active stance on educating Islanders about the unsuitable buying and selling of investments. The campaign also helped to expose additional cases of mis-selling, as Islanders subsequently contacted the JFSC to raise their concerns. The JFSC expects regulated businesses, which advise clients on high risk products, to clearly outline those risks in writing and explain the suitability of a particular product to the client. If regulated investment advisers fail to meet these regulatory standards then they may be expected to compensate clients for any loss suffered.

Several enforcement cases in 2017 featured the serious misconduct of individuals, employed in the finance sector locally, who had unrealistic and spiralling levels of personal debt and used clients’ money for personal use and loan repayments. These cases consumed a great deal of investigative resource for the division. Enforcement remains committed to giving priority to such cases in order to protect the investing public and Jersey’s reputation.

The consumer awareness work that we do as an organisation and as a founding partner of the Jersey Fraud Prevention Forum is key to helping Islanders safeguard themselves from falling victim to financial crime. In 2017 we continued to provide the secretariat for the Forum and worked with the other member agencies to devise a detailed schedule of campaign activity to be rolled out in 2018.



Registry

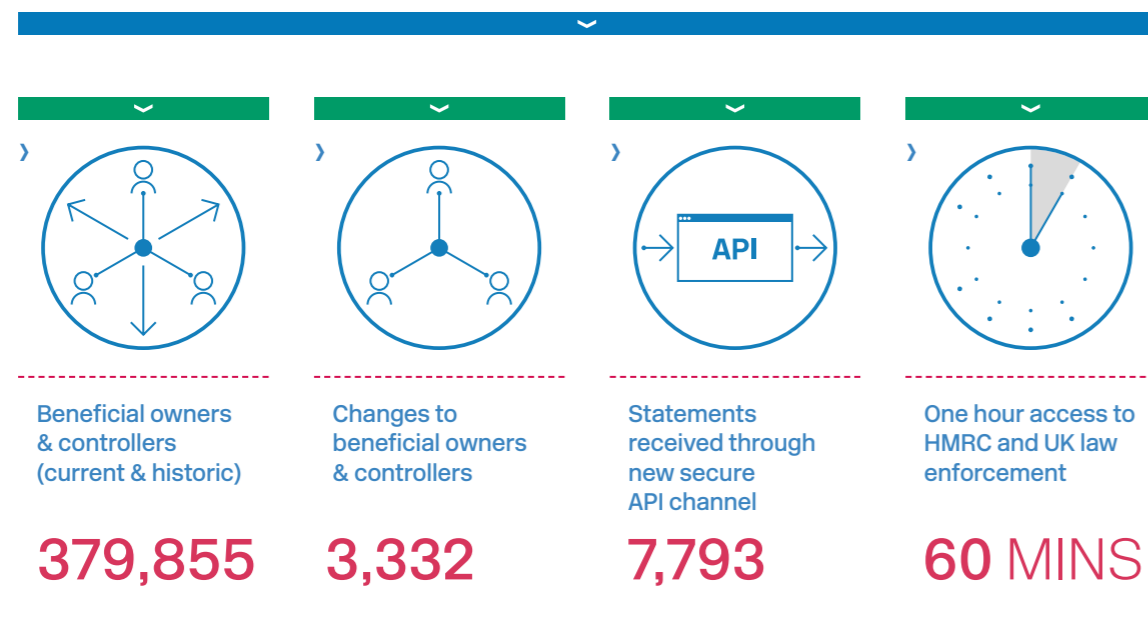
One of our functions at the JFSC is to operate Jersey's Companies Registry which registers Jersey companies, partnerships, foundations and business names. Through this service, we aim to maintain a customer-centric approach so that all users have access to accurate and reliable information. In addition, we operate the Security Interests Register and the Trademarks Register.

Our responsibilities include:

- › Acting as Jersey's first line of defence (second line for regulated businesses) for AML/CFT defence checks
- › Monitoring and vetting adherence to the Sound Business Practice Policy
- › Assessing and recording beneficial ownership and control details

Within the international registry community, Jersey is regarded as a centre of excellence for our registries. This can be seen for example by our agreement to provide shared services to Government on request.

The Registry manages global continuance, cross-border mergers and international transparency requirements.



Central Register of Beneficial Ownership and Control

Registry activities were dominated throughout 2017 by the Central Register of Beneficial Ownership and Control. While managing our business-as-usual requirements, we worked tirelessly to satisfy the Exchange of Notes signed between the Island and the UK government in 2016 to ensure that our existing Register was adequate, accurate and current. The agreement enables, on request and in appropriate circumstances, the sharing of highly sensitive information to trusted international law enforcement and tax authorities.

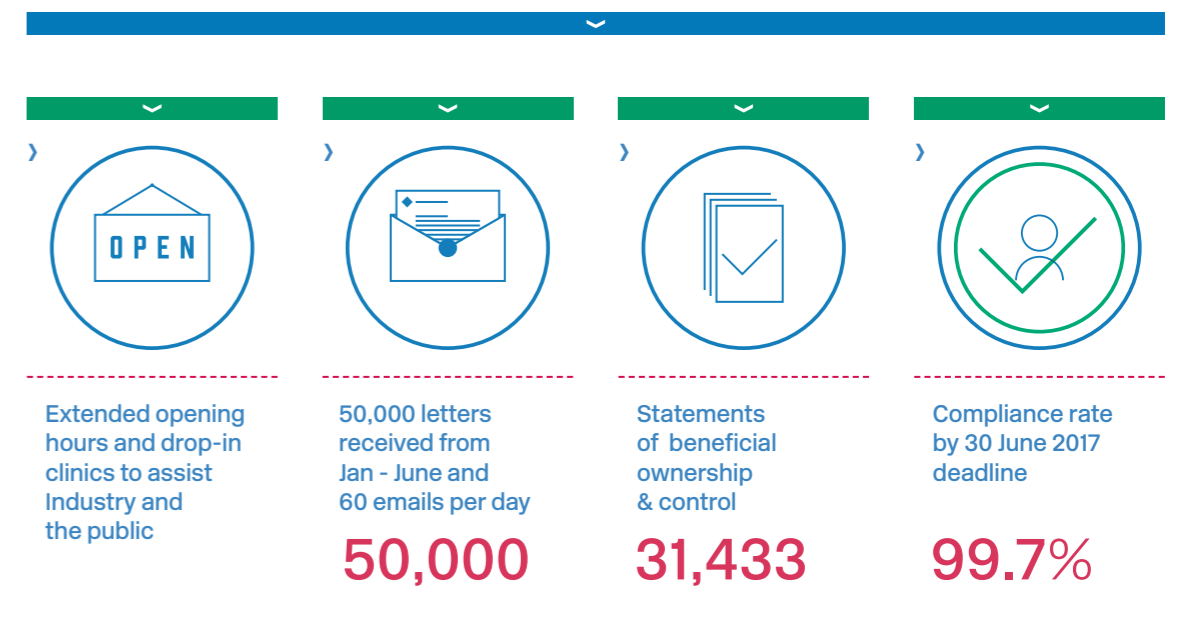
The work was predominantly digitally focused and this offered technical opportunities for local businesses and technical teams within trust and company service providers to engage with us and take a proactive role in the process. We amended the existing annual return system so that beneficial owner and controller information could be filed in tandem with the 2017 annual return and we developed a new application programme interface solution for bulk filings of data for larger service providers, ahead of the 30 June 2017 deadline. We also built the capability for ongoing filing should beneficial owner and controller information need to be changed/updated.

To assist local businesses and residents with providing their data, we ran an extensive programme of outreach and this included social media updates, mailshots, published guidance, briefing seminars, one-to-one drop-in sessions, and generally made ourselves available to assist Registry stakeholders.

We met the 30 June deadline with new policy, guidance and processes in place, enabling a 99.7% filing of eligible entities. Jersey was one of the few jurisdictions to meet its requirement.

The work on the Central Register of Beneficial Ownership and Control was a tremendous effort by the Island and it is right that we celebrate the delivery success. Over the last 27 years, Jersey has been a "leading" jurisdiction with regard to the collecting and vetting of beneficial owner and controller information and meeting the UK government's deadline was vital to upholding this reputation. We achieved the enhancements on time and on budget, reinforcing our position on transparency. We were recognised with a Merit Award from the International Association of Commercial Administrators (IACA) for our work to deliver the enhanced Register.

The UK government publicly stated their commitment to perform a six monthly review of Jersey's implementation of the Exchange of Notes on beneficial owner and controller arrangements.



05.4

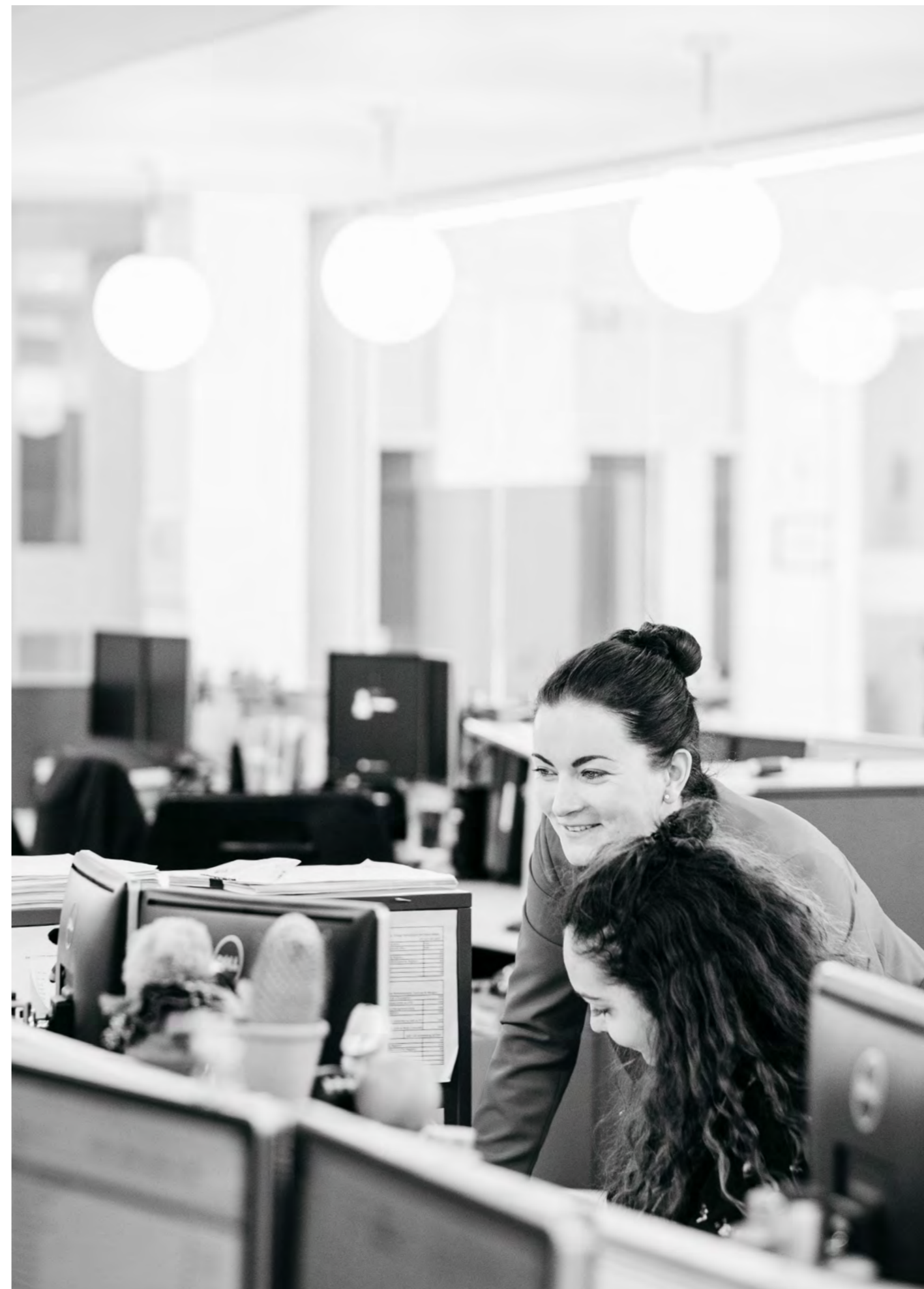
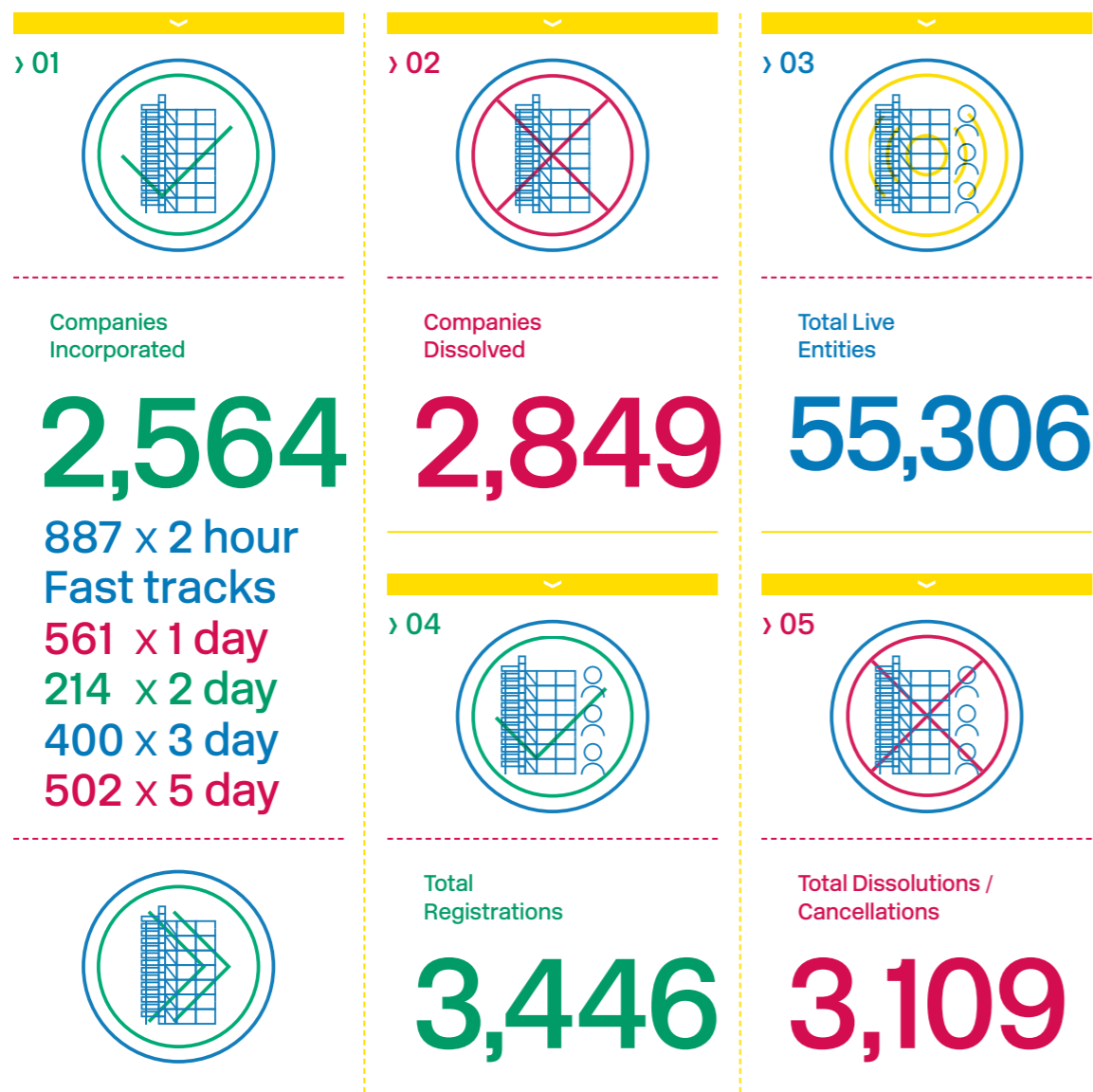
Other activities

New fee rates came into force on 1 January 2017. We saw an increase in business volumes in relation to additional data requirements and document searches during the year and we met all registry service targets.

Together with Government, we attended and spoke at a number of international registry meetings during 2017.

In addition to the legislation, policy and guidance associated with the launch of the Central Register of Beneficial Ownership and Control, we worked closely with Government to continue developing the new Limited Liability Partnership (Jersey) Law and the Companies Law de-mergers provisions.

Registry Efficiencies 2017



› Finance & Resources

Pressures on our finances continued throughout 2017 but did not worsen dramatically following meaningful increases in fee income from both registry and supervisory fees. Total fee income increased by 11% in line with budget. Total income exceeded budget by 1%, predominantly due to income from the development of registers initiated by Government.

Total expenditure for the year exceeded budget by 3.1% which was predominantly due to higher depreciation and litigation costs. The higher costs in these categories resulted from early implementation of computer systems and an ongoing enforcement case respectively.

The result for the year was a net deficit of **£320,000 (2016: £430,000).**

Regarding capital expenditure for computer systems, the principal investments during the year related to the Central Register of Beneficial Ownership and Control, our CRM system, information security and core operational systems replacements. £1.6 million was invested in fixed assets with a consequent rise in annual depreciation charges. The net book value of fixed assets increased to £4.4 million by year end. (2016: £3.4 million).

Our financial reserves consequently decreased to **£5.5 million by 31 December 2017.**

While cash balances increased to £8.9 million (2016: £7.7 million), short-term liquidity deteriorated by £0.5 million. After accounting for increases in creditors, net current assets (excluding pre-payments and income received in advance) decreased to £5.9 million (2016: £6.4 million). The decrease was due to investment in systems and IT infrastructure.

Regulatory fees

Total regulatory income reached £16.4 million with both supervisory and registry fee income increasing.

The overall fee base in 2017 remained stable, compared to 2016, which assisted the effect of general increases in supervisory fees.

The increase in registry fee income was due to a combination of changes in fee levels charged, a comparative fee base to that of 2016, and increases in certain transaction volumes.

Operating costs

Total expenditure increased to £16.9 million (2016: £15.6 million). The most notable cost increases during the year were depreciation, computer expenditure, professional services and litigation costs. It is also important to note that, based on the current environment, we appear to be experiencing a shift in the levels of litigation costs and cyber-related costs.

Overall operating costs reflect the structural changes that have taken place during the course of the Change Programme. Higher computer systems and depreciation costs were due to the introduction of digital and automated processes. These reflect the level of investment in systems over the past three years.

The sensitive nature of the information we hold and our increasingly digital infrastructure mean that we need to continually develop and maintain appropriate levels of cyber defences. The international scale and complexity of cyber-crime continues to rise and poses a significant risk, both now and for the foreseeable future. We therefore maintained our level of investment in cyber defences and anticipate these costs will continue to rise in future years.

Staff costs remained the most significant item of expenditure. The average number of staff employed at the JFSC was fairly stable in 2017 at 131 full-time employees from 130 in 2016. Staff costs achieved budget, even after accounting for contractors covering temporary capacity shortages during the year.

Professional services costs remained at an elevated level, £372,000 related to temporary resource requirements, and £69,000 related to the development of Government registers, for which a similar amount of income was recognised. These costs are expected to decline as the Change Programme comes to an end and we fill open vacancies.

Expenditure is continually reviewed to identify cost savings and efficiencies, even in the constantly evolving environment in which we operate. Through cost initiatives, we have considered alternate approaches to learning and development and travel costs. These costs were reduced further by 12% (2016: 31% decrease) and 23% respectively (2016: 8% decrease). It is important to note that these decreases do not reflect declining importance in these areas but rather greater effectiveness in deploying our resources.

Investigation and litigation costs increased significantly in 2017 compared to the historic average. This was due to an ongoing enforcement case. Costs incurred for the year were £872,000 (2016: £613,000). While we do not anticipate significant further increases in these costs, current enforcement cases indicate that we may be experiencing a step change to greater levels of expenditure. This could mean that enforcement costs are sustained at similar levels in future years.

Financial position

The overall financial position remains under pressure, having sustained losses in four of the last five years. Financial reserves remained below target levels, declining to £5.5 million by year end. We have an ongoing requirement to return to the target level of reserves necessary to demonstrate our resilience. To achieve this we need to develop additional sources of income and continue to manage costs very tightly in future years.

Cash balances improved, increasing by £1.1 million to £8.9 million (2016: £2.2 million outflow to £7.7 million), but overall short-term liquidity (net current assets excluding pre-payments and income received in advance) deteriorated by £0.5 million to £5.9 million after accounting for increases in creditors. Subsequent recovery of debtors (£557,000) and 2018 fee collections have strengthened both our liquidity and cash position during the first quarter of 2018.

Increases in creditors were largely due to early receipt of large annual invoices, which were settled shortly after year end.

Total investment in systems amounted to £1.6 million (2016: £1.9 million). Key investments in the

Central Register of Beneficial Ownership and Control, Supervision systems and core operational systems replacements accounted for most of the total capital costs.

Depreciation and amortisation charges rose to £799,000, reflecting the extent to which we have invested in systems related to the Change Programme. Depreciation was slightly ahead of budget due to early implementation of completed systems.

Provisions were raised where probable future liabilities are material to ensure that funds are available to settle these obligations when they materialise. Total provisions of £513,000 were reflected at year end (2016: £268,000) with £210,000 expected to be settled within a year (2016: £152,000).

Our principal capital maintenance objectives of providing appropriate levels of working capital, funding investigation costs and replacing assets over the long-term remained unchanged and we will continuously monitor our position through robust forecasts and strong budgetary disciplines.

› Operations

The primary objective of our Operations division is to facilitate the efficiency and effectiveness of all JFSC activities. For the past three years, Communications, Facilities, Finance, Human Resources, ICT and Programme Management teams have worked to develop and deliver key components of our Change Programme, while managing systems and supporting other divisions in the execution of their duties.

2017 was yet another busy year for Operations and a number of milestones were achieved in addition to meeting business-as-usual requirements and managing internal and external challenges and opportunities. We continued to lay foundations for our future in what was the penultimate year of our Change Programme and the culmination of these developments will benefit our stakeholders from 2018 and beyond.

As ever, recruiting, retaining and developing our staff and leaders of tomorrow to take this work forward is a priority for the organisation. More information on our people can be found on pages 47 and 48.

There were numerous divisional highlights during the year including:

- › Pro-actively engaging with Industry on cyber-security, such as hosting events, undertaking speaking engagements and sharing intelligence
- › Completing a major storage infrastructure upgrade, preparing the organisation for the next four years
- › Working with an external creative agency to devise and deliver the public awareness campaign on investment mis-selling, managing the advertising across television, radio, print and digital and liaising with local media for the campaign launch and follow-up coverage
- › Delivering a new website content management system to support our existing website, while preliminary work continued on the new website project which is a key deliverable for 2018
- › Delivering Change Programme priorities within budget. This included the Central Register of Beneficial Ownership and Control programme which led to a new collaborative working environment for Industry and developers on APIs. The team also undertook further development of the CRM implementation programme to support the work of Supervision and risk management priorities
- › Managing the communications and media relating to the Paradise Papers
- › Providing further online payment systems via the JFSC Portal to facilitate the fee collection processes, making it easier for our stakeholders to interact with us
- › Developing our human resources processes to focus on attracting, developing and retaining staff. The targeted use of social media as a recruitment tool has led to a huge increase in the quality and quantity of applicants seeking to join the JFSC
- › Improving further our finance system and controls by the successful deployment of upgraded Microsoft Finance System
- › Organising key external events for the JFSC including the Business Plan 2017, the Serious Fraud Office conference and various events on terrorist financing and cyber-security.



The great progress we have made must be attributed to our people

Our People

A key component of our people strategy is employee engagement and we work hard to nurture this, making sure that the JFSC is a stimulating place to work, where people feel valued.

2017 was a year of significant investment in our people. We continued to train, develop and educate our staff to the highest possible standard and our development programme focused on professional competency as well as skills and capabilities. This included resilience, communication skills and leadership training.

In addition to utilising external providers, in 2017 we appointed a dedicated Training & Competency Assessment Manager to facilitate a more structured approach to learning and development. This is initially being rolled out in Supervision and the benefits are already being realised; our people are now being better equipped with the skills they need to be fully effective in their roles.

While we secured talented individuals from outside the JFSC, we also continued to build upon our 'grow your own' strategy by training and promoting our trainee population within the organisation. During the year a number of staff achieved professional qualifications, while others embarked on the initial phases of their studies. Our training strategy evolved and broadened in 2017 and we will continue this approach throughout 2018 and beyond.

Linked to this, we made 18 internal promotions during the course of the year based on performance and contribution to the organisation, as well as several inter-divisional secondments and job rotations, which demonstrate our commitment to career enrichment and staff retention.

We consolidated our Performance Management Framework, which was introduced in 2015 and sees staff being formally recognised for their contribution with our 'Pay for Performance' strategy. Looking back on 2017, there was a significant uplift in performance which is clear evidence that our strategy is working and improving employee engagement.

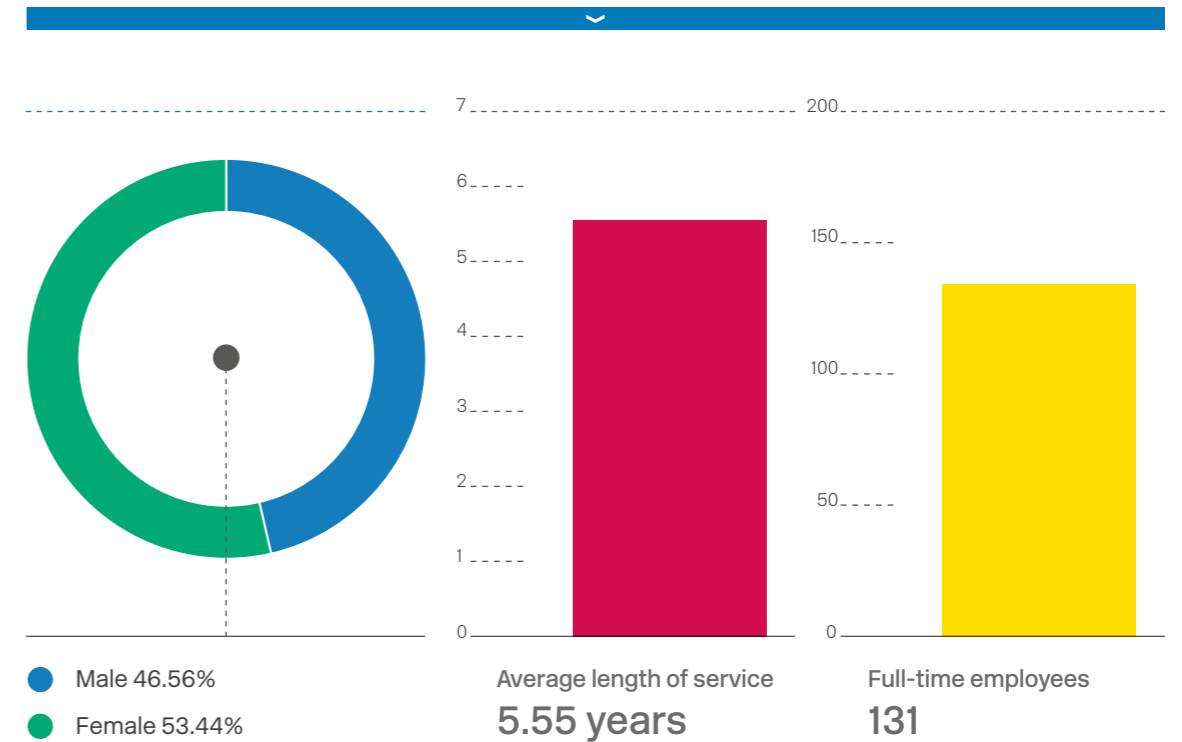
Regarding our commitment to flexible work practices, in 2017 we made a number of appointments on a reduced hours' basis and accommodated several existing staff members' requests to work from home or change their work patterns to improve work-life balance.

Our dedicated absence management strategy saw a reduction in both long and short-term sickness rates in 2017, thanks to our increased support in this area, as well as our enhanced wellness programme and improved benefits scheme. This is yet another indication of our commitment to looking after our people.

In 2017 our proactive approach to recruitment focused on making direct approaches to candidates, advertising on social media and, to a lesser extent, using local recruitment agencies. We also hosted our own in-house careers event which saw more than 70 people come through our doors to find out more about working at the JFSC from our own workforce. Adopting these new approaches to recruitment has led to a significant decrease in local agency costs.

Our headcount remained broadly static throughout 2017, although we did have a degree of turnover which is inevitable in any modern organisation. While we acknowledge this can cause potential disruption for our regulated community, we believe that the increased capability and improvements to our learning and development strategy will help deliver sustained performance from our workforce.

Our efforts to invest more in our people were supported by the results of our 2017 internal survey which indicated that our overall staff engagement score was 85%, placing us in the upper quartile of benchmarked organisations. Even though much of the survey was positive, we have taken steps to make immediate and tangible improvements to our working environment and culture, listening to our people but also empowering them to help bring about positive change. We will be undertaking a follow-up survey to gauge progress in September 2018.



Key staff survey results

I am proud to say I work for the JFSC	→	84%
Working here, I want to do the best work I can	→	99%
I care about the future of the JFSC	→	97%



Corporate Social Responsibility

Winning the 2017 Jersey Chartered Institute of Personnel & Development award for our corporate social responsibility initiatives was recognition of the JFSC staff's commitment to making a difference for local and overseas charities. Every year our people dedicate their time to numerous initiatives and donate thousands of pounds in charitable fundraising, all while doing their day job.

2017 was our most successful year to date, with more staff volunteering on community projects and more than £11,000 raised for worthy causes, including Mind Jersey, Macmillan Jersey, Children in Need, Jersey Women's Refuge and Brighter Futures.

Jersey Mencap was nominated once again as our chosen charity for the year. In addition to raising much needed funds to help support adults and children with learning difficulties, teams from various JFSC divisions volunteered at the organisation's Pond Project, helping to develop and maintain the environmental site. We also funded and planted a further 42 trees, bringing our total to 66 since 2016. Jersey's Lieutenant Governor assisted with the final plantings.

In 2017 we entered two teams in the Jersey Marathon, with the men crossing the line marginally before the ladies, and a gang of hirsute heroes tinkered with their taches and buffed their beards for Movember in aid of men's health.

Staff also developed further the organisation's programmes for health, well-being and environmental protection with dedicated internal awareness weeks which focused on mental and physical health and practical steps for reducing consumption, reusing and recycling.

As an organisation, we also updated our environmental policies and introduced further energy saving and sustainable work practices including LED office lighting, eco-friendly printing paper, and a Commission-wide 'reduced use' work ethic.

None of this work would be possible without the enthusiasm and commitment of our people. The organisation is justifiably proud of the staff's efforts in this area, which in turn creates a real sense of teamwork and community within the JFSC. We will continue to facilitate these activities in the future, enabled by our policy to allow employees up to two days per year to support local charitable initiatives.



06.

› Governance



P **i** Town centre
↑ **♿** Sand St Short stay
← Esplanade Short stay

Rathbones
GUYSON
THE CAPITAL

The Esplanade

G5

› Governance

Constitution

The JFSC is a statutory body established under Article 2 of the Commission Law which provides that the JFSC shall be governed by a Board of Commissioners comprising persons with financial services experience, regular users of such services, and persons representing the public interest.

Accountability arrangements

The JFSC is an independent body, accountable to the public through the Island's elected representatives, namely the Chief Minister and the Government of Jersey. The relationship with ministers is set out in a Memorandum of Understanding to ensure the independence of the JFSC, whilst facilitating effective dialogue and working practices.

Article 12 of the Commission Law provides that the Chief Minister may give the JFSC general directions, subject to significant safeguards. In 2017 the Chief Minister issued a direction under Article 12 as a means of implementing the Exchange of Information on beneficial ownership and control agreement with the UK. The effect is that officers of the Joint Financial Crimes Unit of the States of Jersey Police are now given access to the JFSC's relevant information on beneficial ownership and control with a view to sharing it with authorised UK requesting authorities.

There are appropriate safeguards. The intention is that the Direction will be withdrawn once the necessary substitute legislation has been enacted.

Governance arrangements

The Board believes that high quality effective governance arrangements are essential for well-run organisations. It notes that there are no comprehensive Codes or Standards for the governance of a financial services regulator, but believes that the UK Corporate Governance Code (the Code) is an appropriate benchmark. The Code requires Boards to comply with its high-level principles or explain how the objectives behind those high-level principles have been met through other arrangements.

The JFSC complies with the vast majority of the high-level principles in the Code. For example, there is a clear division of responsibility between the Chairman and the Director General, no individual has unfettered power of decision-making, and there are transparent procedures for the appointment and reappointment of Commissioners.

Additional explanations are set out subsequently on where the JFSC meets the objectives behind the high-level principles through an alternative mechanism. For example, the JFSC does not have shareholders but recognises that it has a wide range of stakeholders instead.

Delegation of powers

The Board delegates its powers where appropriate to one or more Commissioners or to a JFSC officer to ensure that the regulator can respond promptly, efficiently and effectively to events and circumstances.

The Board reviewed its delegation of powers during 2017. Relevant JFSC documents were assessed in comparison with the UK Financial Conduct Authority's Board powers delegation document. It was agreed that, while key powers should remain with the Board, some further delegation to the Executive should occur, including the power to refuse applications for entity authorisation and from individuals to be key or principal persons.

In view of the potential for significant impact on the JFSC's finances or reputation, the Board retains certain powers in a number of areas including:

- › The revocation of any permit or registration
- › The final stage of a contested enforcement action
- › The determination of the amount of a civil penalty

The Board also agreed to delegate all litigation decisions to a standing sub-committee of the Board. The sub-committee consists of the Director General and other Commissioners to be nominated on a case by case basis.

Composition of the Board and appointment of Commissioners

The Board currently consists of the Chairman, Deputy Chairman and eight other Commissioners, including the Director General. All of the Commissioners are considered to be independent with the exception of the Director General. A chart of the current Commissioners is set out on page 87 & 88 of this Annual Report and further information on their skills, knowledge and experience is detailed on the JFSC's website www.jerseyfsc.org

Commissioners are formally appointed by the Government of Jersey after being proposed by the Chief Minister on the recommendation of the full Board of Commissioners. A maximum term is set out in the Commission Law.

The Board seeks to ensure that there is an appropriate degree of knowledge, experience and diversity amongst its members. When a vacancy becomes available, the Board evaluates the current balance of its membership and identifies the characteristics, skills and experience that would most enhance its effectiveness.

The Board then works with the Jersey Appointments Commission, appoints a recruitment firm if appropriate, and advertises the position. The candidates are evaluated by the Nomination Committee and a recommendation is made to the Board. The appointment of Commissioner Annamaria Koerling was made in 2017 following this process.

In the case of a Commissioner being willing to be considered for reappointment for a second term, the Chairman additionally consults with fellow Commissioners on whether to recommend the reappointment of the Commissioner concerned for a second term, taking into consideration the needs of the Board and the contribution that he/she has made. A person may hold office as a Commissioner for a maximum of nine years.

The Board is currently in the process of recruiting as a number of Commissioners will shortly reach the end of their second and final terms of office.



Board meetings and attendance

The Board met ten times during 2017 to consider strategy, risk and regular business. All board members attended all ten meetings with the exception of three Commissioners, of whom two were unavailable for two board meetings and one unavailable for one meeting. The Board also met to review and consider enforcement settlement cases and contested matters. In addition, Commissioners and the Executive met for a strategy day and participated in events with fellow regulators, Industry representatives, ministers and States of Jersey Police.

Board activities

2017 saw a major effort by the JFSC to deliver a verified Central Register of Beneficial Ownership and Control which is possibly the most comprehensive in any major financial jurisdiction. The Board closely monitored progress towards the 30 June 2017 deadline, which the JFSC met successfully. The Board was pleased with the Island-wide support from Industry and non-Industry stakeholders as well as the interest from other Crown Dependencies and the UK.

With the support of the Board, 2017 also saw the successful phasing out of Jersey Private Placement Funds (in addition to Jersey Very Private Funds and COBO Only Funds) and the introduction of one single private COBO fund product known as the Jersey Private Fund.

The Board remains very aware of potential cyber-security threats to the JFSC, Industry and the Island as a whole. The JFSC conducted a cyber-security survey in 2017 and issued a report containing the results. The survey provided the JFSC with an understanding of threats that businesses were facing and how Industry was seeking to control and manage risks.

Risk strategy continued to play a large part in the Board and Executive team's considerations during 2017. The risk capture process is a major step forward as the JFSC is now better able to actively track and record what is happening in Industry and internally.

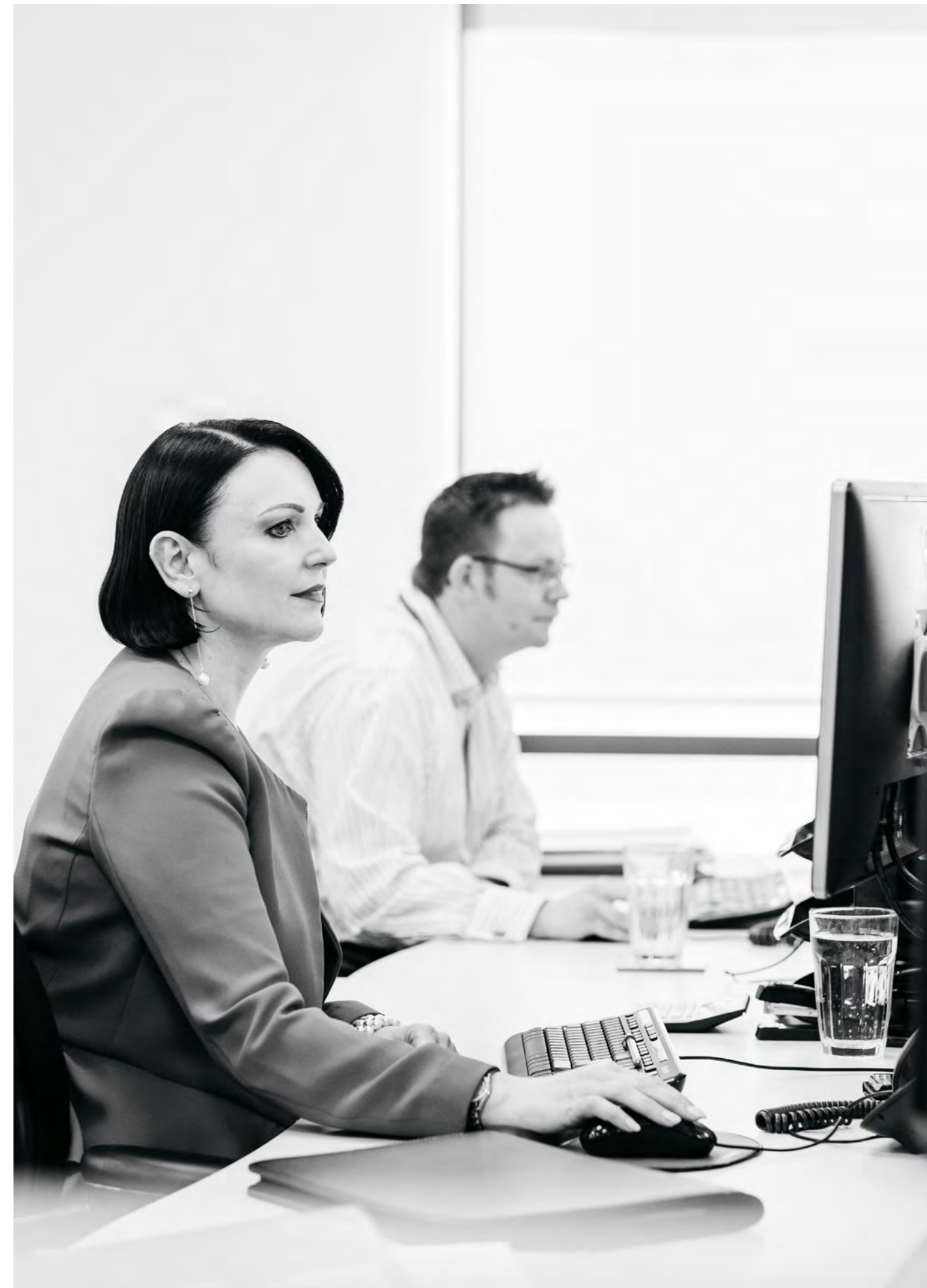
The Board receives monthly reports from the Executive on various matters and is therefore able to probe, offer suggestions and make recommendations to address issues as they arise.

Board members consider carefully the potential for conflicts of interest to arise and excuse themselves should any perceived or actual conflict be identified.

The Board found it necessary in 2017 to make proposals for fee increases and a number of fee consultations were completed during the year. In the interests of Industry and the Island's reputation, the Board is ever keen to ensure that the JFSC continues to strive to meet the level of regulatory performance expectation amongst international bodies, which today incurs large costs due to the scale and capacity of that expectation. The JFSC continues to face cost pressures from responding to ever-increasing cyber threats. Significant costs were also incurred with the automation of several JFSC systems to provide an improved service to Industry, which in 2017 included the introduction of online submissions of annual returns and electronic submissions of beneficial owner and controller data. The future digitalisation of the JFSC will continue to be a strategic consideration.

The Board was encouraged by the results of the internal staff survey (conducted in March 2017) the results of which were considered to be very positive given the circumstances of the Change Programme and the introduction of the 'Pay for Performance' appraisal and bonus structure. The encouraging results undoubtedly highlight the progress being made regarding the development of the organisation's culture.

During the latter part of 2017 the Board undertook an internal governance effectiveness review, facilitated by the Commission Secretary. The purpose was to compare the Board with best practice consistent with selected areas of the Code. A number of opportunities for improvement were identified, including fewer Board meetings with greater focus on strategic themes. It was noted that positive changes and progress had been made in line with suggestions arising from the independent review that was undertaken in late 2015/early 2016.





Commissioners' remuneration

Commissioners receive a fixed annual amount. No additional amounts are paid for participating or chairing subcommittees, dealing with enforcement cases or attending to other matters.

Fees paid to Commissioners were not increased in 2017 following increases in 2015. The existing annual amounts are frozen until 2019 whereupon market rates will be evaluated and the views of the Chief Minister taken into account.

Towards the end of the year, the Board concluded its annual evaluation of the performance of the Chairman, noting in particular that his activities had helped to enhance the visibility and reputation of the JFSC – both on-Island with local media, Industry, Government ministers and States of Jersey Police, and off-Island with politicians, regulators and industry practitioners in London.

Fees paid to Commissioners during the year were as follows:

	2017	2016
	£	£
John Averty (Retired 21 Jan 2016)	-	2,223
Lord Eatwell of Stratton St. Margaret (Chairman)	150,000	150,000
John Harris	-	-
Michael de la Haye (Appointed 1 January 2016)	26,000	26,000
Peter Pichler (Appointed 21 January 2015)	26,000	26,000
Simon Morris (Appointed 21 January 2015)	36,500	36,500
Debbie Prosser (Appointed Deputy Chairman 21 January 2016)	33,350	32,840
Markus Ruetimann	36,500	36,500
Cyril Whelan	26,000	26,000
Stephan Wilcke (Retired 31 July 2017)	21,292	36,500
Ian Wright	26,000	26,000
Annamaria Koerling (Appointed 29 September 2017)	9,262	-
	390,904	398,563

John Harris is not paid any fees in his capacity as a Commissioner but rather is paid as an Executive Director in his capacity as JFSC Director General. (Refer to Remuneration Committee report on page 58 for further details).

Nomination Committee report

The Board acts as its own Nomination Committee as all but one of the Commissioners are considered to be independent and generally there is insufficient nomination activity to justify a separate committee arrangement. Where the requirement to consider nominations arises, the Board follows a fully inclusive approach in identifying potential candidates, prioritising relevant knowledge and experience in relation to their role.

Commissioner Stephan Wilcke retired in July 2017. Annamaria Koerling was approved to act as a Commissioner by members of the States of

Jersey on 26 September 2017, following a thorough process in partnership with the Jersey Appointments Commission and recruitment firm Odgers Berndtson. She was sworn in as Commissioner on 29 September 2017.

Commissioner Ian Wright was reappointed as a Commissioner for a second term of four years by the Government of Jersey on 18 April 2017.

There were no unexpected vacancies during the year.

Remuneration Committee report

Deputy Chairman Debbie Prosser continued as Chairman of the Remuneration Committee with Committee members Markus Ruetimann, Michael de la Haye and Annamaria Koerling (appointed to the Remuneration Committee on 5 October 2017). The Committee's Terms of Reference are available on the JFSC's website www.jerseyfsc.org

The Committee met on five occasions during the year and all committee members attended the scheduled meetings. Certain members of the Executive and the JFSC's Human Resources team attended the meetings as required. The remit of the Committee, being fairly broad, encompasses a wide range of remuneration and human resources functions.

The Committee continued its work of previous years in assisting, where necessary, with the human resources element of the Change Programme. The Committee noted that the 'Pay for Performance' strategy continued to achieve tangible results in performance management.

One of the Committee's principal functions is to approve the staff salary and bonus allocations for the year and this process took place in November 2017, with the final figures falling within the annual budget allocation. Remuneration and bonus payments are awarded strictly by reference to performance and the Committee was pleased to note a successful year at the JFSC, reflected by high performance ratings for several individuals in 2017. The Committee assists in approving and providing oversight for the awards of bonuses to the highest achieving members of staff, rated 'exceptional'.

The Committee has the responsibility of recommending to the Board the salary and bonus award for the Director General. This takes place in February each year, simultaneously with the Board's annual assessment of the Director General's performance. During the year, he received total remuneration of £335,000 (2016: £330,000).

During December 2017, the Committee reviewed its Terms of Reference and undertook a review of its own performance.

A more interactive and engaged regulator



Audit Committee report

The Audit Committee is constituted of Commissioners with relevant knowledge, experience and qualifications to carry out an effective audit committee function. All eligible members attended all four meetings.

The Terms of Reference for the Audit Committee are available on the JFSC's website www.jerseyfsc.org

The Committee agreed specific plans by internal and external audit to the coverage of internal financial controls and was able to confirm to the Board that it was reasonable to conclude that such financial controls had been effective during the period.

At the completion of the 2017 audit the committee met with the Audit Partner, Neil Dimes. The committee re-confirmed the auditor's continued independence, reviewed the scope of their audit and discussed the results of their work. The committee probed in detail the accounting for the recognition of leasehold reinstatement provisions that were recorded for the first time this year and the accounting for the portion of the increase in registry fees which have been deferred in accordance with the agreement with the Government of Jersey. The Auditors confirmed that they had no objections to the way that the Finance team had managed the capitalisation of costs following a recent review.

Over the year, the Audit Committee considered internal financial controls risks. The Committee requested that an exercise be undertaken to determine what fee income or application fees were outstanding or may have been missed.

Auditors

BDO LLP (the auditors) undertook the annual audit. They are half way through a three year term, which will come to an end after completion of the 2018 financial statement audit.

The Committee also reviewed and confirmed its current Terms of Reference, subject to minor amendments.

In 2017 the Committee was chaired by Ian Wright and its members included Crown Advocate Cyril Whelan and Peter Pichler. The Committee had appropriate financial and other experience detailed below:

- › **Ian Wright:**
Qualified chartered accountant (ACA), former Senior Partner of the PricewaterhouseCoopers Global Corporate Reporting Group, former Deputy Chairman of the UK accounting regulator and current member of the Audit Committee of the States of Jersey.

- › **Crown Advocate Cyril Whelan:**
Senior Crown Advocate of the Island of Jersey, current Senior Consultant at Baker & Partners and former Senior Legal Adviser in Jersey's Law Officers' Department.

- › **Peter Pichler:**
Qualified chartered accountant (FCA), member of the Canadian Institute of Chartered Accountants, former Chief Operating Officer and Finance Director of Mourant Ozannes, former CEO of Deutsche Bank Offshore (Jersey), former Director of a FTSE 350 company and Chairman of its Audit Committee.

Responsibility for Annual Report and accounts

This Annual Report and accounts comply with the requirement in the Commission Law to produce an Annual Report to the Chief Minister and to be presented to Government no later than seven months after the end of the financial year.

The statutory obligations on the Board of Commissioners are not extensive, requiring only that the annual accounts shall be prepared in accordance with generally accepted accounting principles and show a true and fair view of the surplus or deficit for the period and state of affairs at the period end. The Board has elected to prepare the financial statements in accordance with Financial Reporting Standard 102 (FRS 102); the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Taking into account general practice, the Board confirms that it is responsible for:

- › Keeping adequate accounting records sufficient to show the financial position within a reasonable period of time

- › Safeguarding the assets and taking reasonable steps for the prevention and detection of fraud and other irregularities

- › Preparing the financial statements in accordance with applicable laws and regulations

- › Selecting suitable accounting policies and applying them consistently

- › Making judgments and accounting estimates that are reasonable and prudent

- › Preparing the accounts on a going concern basis unless it is inappropriate to presume that the JFSC will continue in business.

The Board has reviewed the effectiveness of the principal financial controls over its financial accounting systems with the internal and external auditors and did not identify any material deficiencies.

The Board has considered the financial position as shown by these financial statements, the latest management accounts and recent projections of the JFSC's income and costs for the period ended December 2020. This was considered to be an appropriate period in relation to the assessment of the JFSC's future prospects as it forms the most reliable period over which the JFSC's forecast cash flows, forecast income and expenditures are based. Forecasting over longer periods is considered to be less accurate due to the degree of uncertainty in relation to key underlying assumptions. As a consequence, the Board believes it appropriate to prepare the accounts on a going concern basis and is satisfied that there are no significant threats to the viability of the JFSC within the projection period.

The Board has considered the financial statements on pages 67 to 84 and is satisfied that they show a true and fair view of the deficit for the year and the financial position of the JFSC at 31 December 2017.

The Board has considered the Annual Report and, taken as a whole, confirms that it believes the Annual Report is fair, balanced and understandable.

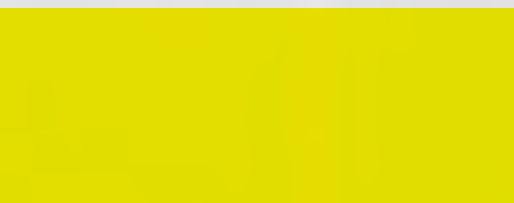
For and on behalf of the Board of Commissioners

L Roe
Commission Secretary
7 June 2018

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

07.

› Independent Auditor's Report to the Chief Minister of the States of Jersey



Independent Auditor's Report to the Chief Minister of the States of Jersey

Opinion

We have audited the financial statements of Jersey Financial Services Commission (the JFSC) for the year ended 31 December 2017 which comprise the income and expenditure account, the balance sheet, the statement of changes in accumulated reserves, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is the Financial Services Commission (Jersey) Law 1998 and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- › give a true and fair view of the state of the JFSC's affairs as at 31 December 2017 and of its deficit for the year then ended
- › have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- › have been prepared in accordance with the requirements of the Financial Services Commission (Jersey) Law 1998.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the JFSC in accordance with the

ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- › the Commissioners' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- › the Commissioners have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the JFSC's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit;

and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter



How we addressed the matter in our audit

Revenue recognition – existence around year end

Revenue consists of regulatory and registry fees, for which annual fees run from different dates throughout the year depending on the specific fee. There is a risk that revenue recognition policies are not appropriate, revenues in the accounts do not exist, or that revenue may be incorrectly recorded in the wrong year resulting in a misstatement of revenue.

The details of the accounting policies applied during the year are given in note 1 to the financial statements.

For regulatory fees we reconciled the revenue in the financial statements to system generated reports containing details of the licences held. We tested these reports through performing walkthroughs of the relevant systems. We also tested on a sample basis that fees for regulated entities had been calculated in accordance with fee notices published by the JFSC, agreed to payment, and recognised in the appropriate period.

We recalculated deferred income to ensure it had been correctly accounted for in accordance with the JFSC's accounting policies, and that the appropriate proportion of fees had been deferred. We tested a sample of regulatory fees and receipts processed specifically around year end to ensure the related income had been recognised in the appropriate period.

For registry fees we tested on a sample basis that fees had been calculated in accordance with fee notices published by the JFSC and agreed to payment.

We recalculated annual return income based on the number of registered companies. We tested a sample of registry fees and receipts processed specifically around year end to ensure the related income had been recognised in the appropriate period.

Completeness of income

Given the number of income streams and the ad-hoc nature of some of these fees, there is a risk that certain fees had not been billed to the customer, or that the income had been recognised in the incorrect period due to billing taking place significantly later than it should have.

The details of the accounting policies applied during the year are given in note 1 to the financial statements.

We tested the completeness of regulatory and registry income throughout the year by selecting a sample of Financing Statement numbers and company numbers and vouching to supporting fee income, ensuring that the fees had been recognised in the appropriate period.

We also tested completeness by checking for any gaps in the Financing Statement numbers, which are expected to be sequential.

We reviewed a sample of post year end receipts and invoices to ensure the related income had been recognised in the appropriate period.

07.



Key Audit Matter

Annual return fee surplus

During the year, an increase in the annual return fee per entity led to surplus funds being received by the JFSC. The surplus funds have, on agreement with the States of Jersey, been retained by the JFSC, partly as an agreed recurring uplift in the JFSC's portion of the total Annual Return fees, and otherwise allocated to various projects and expenditure, including the development of the Beneficial Ownership Registry which took place during the year.

A risk arose over the accounting treatment as a degree of judgement was involved to ensure that the accounting treatment reflected the substance of the agreement with the States of Jersey.

The details of the accounting policies applied during the year are given in note 1 to the financial statements. Note 12 to the financial statements provides further information on the treatment of the surplus funds.



How we addressed the matter in our audit

We reviewed the JFSC's paper on the accounting treatment of the surplus. We obtained and reviewed all correspondence on this matter, including third party confirmation of the position at year end.

We reviewed the accounting entries that had been made and compared those to our expectations having reviewed all available documentation.

Our application of materiality

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

We determined planning materiality to be £252,000 (2016: £209,000) and final materiality for the financial statements as a whole to be £267,000 (2016: £252,000). In determining this in both the current and prior year, we based our assessment on a level of 1.75% of average income over a 3 year period. We used income as a benchmark as this is the primary Key Performance Indicator used to address the performance of the business by the

Commissioners, and is consistently referenced within the annual report. Average income was used to calculate materiality to ensure any significant increases in fees or aspects of non-recurring income did not bring materiality to an unacceptably high level.

We determined performance materiality to be £193,575 (2016: £189,000). In determining this in both the current and prior year, we based our assessment on a level of 72.5% of materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £13,350 (2016: £12,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

Our audit approach was developed by obtaining an understanding of the JFSC's activities and the overall control environment. Based on this understanding we assessed those aspects of the JFSC's transactions and balances which were most likely to give rise to a material misstatement.

Other information

The Commissioners are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of a assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the

other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Commissioners

As explained more fully in the statement of Commissioners' responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Commissioners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Commissioners are responsible for assessing the JFSC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commissioners either intend to liquidate the JFSC or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Chief Minister in accordance with Article 21(3) of the Financial Services Commission (Jersey) Law 1998. Our audit work has been undertaken so that we might state to the Chief Minister those matters we are required to state to them in an auditor's report and for

no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the JFSC and the Chief Minister, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Chartered Accountants
Bristol
United Kingdom

6 July 2018

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

08.

> Financial Statements



Financial Statements

Income and expenditure account For the year ended 31 December 2017

		2017	2016
	Note	£'000	£'000
Regulatory income			
Regulatory fee income	4	12,146	11,560
Registry fee income	5	4,248	3,206
Total regulatory income		16,39	414,766
Other income	6	192	378
Interest income		19	43
Total income		16,605	15,187
Expenses			
Staff costs	7	(11,572)	(11,102)
Computer Systems		(1,172)	(1,055)
Premises costs		(782)	(758)
Professional services		(729)	(676)
Investigation & Litigation		(872)	(613)
Other operating costs		(653)	(510)
Depreciation, amortisation and impairments		(799)	(484)
Staff learning and development		(191)	(217)
Travel costs		(155)	(202)
Total expenses		(16,925)	(15,617)
Deficit for the year	8	(320)	(430)

All the items dealt with in arriving at the net deficit relate to continuing operations.

There are no recognised gains and losses in the current and preceding year other than those included in the net deficit above, therefore no separate statement of other comprehensive income and expenditure has been presented.

The notes on pages 72 to 84 form an integral part of the financial statements.

Balance sheet as at 31 December 2017

		2017	2017	2016	2016
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets	9	3,694		2,899	
Tangible fixed assets	10	720		487	
			4,414		3,386
Current Assets					
Trade receivables		768		454	
Sundry debtors		102		46	
Prepayments		923		943	
Cash and bank balances	11	8,886		7,740	
			10,679		9,183
Total Assets			15,093		12,569
Creditors - Amounts falling due within one year					
Fee income received in advance		5,441		4,753	
Creditors	12	3,628		1,717	
Provisions	13	210		152	
			9,279		6,622
Total Assets less Current Liabilities			5,814		5,947
Creditors - Amounts falling due after one year					
Provisions	13		303		116
Total Assets less Total Liabilities			5,511		5,831
Represented by					
Accumulated reserves			5,511		5,831

The notes on 72 to 84 form an integral part of the financial statements.

The financial statements on pages 67 to 84 were approved by the Board of Commissioners on 7 June 2018, and signed on its behalf by:

John Eatwell
Chairman

John Harris
Director General

08.



Statement of changes in accumulated reserves

	Accumulated reserves
	£'000
Balance at 1 January 2016	6,261
Deficit for the year	(430)
Balance at 31 December 2016	5,831
Balance at 1 January 2017	5,831
Deficit for the year	(320)
Balance at 31 December 2017	5,511

Statement of cash flows

For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Cash flows from operating activities		
Net deficit for the year	(320)	(430)
Interest receivable	(19)	(43)
Depreciation, amortisation and impairment charges	799	484
Utilisation of provision	(111)	(267)
Movements in provision for long leave	112	80
Deferred rental incentive	6	(15)
(Increase) in debtors and prepayments	(350)	(556)
Increase in income received in advance	688	129
Increase in creditors	1,906	203
Net cash generated from/consumed by operating activities	2,711	(415)
Cash flow from investing activities		
Interest received	19	48
Purchases of tangible and intangible fixed assets	(1,584)	(1,851)
Net cash used in investing activities	(1,565)	(1,803)
Net increase/(decrease) in cash and bank balances	1,146	(2,218)
Cash and bank balances at 1 January	7,740	9,958
Cash and bank balances at 31 December	8,886	7,740
Cash and bank balances consists of:		
Cash at bank and in hand	205	205
Short term deposits	8,681	7,535
Cash and bank balances	8,886	7,740

The notes on pages 72 to 84 form an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

01. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The financial statements are prepared on a going concern basis, under the historical cost convention.

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

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

Income

Income is accounted for on an accruals basis. Regulatory and Registry annual fees received in advance are recognised as income on a straight-line basis over the relevant period. Annual registry fees and revenue from the operation of Government of Jersey registers include only the share of income attributable to the JFSC.

Revenue from the rendering of services, including the design, development and operation of Government of Jersey Registers, is recognised based on the stage of completion method. Where uncertainty exists in relation to the stage of completion, revenue recognition is limited to the extent to which costs have been incurred.

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

Expenses

All expenses are accounted for on an accruals basis.

08.



Foreign currency

Foreign currency balances are translated to Sterling at the rate of exchange ruling on the last business day in the financial period. Foreign currency transactions are translated into Sterling at the rate of exchange ruling on the

date of the transaction. Profits and losses on foreign exchange are included in the income and expenditure account.

Investigation and litigation costs

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

Cash and bank balances

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

Government registers

A financial asset is recognised in relation to the cost of design, development and operation of Government registers on an accrual basis, provided such costs are contractually recoverable.

Tangible fixed assets

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

Repairs and maintenance are charged to the income and expenditure account during the period in which they are incurred.

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

The estimated useful lives used for this purpose are:

› Motor vehicles	3 years
› Office furniture, fittings and equipment	3 to 5 years
› Computer equipment	3 to 5 years
› Leasehold improvements	Over the lease period

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

Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and any impairment losses. Historical cost includes expenditure that is directly attributable to the development of the intangible asset. Subsequent maintenance and support costs are charged to the income and expenditure account during the period in which they are incurred.

Amortisation of intangible assets is calculated so as to write off their cost on a straight-line basis over their expected useful lives.

The estimated useful lives used for this purpose are:

› Computer software	Up to 7 years
---------------------	---------------

The cost of computer software in respect of major systems is capitalised within intangible assets. All other computer software costs are expensed as incurred. Computer systems under development are not amortised until the system has been completed and is ready for use.

Impairment

Assets that are subject to depreciation and amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is an indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Leases

Rent payable under operating leases is charged to the income and expenditure account on a straightline basis over the term of the lease.

The JFSC has taken advantage of the exemption available on transition to FRS 102, which allows lease incentives on leases entered into before the date of transition to continue to be released to the income and expenditure account on a straight-line basis over the period to the first lease break.

Gains and losses on disposal of intangible assets are determined by comparing any proceeds with their carrying amount and are recognised in the income and expenditure account.

In the requirements gathering phase of an internal systems development project, it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure incurred is recognised as an expense when incurred. Systems developments are recognised as fixed assets from the development phase of a project if, and only if, certain specific criteria are met in order to demonstrate the system will generate probable future economic benefits and that its cost can be reliably measured. If it is not possible to distinguish between the requirements gathering phase and the development phase, the expenditure is treated as if it were all incurred in the requirements gathering phase only.

Cashflows from registry and supervisory income are separately identifiable and assets are allocated between these cashflows based on their operational application.

Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

For leases entered into after the date of adoption of FRS 102, lease incentives received to enter into operating lease agreements are released to the income and expenditure account over the full term of the lease.

08.



Financial contributions

Financial contributions received for the development and implementation of specific Government policies and objectives are accounted for in accordance with the guidance provided for government grants. Contributions received are recognised based on the accrual model and are measured at the fair value of the assets received. Contributions are classified as relating to revenue

or the development of assets. Contributions relating to revenue are recognised as income over the period in which the related costs are recognised. Contributions related to the development of assets are initially recognised as deferred income and are recognised in income on a straight line basis over the expected useful life of the related asset.

Government grants

Amounts received from the Government of Jersey are accounted for under the accrual model. These amounts are measured at their fair value and are classified as relating to revenue. Amounts received are recognised as income over the period in which the related costs are incurred.

Pension costs

The costs of defined contribution pension schemes are accounted for on an accruals basis. The costs of annual contributions payable to defined benefit schemes operated by the States of Jersey are accounted for on an accruals basis because the JFSC is unable to obtain the information necessary to apply defined benefit scheme accounting (see note 17).

Annual leave pay accrual

A liability is recognised to the extent of any untaken annual leave entitlement which has accrued at the balance sheet date and can be carried forward to future periods. The liability is measured at the undiscounted cost of untaken annual leave that has accrued up to the balance sheet date.

Provision for long leave entitlements

Provision is made for the accrued entitlements to long leave as at the balance sheet date, even when such entitlements may not yet have vested. The provision is increased each year as additional entitlements are earned. The provision is decreased when long leave entitlements are taken and when such entitlements expire.

The provision represents management's best estimate of the amounts expected to be paid out, taking into account long leave entitlements that may be lost when an employee leaves the employment of the JFSC. The provision is discounted if the effect would be material.

Provision for premises reinstatement

Provision is made for the expected cost of reinstating office premises to their original condition on termination of existing lease agreements. The balance represents management's best estimate of amounts to be paid for reinstatement. The provision is assessed each year based on changes in the expected cost of restoration and discount rates where applicable.

The provision will be reduced when related costs are incurred in future periods. Provisions for premises reinstatement are discounted if the effect would be material.

02. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key accounting estimates and assumptions

Management is required to make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the actual outcomes. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Provision for long leave entitlements

The balance of the provision for long leave has been determined based on a range of estimates regarding the probability that the related leave entitlement will vest and be taken. This represents management's best estimate regarding the expected future cash flows related to long leave entitlements.

Provision for premises reinstatement

The balance of the provision for premises reinstatement has been determined based on the applicable square footage of leased premises and the rate per square foot for such reinstatement works published by the Royal Institute of Chartered Surveyors. The provision is adjusted annually based on movements in the published rate per square foot. This represents management's best estimate regarding the expected future cash flows related to these costs. The balance is discounted if the effect would be material.

Useful lives and residual values

Fixed assets are depreciated over their estimated useful lives, taking into account residual values where appropriate. The actual lives and residual values are assessed annually and may vary depending on a number of factors. In re-assessing useful lives and residual values, a wide range of factors are taken into account. Changes in these assessments are accounted for prospectively and therefore only have a financial effect on current and future periods.

03. Taxation

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

08.

› 04. Regulatory fee income

	2017	2016
	£'000	£'000
Banking	1,489	1,482
Funds	5,310	4,976
Insurance companies	698	672
General insurance mediation	108	104
Investment business	1,355	1,228
Trust companies	2,545	2,498
Designated non-financial businesses and professions	599	557
Recognised auditors	19	26
Money services business	23	17
	12,146	11,560

› 05. Registry fee income

Registry fees arise from the operation of the Companies Registry, the Business Names Registry, the Registry of Limited Partnerships, the Registry of Limited Liability Partnerships, and the Security Interests Register.

Registry fees include annual return fees. The amount of the annual return fees payable to the Registry include amounts collected on behalf of and remitted to the States of Jersey.

The number of annual returns received during the year was:

	2017	2016
	£'000	£'000
Annual returns received	33,515	34,052
	2017	2016
	£'000	£'000
Total annual return fee income	7,023	5,108
Less: collected on behalf of the States of Jersey	(5,025)	(3,916)
Retained by the JFSC	1,998	1,192
Other Registry income	2,250	2,014
Total Registry income	4,248	3,206

› 06. Other income

	2017	2016
	£'000	£'000
Income from hosted events	18	7
Investigation and litigation recoveries*	-	76
Registry development services	67	283
Recognised financial contribution income	71	-
Sundry income	36	12
	192	378

*As part of its regulatory responsibilities, the JFSC carries out investigations and enters into legal actions from time to time, the costs of which may be significant. In a few cases, some or all of the JFSC's costs may be recoverable.

› 07. Staff costs

	2017	2016
	£'000	£'000
Staff salaries	9,401	9,026
Commissioners' fees	391	399
Social security contributions	438	429
Pension contributions	740	765
Permanent health and medical insurance	325	286
Other staff costs	150	149
Long leave provision	112	80
Annual leave pay accrual	15	(32)
	11,572	11,102

Contributions to staff pension schemes are payable monthly to pension scheme administrators. Contributions amounting to £95,000 (2016: £Nil) were payable to the schemes at year end. The average number of staff employed during the year was 131 (2016: 130).

› 08. Deficit for the year

Deficit for the year is stated after including the below:

	2017	2016
	£'000	£'000
Depreciation of tangible fixed assets	251	210
Amortisation of intangible assets	548	274
Foreign exchange differences	-	(2)
Contributions to employee pension schemes ^(refer to note 17)	740	765
Operating lease expenditure	537	520
Audit fees	22	25

08.

› 09. Intangible assets

	Computer systems under development	Computer systems	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2017	1,106	4,570	5,676
Additions	1,392	15	1,407
Transfer to tangible fixed assets	(64)	-	(64)
Completed computer systems	(1,307)	1,307	-
At 31 December 2016	1,127	5,892	7,019
Amortisation			
Balance at 1 January 2017	-	(2,777)	(2,777)
Charge for the year	-	(548)	(548)
At 31 December 2017	-	(3,325)	(3,325)
Net book value at 31 December 2017	1,127	2,567	3,694
Net book value at 31 December 2016	1,106	1,793	2,899

The principal expenditure during the year related to the development of the Central Register of Beneficial Ownership and Control, further development of the relationship management system related to the Change Programme and core information systems replacements and upgrades.

› 10. Tangible fixed assets

	Office furniture, fittings & equipment	Leasehold improvements	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Balance at 1 January 2017	774	-	1,409	10	2,193
Additions	29	295	84	13	421
Transfer from intangible assets	-	-	64	-	64
Disposals	(43)	-	(2)	(9)	(55)
At 31 December 2017	760	295	1,555	13	2,623
Accumulated depreciation					
Balance at 1 January 2017	(705)	-	(992)	(9)	(1,706)
Charge for the year	(38)	(44)	(167)	(2)	(251)
Disposals	43	-	2	10	54
At 31 December 2017	(700)	(44)	(1,157)	(2)	(1,903)
Net book value at 31 December 2017	60	251	398	11	720
Net book value at 31 December 2016	69	-	417	1	487

› 11. Cash and bank balances

	2017	2016
	£'000	£'000
Current accounts	201	203
Deposit accounts	8,681	7,535
Petty cash	4	2
Cash and cash equivalents at bank	8,886	7,740

The JFSC's accumulated financial reserves less the funds invested in fixed assets and working capital are invested in bank deposit accounts. In order to mitigate the credit risk, these deposit accounts are maintained with five different banks.

Included in deposit account balances are funds amounting to £678,000 which have been identified as relating to Deferred registry fees (refer to Note 12).

› 12. Creditors

	2017	2016
	£'000	£'000
Trade creditors	1,333	979
Accruals	705	518
Deferred rental incentive	82	76
Financial contributions	422	-
Deferred registry fees*	678	-
Sundry creditors	408	144
	3,628	1,717

* The JFSC has agreed with the States of Jersey that a portion of the additional registry fees charged, with effect from 1 January 2017, will be segregated and used for certain current and future enhancements to the Registry and its systems.

In the event of a sustained surplus of such deferred fees the residual amount is likely to be remitted to the States of Jersey at a future date. The balance represents the surplus of such fees collected in 2017 that exceeded the agreed expenditure on registry systems in the year.

08.

› 13. Provisions for liabilities

	Provision for long leave	Reinstatement Provision	Total
	£'000	£'000	£'000
Balance at 1 January 2016	455	-	455
Amounts provided for during the year	173	-	173
Reversal of unused provision	(93)	-	(93)
Utilised during the year	(267)	-	(267)
Balance at 31 December 2016	268	-	268
Amounts provided for during the year	120	244	364
Reversal of unused provision	(8)	-	(8)
Utilised during the year	(111)	-	(111)
Balance at 31 December 2017	269	244	513
Falling due within one year	210	-	210
Falling due after one year	59	244	303
	269	244	513

Provision for long leave

The provision for long leave relates to the expected cost of long leave entitlements that have accrued up to balance sheet date. Long leave entitlements may continue to accrue up to June 2043 if all vesting conditions are satisfied up to that period.

Provision for premises reinstatement

The provision relates to the expected cost of reinstatement of office premises to their original condition (at commencement date) on termination of premises leases. The balance at year end has been determined based on a guideline rate of £12 per square foot as determined by the Royal Institute of Chartered Surveyors. The provision is adjusted annually based on movements in the guideline rate.

› 14. Commitments under operating leases

The JFSC had minimum lease payments under non-cancellable operating leases as set out below:

	2017	2016
	£'000	£'000
Not later than 1 year	560	516
Later than 1 year but not later than 5 years	2,015	2,063
Later than 5 years	-	172
	2,575	2,751

Rentals payable under this operating lease are subject to periodic review and are based on market rates. The most recent rent review was agreed during the year. The resulting rental increase was effective from May 2016. The next rent review is due to commence in 2019.

› 15. Financial instruments

The JFSC had minimum lease payments under non-cancellable operating leases as set out below:

	2017	2016
	£'000	£'000
Financial assets		
Financial assets measured at amortised cost	9,756	8,243
Financial liabilities		
Financial liabilities measured at amortised cost	(2,277)	(1,014)

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors and other creditors, accruals and deferred registry fees. Any amounts due in respect of taxes and social security have been excluded.

› 16. Premises reinstatement provision

During the year the expected future costs required to reinstate existing leased office premises to their original condition, when the leases are terminated, became material to the overall financial position. A provision for reinstatement was raised as at 1 January 2017 to reflect management's best estimate of amounts to be paid for reinstatement of office premises.

The financial effect of raising this provision is an increase in provisions of £208,000, an increase in the net book value of fixed assets of £169,000 and an increase in the depreciation charge of £39,000.

08.

› 17. Pension costs

JFSC 2012 Staff Pension Scheme

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

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

Salaries and emoluments include pension contributions for staff to the schemes of £716,850 (2016: £739,444). Contribution rates have remained unchanged. Aggregate contributions decreased due to changes in membership numbers, ages and employment grades.

Public Employees Contributory Retirement Scheme

Staff employed by the JFSC before 1 January 1999 are members of the Public Employees Contributory Retirement Scheme (PECRS) which is a final salary scheme. The assets are held separately from those of the States of Jersey. Contribution rates are determined by an independent qualified actuary, so as to spread the costs of providing benefits over the members' expected service lives.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2016, reported a deficit of £68.5 million. The next actuarial valuation will be undertaken to value the underlying scheme assets as at 31 December 2019. No account has been taken of the JFSC's potential share of this deficit because the scheme is accounted for as if it is a defined contribution scheme.

Salaries and emoluments include pension contributions for staff to this scheme amounted to £23,449 (2016: £25,531). The average contribution rate paid by the JFSC during the year was 13.6% (2016: 13.6%) of salary. The contribution rate has not been changed following the actuarial valuation because the valuation is within the funding parameters specified in the related regulations.

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

The JFSC is unable to identify its share of the underlying assets and liabilities of PECRS in accordance with FRS 102 (Section 28) and accordingly accounts for contributions to the scheme as contributions to a defined contribution scheme.

› 18. Related party transactions

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

Key management personnel include the Commissioners, the Director General and Executive Directors who together have authority and responsibility for planning, directing and controlling the activities of the JFSC. Total compensation paid to members of key management personnel during the year was £2.2 million (2016: £2.4 million).

Remuneration of the Commissioners and the Director General is set out on page 57 of this Annual Report. There were no other transactions with key management personnel other than reimbursement of expenses incurred for JFSC purposes.

› 19. Subsidiary undertakings

At 31 December 2017, the JFSC had an interest in one wholly owned subsidiary company (2016: one wholly owned subsidiary company). Further details are outlined below:

Name:	JFSC Property Holdings No.1 Limited
Country of incorporation:	Jersey
% of shares held:	100%
Principal activity:	Property lease holding

JFSC Property Holdings No.1 Limited entered into an agreement on behalf of the JFSC to lease the JFSC's office premises. All expenditure incurred by the Company is borne by the JFSC. The Company has no assets or liabilities and therefore has not been consolidated in the financial statements.

09.

› Appendices



09.

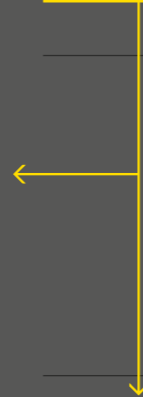
> Appendices⁰¹ Commissioners 2017



Lord Eatwell
Chairman



Debbie Prosser
Deputy Chairman



John Harris
Director General



Michael De la Haye
Commissioner



Annamaria Koerling
Commissioner



Simon Morris
Commissioner



Peter Pichler
Commissioner



Markus Ruetimann
Commissioner



Cyril Whelan
Commissioner



Ian Wright
Commissioner

09.

> Appendices⁰² Executives & Heads of Unit 2017



John Harris
Director General



Mark Sumner
Director of Supervision
and Risk



Jill Britton
Director of Supervision



John Everett
Deputy Director General



Barry Faudemer
Director of Enforcement



Mike Jeacock
Chief Operating Officer



Julian Lamb
Director of Registry



Roy Geddes
Head of FSB and TCB



Tony Shiplee
Head of IB, FSB and
Insurance



David Porter **
Acting Director of Policy



Caroline Morgan*
Acting Head of Financial
Crime Policy



Hamish Armstrong*
Acting Head of Financial
Crime Policy



Kerry Petulla
Head of Enforcement



Sarah Kittleson
Head of Programme
Management Office



Emma Mathew
Head of Communications



Wanda Adam
Head of Registry Policy
and Service Delivery



Andrea John
Head of Banking, TCB
and DNFBP



Darren Boschat
Head of Supervisory Risk



Phil Robson
Acting Head of Policy



Jason Carpenter
Head of Supervision
Examination Unit



Sam Davison
Head of Central
Support Unit

As at 31 December 2017

* Andrew Le Brun currently
on secondment with the
Government of Jersey

** Mike Jones currently on
industry secondment



Matt Ebbrell
Head of Human Resources



Stuart Keir
Head of Finance



Dawn Kennedy
Head of Registry
Operations and Processing



Denis Philippe
Head of ICT



Mark Syvret
Head of Facilities

10. Notes

International regulatory bodies with which the JFSC is either associated or an active member:

› 1. Full member of:

- › International Organization of Securities Commission (IOSCO)
- › Group of International Finance Centre Supervisors (GIFCS)
- › International Association of Insurance Supervisors (IIAS)
- › International Federation of Independent Audit Regulators (IFIAR)

› 2. Participates fully in the processes, and is subject to the procedures, of:

- › Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of terrorism (MONEYVAL)

› 3. Participates in the work of the following through its membership of GIFCS:

- › Basel Committee on Banking Supervision (BCBS)
- › Financial Action Task Force (FATF)



11.

› Glossary

› AIFMD	Alternative Investment Fund Managers Directive
› AML/CFT	Anti-money Laundering / Countering Financial Terrorism
› API	Application Programme Interface
› Basel III	International set of banking standards
› CIPD	Chartered Institute of Personnel & Development
› COBO	Control of Borrowing Order
› CRM	Customer Relationship Management
› EU	European Union
› FATF	Financial Action Task Force
› FCA UK	Financial Conduct Authority
› FIN-NET	Financial Crime Information Network
› FRS 102	Financial Reporting Standard 102
› GDPR	General Data Protection Regulation
› GIFCS	Group of International Finance Centre Supervisors
› Government	Government of Jersey
› IACA	International Association of Commercial Administrators
› Industry	Jersey's financial services industry
› IOSCO	International Organization of Securities Commissions
› JFSC	Jersey Financial Services Commission
› MiFID II	Markets in Financial Instruments Directive
› OECD	Organisation for Economic Co-operation and Development
› Registry	Companies Registry
› the Commission Law	Financial Services Commission (Jersey) Law 1998
› UN	United Nations

› Building confidence in the stability and probity of the financial services industry in Jersey



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