ANNUAL REPORT2010

Jersey Financial Services Commission

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

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

Within its 45 square miles the Island has a population of around 92,500 and enjoys a reputation as a well-regulated international finance centre.

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

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

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

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

The Commission is a statutory body corporate, set up under the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**).The Commission Law provides for a Board of Commissioners to be the governing body of the Commission. The Commission Law established the Commission as an independent body, fully responsible for its own regulatory decisions. The Commission is accountable for its overall performance to the States of Jersey through the Minister for Economic Development.

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

The Commission's key purpose is:

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

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

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

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

Non-Executive Commissioners

Clive Jones - Chairman

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

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

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

Clive is currently the Chairman of Governors for Highlands College.

Jacqueline Richomme - Deputy Chairman (until May 2010)

Jacqueline Richomme was first appointed as a Commissioner on 1 October 2001 and became Deputy Chairman in June 2007. She retired from the Board on 31 May 2010, having served three full terms as Commissioner.

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

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

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

John Averty - Deputy Chairman (from June 2010)

John Averty joined the Board of Commissioners in December 2005 and was appointed Deputy Chairman on 1 June 2010.

He was born in Jersey and educated at Victoria College.

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

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

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

Lord Eatwell of Stratton St. Margaret (from April 2010)

Lord Eatwell joined the Board of Commissioners on 22 April 2010.

Lord Eatwell is currently Professor of Financial Policy at the University of Cambridge and, for a number of years, his work has focussed on issues of financial regulation. He leads a work stream within the Centre for Financial Analysis and Policy (CFAP, a research centre he directs) on financial regulatory issues.

In 1998, Lord Eatwell played a pivotal role in analysing the problem of systemic risk in financial markets, which led in due course to the creation of the Financial Stability Forum (now the Financial Stability Board). Lord Eatwell has undertaken a number of roles with UK regulators and has acted as an adviser on regulatory matters to the Bank for International Settlements, the Banking Committee of the US Senate, the European Parliament and the Hong Kong Monetary Authority.

Advocate Debbie Lang

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

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

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

John Mills, CBE

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

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

In Jersey, John is a Member of the Shadow Harbours and Airport Board, and holds two honorary positions in Jersey, as a Member of the States Members Remuneration Review Body and as an Income Tax Commissioner of Appeal. In England, he is Vice-Chairman of the Port of London Authority, a Board Member of the Commission for Rural Communities and Chairman of the Governing Body of Highgate School, London.

Non-Executive Commissioners

Frederik Musch (until May 2010)

Frederik was appointed as a Commissioner on 18 July 2001 and retired from the Board on 31 May 2010, having served three full terms as Commissioner.

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

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

Markus Ruetimann (from September 2010)

Markus Ruetimann joined the Board of Commissioners on 13 September 2010.

Mr Ruetimann is Group Chief Operating Officer for Schroder Investment Management Limited, based in London. Mr Ruetimann's global responsibilities encompass portfolio services, fund services, information technology, group change and project management and corporate services. Mr Ruetimann joined Schroders in November 2004 and was appointed Chairman of Schroder Investment (Luxembourg) S.A. in January 2005. Mr Ruetimann has been a member of Group Management Committee of Schroder plc. since June 2005 and was appointed as a director of Schroder & Co. Bank AG, Zurich in September 2009.

Philip Taylor, FCA

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

Philip is a Member of the Accountancy and Actuarial Discipline Board of the Financial Reporting Council, a Member of the Financial Services Advisory Board and Chairman of the Board of Governors of Jersey College for Girls.

Crown Advocate Cyril Whelan (from June 2010)

Crown Advocate Whelan joined the Board of Commissioners on 1 June 2010.

Called to the English bar in 1979 and to the Jersey bar in 1982, he has spent 28 years as senior legal adviser in the Law Officers' Department in Jersey. He was appointed to the office of Crown Advocate immediately upon the creation of that office in 1987 and remains the Island's Senior Crown Advocate.

As head of the Section within the Law Officers' Department responsible for Serious Crime and International Mutual Legal Assistance, he has advised on all aspects of public law, including serious crimes such as complex fraud and money laundering. He retired from the Law Officers' Department in 2007 and is currently a Senior Consultant at the local law firm Baker & Partners and is also a Door Tenant of Chambers at Seven Bedford Row, London.

Sir Nigel Wicks

Sir Nigel Wicks joined the Board of Commissioners in July 2007. He is currently the Chairman of Euroclear, having previously been non-executive Deputy Chairman, and a director of the Edinburgh Investment Trust plc. He was a member of the British Civil Service for 32 years. He held the position of Second Permanent Secretary and Director of International Finance at HM Treasury from 1989 to 2000. He has held senior positions in the offices of former British Prime Ministers. He served as Chair of the Committee on Standards in Public Life between 2001 and 2004.

Executive Commissioner

John Harris - Director General

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

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

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

One of the Commission's aims is to "identify and deter abuses and breaches of regulatory standards".

Last year I was able to report to you on the results of the International Monetary Fund's (**"IMF"**) evaluation of Jersey and on the publication of the Foot report in 2009. There were no similar high points in 2010 but, instead, a lot of solid work which built on the achievements of the previous year.

One of the Commission's aims is to "identify and deter abuses and breaches of regulatory standards". In that respect, the work in developing Settlement Agreements has greatly increased the effectiveness of the Enforcement Division and allowed quick conclusion of a number of cases where the circumstances have been admitted and the sanctions agreed. Whilst not all cases will be uncontested and nor will all cases be allowed to proceed to settlement, as a new tool settlements have proved effective. Further, during the year discussions have continued with the Law Officers' Department on a regime for civil or administrative penalties for breaches of the Codes of Practice. It is expected the Commission will be in a position to consult on this proposed new regime in 2011. Taken as a whole these measures will broaden the range of sanctions that the Commission is currently able to impose.

During the year, the Commission also published new guidance on the enhanced due diligence necessary when dealing with prospective clients from higher-risk jurisdictions. Precisely because Jersey is now well-regarded and highly-rated, it has become an attractive jurisdiction for business of all types. At a point in the economic cycle when new business may be harder to come by, it is important that registered persons give extra attention to their obligations under the Regulatory Laws[1].

The Investment Business Team completed a further "mystery shopping" exercise in 2010 targeting independent financial advisers and retail banks. Although there were marked improvements evident when compared to the previous exercise in 2007, there was still room for improvement in the advice process. "Mystery shopping" will continue to be a valuable diagnostic tool.

These are but three individual examples of work in 2010. As always, on-site examinations continued to be the backbone of the Commission's efforts in assessing compliance, with 248 examinations being undertaken during the year. Work also continued in consulting on and implementing recommendations from the 2009 IMF visit, and the Funds Team, working with the ICT Division, implemented online filing of funds statistics in the fourth quarter of 2010.

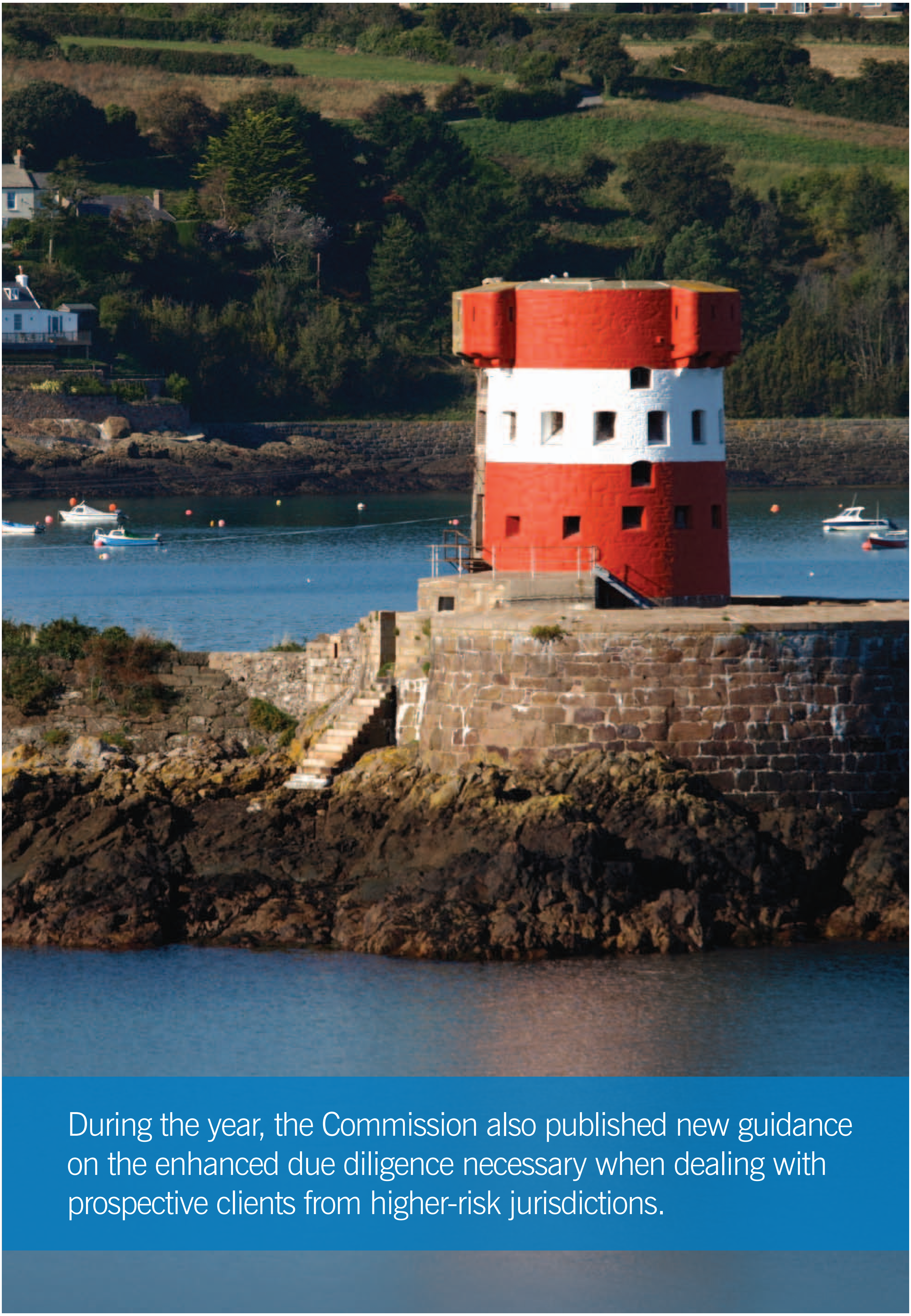
As might be expected, simply maintaining and keeping the Regulatory Laws up to date also consumed effort in 2010.

The Commission must, of course, also be prepared to engage in respect of overseas regulation that impacts on Jersey-regulated businesses. In that regard, in 2010 much work was done with Jersey's finance industry (the **"Industry"**) in relation to the EU's Directive on Alternative Investment Fund Managers, and this work will continue throughout 2011. The Financial Services Authority's (the **"FSA"**) new bank liquidity regime has also raised issues that affect the business models of some of the larger banks in the Island, and the Commission is seeking to work with all parties to develop a practical resolution. The FSA's Retail Distribution Review will similarly have an impact on the investment business community, and it is expected that a position paper will be issued setting out the Commission's stance in the first half of 2011.

The Commission is fortunate that Jersey is of a size that permits regular interaction with large swathes of the regulatory community and therefore the maintenance of effective working relations is possible. Over and above that, however, the Commission does seek to reach out whenever it feels it can usefully do so. In that respect one day Industry seminars were held for Funds and Trust Company Business, and a half day seminar was held on Anti-Money Laundering, each of which was attended by some 400 delegates. During the year, the Commission also produced guidance for Industry on sanctions which was published on its Website at the beginning of 2011. In the light of subsequent events this was a particularly timely action.

Outreach is not merely a local issue. It is important that the Commission be seen by its peers to be both active and effective: to 'punch above its weight' in the international regulatory community. In 2010, officers from the Commission participated in banking regulatory colleges, were members of the Implementation Task Force of the International Organisation of Securities Commissions, the Financial Action Task Force Expert Group of the Offshore Group of Banking Supervisors, and the European Commission's Panel of Experts on Anti-Money Laundering and Countering the Financing of Terrorism. In addition, the Commission hosted in Jersey the annual training seminar of the Offshore Group of Insurance Supervisors and the annual conference of the Extended Contact Group of Securities Supervisors. All these activities were in addition to the normal duties of the Commission's staff and I would like to record my appreciation of this important extra effort.

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



During the year, the Commission also published new guidance on the enhanced due diligence necessary when dealing with prospective clients from higher-risk jurisdictions.

In a similar vein, further progress was made in respect of international co-operation in 2010. In April a Memorandum of Understanding was signed with the Reserve Bank of South Africa and in October a Multilateral Memorandum of Understanding with the International Association of Insurance Supervisors. By the end of the year work was underway on an agreement with the French Autorité de Contrôle Prudentiel.

During 2010, a number of changes were made to the Board of Commissioners. In May Jacqueline Richomme, Deputy Chairman, and Frederik Musch both retired after nine years' service. Their dedication and their wise counsel have been of enormous value to the Commission, and we are indebted to them.

During the year, the Director General and Commissioner Sir Nigel Wicks were both appointed to a second term, as was the Chairman. Commissioner Averty was appointed Deputy Chairman in June.

The Board was also strengthened by the appointment of three new Commissioners during the year: Lord Eatwell of Stratton St. Margaret in April, Crown Advocate Cyril Whelan in June and Markus Ruetimann in September. They bring enormous expertise to the Board's deliberations.

Taken together with the retirements and appointments in 2009, the Board has undergone considerable change over the past 18 months. In considering the effect of the current terms of office of Commissioners on the Board's 'corporate memory', when taken together with the Jersey Appointments Commission's (**"JAC"**) prescriptions on length of service, discussions took place in 2010 with the JAC and with the Minister for Economic Development on lengthening the term of appointment of Commissioners. It is expected a proposition will be brought to the States by the Minister in 2011.

During 2010, the Board conducted an appraisal of its performance, which was administered and facilitated by the Institute of Directors, London. The exercise included members of the Executive and has led to a number of recommendations for improving the Board's method of working which are being implemented in 2011. The exercise was worthwhile and will be repeated in 2011.

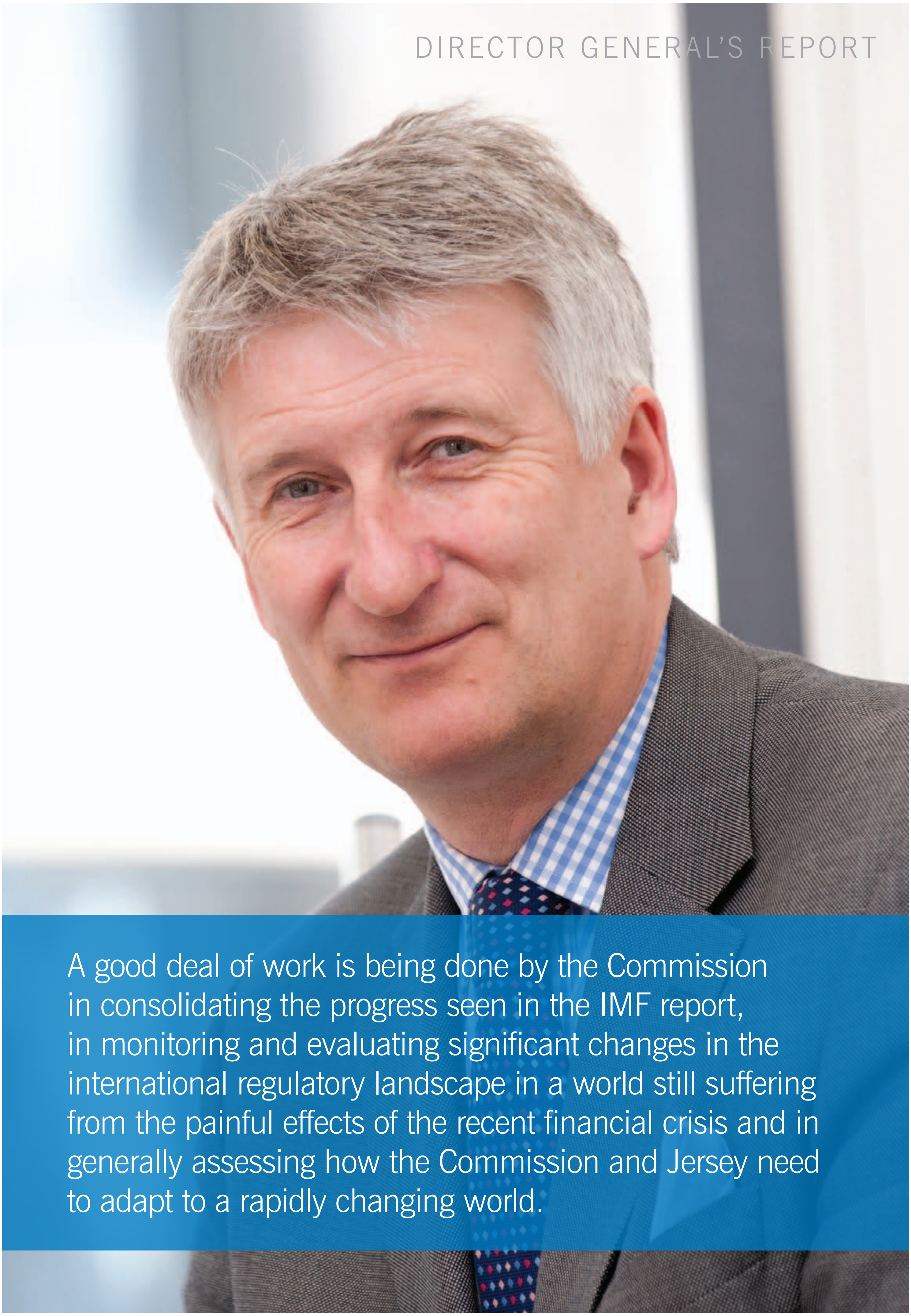
The Board considers that it is subject to the Financial Reporting Council's (the **"FRC"**) Combined Code on Corporate Governance (June 2008) and will be subject to the FRC's UK Corporate Governance Code (June 2010). A note on the Board's assessment of its compliance can be found in the Corporate Governance section of this Annual Report.

Contacts with the Board's counterparts in Guernsey and the Isle of Man continued in 2010 with a day's tripartite meeting taking place in early October. This was a productive day and is to be repeated in October 2011.

To be effective in what it does, the Commission needs to be both a thinking and a learning organisation. To achieve this, extensive resources are committed to training managers and staff, and during the year the Commission was accredited as an Approved Development Provider by the Institute of Leadership and Management.

The Commission is conscious that its costs are paid by its licence holders and, amid a rising tide of international financial regulation, is constantly looking for ways to do more with its existing resources. Although the Board applauds the culture of frugality, it keeps a keen eye on the demands being placed on the Executive in order to avoid over-stretch occurring with a consequent risk of underperformance.

In 2010, the Board began to invite three Directors in rotation to sit in on its meetings. It is hoped this has helped give a wider cross section of the Executive a fuller insight into all of the Board's work as opposed to just those pieces in which they may be directly involved. At the same time it has given the Board a better opportunity to see the Directors and some of their senior managers in action. The Board is impressed with the intelligence, ability and enthusiasm of the Commission's staff and the leadership provided by the Director General. The Board is grateful to all of them.



A good deal of work is being done by the Commission in consolidating the progress seen in the IMF report, in monitoring and evaluating significant changes in the international regulatory landscape in a world still suffering from the painful effects of the recent financial crisis and in generally assessing how the Commission and Jersey need to adapt to a rapidly changing world.

For the Commission, 2010 was an example of how the life of organisations can be somewhat "tidal" in nature. Following the watershed achievements of 2009 which saw the publication of the favourable IMF evaluation of Jersey, the positive outcome of the UK Treasury commissioned Foot Report and the OECD White List recognition of Jersey as a jurisdiction substantially complying with international taxation standards, it was always going to be difficult for 2010 to reach the same heights. Nonetheless the year was one of solid work and progress both for the Commission and for the Island in general in a somewhat weak but tentatively recovering economic environment. A good deal of work is being done by the Commission in consolidating the progress seen in the IMF report, in monitoring and evaluating significant changes in the international regulatory landscape in a world still suffering from the painful effects of the recent financial crisis and in generally assessing how the Commission and Jersey need to adapt to a rapidly changing world.

International Development

Notwithstanding the lack of benchmark events for Jersey such as those seen in 2009, the year was another busy one. During 2010 the Basel Committee of Banking Supervisors (**"BCBS"**) published new capital standards for banking institutions and the timetable for their implementation and the impact of this on Jersey was assessed. Without wishing to sound in any way complacent, the particular business model of Jersey based banking institutions should ensure that these new requirements are met without great difficulty for those subsidiary organisations of large multi-national banks which operate in Jersey.

The other significant matter which has been closely followed throughout 2010 has been the development of the European Union's (**"EU"**) Alternative Investment Fund Manager Directive (**"AIFM Directive"**) and the related development of revised Principles for Securities Regulation being worked on by the International Organisation of Securities Commissions (**"IOSCO"**), both of which have potentially significant impact on the Island's funds offerings. In both cases the picture at the end of 2010 was somewhat more positive than had appeared to be the case at the beginning of the year, in that the requirements of the AIFM Directive appear overall to be capable of being fully met by the Island in its quest for equivalence recognition under the Directive and, therefore, its ability to continue to offer alternative fund products to the EU market. Much work remains to be done in 2011 to ensure that this is indeed the case and a good deal of detail remains yet to be decided. In terms of work on the IOSCO Principles, the Commission was privileged to be part of the IOSCO working group considering the methodology for assessing compliance with IOSCO Principles 1 – 11, as well as involvement in some related working parties.

Again the Commission feels that the changes likely to be agreed are ones that Jersey will be able to embrace in full without significant overhaul of its own regulatory regime.

As a general matter of policy and priority, the Commission has continued to work on developing its international profile and international relations in a number of different ways during the past 12 months. This has taken many forms, including the signing of a new Memorandum of Understanding (**"MoU"**) with the South African Reserve Bank, which is of particular relevance given the fact that Jersey has four major South African owned financial services businesses operating in the Island. Significant co-operation was seen in terms of servicing requests for assistance and working with fellow regulators in a number of different domains, including cross-border bank supervision and co-ordinating positions on the AIFM Directive and the IOSCO Principles. Multi-Lateral Memorandum of Understanding (**"MMoU"**) status in respect of the International Association of Insurance Supervisors (**"IAIS"**) was achieved and full participation in many international organisations including the Offshore Group of Banking Supervisors (OGBS), through which the Island continues to enjoy significant interface with major multi-lateral standard setting bodies such as the Financial Action Task Force (FATF) and the BCBS, was a feature of the Commission's continuing activities. To these initiatives can be added development work on behalf of the Island as a whole in bi-lateral interfaces with key regulatory bodies in markets of developing importance for the finance industry in Jersey (the **"Industry"**), such as India, China and the Middle East.

During 2010, it is also worth recording that significant emphasis was placed on the need to build upon the Commission's existing good relationship with the UK's Financial Services Authority (**"FSA"**) despite, or perhaps because of, the forthcoming restructuring of the FSA into different successor organisations. To some extent this work has laid the basis for good existing relationships to continue once the FSA is split into those successor organisations, which is expected to be in early 2012, but at the same time certain key areas of interface which the Commission has developed in recent years with the FSA have also been consolidated during the past 12 months. Notably these include links which allow the Commission to work with the FSA on matters of international securities development as well as with the FSA's own intelligence and enforcement communities, and through them the wider FIN-NET network that enables the Commission to access a number of regulatory and law enforcement agencies to assist in the all important joint effort of combating financial crime.

Regulatory and Supervisory Developments

As is developed in the main body of this report, 2010 saw something of a recovery in the numbers of entities seeking authorisation from the Commission to conduct various financial services activities in the Island. Notable has been an increase in applications for different classes of funds which suggest the first tentative signs of a recovery in this critical market for Jersey. In addition, there has been a certain level of new activity in respect of trust company business applications, both in corporate form and in respect of individuals registering under the revised requirements for directorships that apply since the introduction by the Commission of a new de minimis exemption for individuals. Rather quieter have been the sectors of investment business, insurance and banking. In fact, during 2010 and likely to continue into 2011, a number of banking registrations in the Island have been surrendered by smaller banks, which have found it difficult to continue with their previous business model in the wake of the recent financial crisis at a time when banking groups generally have been reviewing their international footprint on grounds of economic necessity. This does not mean that Jersey's banking sector has been substantially reduced in size as many of these previous registrations were held by institutions with only a very small presence in the Island. Nonetheless, the trend towards lower numbers of banking registrations is necessarily still of concern, not least in terms of the Commission's own resourcing requirements with virtually the same overall sector in terms of size and complexity but with a reduced number of fee payers. This trend will be carefully monitored in 2011 and the extent of the Commission's resources devoted to the banking sector kept under close review.

Supervisory work remains the bedrock of the Commission's overall mission divided between on-site examinations and off-site monitoring of financial services entities allied to other supervisory tools, such as intelligence information derived from customer complaints and other sources, which influence the shape of the supervisory effort in any one given year. 2010 was no different in this respect and the later pages demonstrate that we have had to flex to some extent the number of on-site examinations to accommodate emerging realities, particularly where greater supervisory effort was compelled by the need to monitor developments at a number of firms where adverse trends had been identified together with a need for remedial action. This is an ongoing issue for the Commission and it has given rise to a further focus on the distribution and effort within the overall supervisory regime which I comment upon in terms of 2011 objectives below.

The main themes to emerge from the 2010 supervisory focus are again detailed in the ensuing pages. In summary, across all sectors but particularly in the funds sector, a theme of sometimes inadequate overall governance, including a failure to demonstrate proper oversight by boards and appropriate accounting between legal entities, was uppermost. Within investment businesses, despite significant improvements being seen in the sector and validated by the latest "mystery shopping" exercise conducted in 2010 for which the results have recently been published, there remain a number of issues around disclosure of commissions, fees and charges, and in the relation of customer risk appetite to investment and product recommendations. All of this is relevant in a world which is moving towards a new model being pioneered by the UK FSA's Retail Distribution Review (RDR), which the Island served notice in 2010 that it intended to follow, at least in broad terms, within its own investment business sector. A related initiative, which was first discussed in the 2009 Annual Report, is an Investor Education initiative aimed at the wider investing public in Jersey, with an intended clear guide to the dos and don'ts of investing, and best practice in buying investment services from different providers. For a variety of reasons this initiative did not progress as quickly as was hoped during 2010 but these delays have now been dealt with and the initiative was launched in the first quarter of 2011, building on the development work of the preceding 12 months.

The trust company business sector in 2010 saw something of a repeat of the pattern in previous years, with many firms observing excellence in their working practices but with a number of key issues identified in a minority of firms requiring enhanced supervision and close monitoring by the Commission, including material breaches of the regulatory regime. New business take-on and subsequent due diligence, and know your client procedures have been particularly highlighted, thrown into further relief by the increasing propensity of Island firms to source business further and further afield, including on occasions from jurisdictions which are identified by the Commission as having the characteristics of higher risk. The theme of business from "higher risk jurisdictions" does not just arise within the trust company business sector but is one where it is important for Industry, Government and the Commission to forge a consensus to inform businesses' expectations of what is and what is not required. This will be a continuing theme for the Commission and Industry during 2011.

As far as the banking sector is concerned, 2010 was something of a difficult year in supervisory terms. It would be fair to say that the sector overall is under pressure both worldwide and in Jersey, and this has been demonstrated by the need for heightened oversight of certain institutions against an international backdrop of new capital standards (albeit delayed in implementation terms). Compounding these challenges is the difficulty for banking institutions in a low interest rate scenario to sustain traditional returns, all the more so in Jersey's predominantly simple banking model of subsidiaries and branches of large multi-national groups collecting deposits in the Island and up-streaming them to the parent bank as the principal asset on their respective balance sheets. The concentration risk that this business model implies is already acknowledged and the challenges it presents further exacerbated during 2010 by certain unilateral measures enacted by other banking supervisors, notably the new FSA liquidity standards implemented during the year. Although the impact of this on Jersey based institutions has not been uniform, the Commission has engaged in dialogue both with Industry and with relevant supervisory authorities elsewhere to seek to manage this particular challenge.

In the insurance sector, which is a relatively small one for Jersey, it is clear that there is a certain amount of flux as can be seen from the authorisation numbers both new and surrendered, and the main event for 2010 was the granting to Jersey of the MMoU status by the IAIS following peer review, representing a successful outcome to the Island's application under this new international standard.

The Commission's Anti-Money Laundering Unit (the "**AML Unit**"), whose main area of activity is the oversight of Designated Non Financial Businesses and Professions (**"DNFPBs"**), comprising a number of sectors related to the core financial services market such as lawyers, accountants, estate agents etc., continued its activity in 2010 with both comprehensive on-site examination and outreach programmes. One particular concern during the year was to gain agreement from all stake holders in respect of this important work on the fee model which needs to be put in place in order for the Commission's DNFBP work to be funded. The outcome of this debate will be known in 2011 as the developed proposals for the fee model have now been submitted for third party adjudication in order to gain resolution on a much debated issue.

Enforcement

The last 12 months has seen a continuing high level of Enforcement activity by the Commission, as is demonstrated by the figures for numbers of cases and requests for assistance processed. The Chairman has commented in his preceding remarks regarding the use of settlement agreements, which came into full effect in 2010, and were used to great advantage to enable the early conclusion of cases and thus better use of Enforcement resources. Settlement agreements are certainly not peculiar to Jersey as they are used by many regulators world wide. Settlement agreements will not work in every case and the recourse of the concerned parties to the Commission's full Decision-Making Process in respect of restrictions on individuals working within Industry, and related matters such as public statements, will still at times be necessary. In whichever form, the Commission has demonstrated in 2010 its determination to deal with cases where standards have not reached a level to which the Island aspires in terms of conduct and observance of regulatory requirements.

Companies Registry

Registry work in 2010 continued against a backdrop of tentative recovery in the volumes of newly incorporated companies together with the enhancement of various capabilities in online search, monitoring and filing under the Easy Company Registry system. This represents solid ground work for the continuing development of a highly automated and technologically efficient registry services environment to which the Commission aspires. As this suggests, a good deal of further development work will be needed in this respect to build on the solid base laid down in 2010, in addition to which the Registry continues to be very active internationally in profiling Jersey's capabilities and in participating in various international initiatives of relevance to all financial and non-financial services users of the Registry.

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Support Services

Mention should also be made of two key support areas within the Commission, ICT and Human Resources (**"HR"**), which were again very active during 2010. Technology can never be taken for granted and the Commission is fortunate in benefiting from a robust infrastructure maintained by its ICT Division, to which can be added a number of support capabilities on which important areas of the Commission such as Registry and Supervision depend. ICT was also greatly involved in laying significant ground work for project development, which aims to increase both internal Commission efficiency and also allow regulated entities to interface electronically with the Commission in future years to a greater degree than is the case at present. One such example was the online Funds Statistics project, which came to fruition during the year and which has improved significantly the previously manual intensive collation of such statistics with benefits for many.

In HR terms, the year saw further development of the Commission's attempts to foster a climate of managerial and personal learning alongside its traditional areas of technical excellence. It was particularly gratifying, therefore, to see the organisation accredited as an approved development provider by the Institute of Leadership and Management for the bespoke programmes that it had pursued in this area during 2010. As Director General, I am highly dependent on the HR function for excellence in administrative infrastructure and learning and development initiatives. I have been particularly grateful for this sustained support over the past 12 months as we take the key theme of the development of the Commission staff to the next desired level.

Relations with Industry

In my statement of last year, I drew attention to the Commission's generally good relationship with the Industry in Jersey. This relationship is much influenced by the regular interactions that take place between Commission staff and various industry practitioners both individually and through the different representative bodies in the Island. If anything, this activity was even more intense during 2010 than in preceding years, not least as a consequence of the challenges of the wider world to which the Island is exposed in developing its financial services offering and in confronting changing regulatory requirements globally. The Commission has been assisted in this endeavour via its good relationship with both Government and with Jersey Finance Limited, the Industry's umbrella representative body. Various tri-lateral discussions, involving all these parties, have been a feature of the landscape during the past year. These mechanisms certainly serve their purpose of facilitating regular constructive dialogue and will be further developed in due course.

During the year, work was undertaken to address some of the key findings which emerged from the 2009 Industry Survey undertaken by the Commission and a further feedback letter on the subject was issued to Industry during early 2011. It is the Commission's intention to undertake a follow up Survey in due course, probably towards the end of the current year.

Overall, the past 12 months have been extremely busy although perhaps lacking a core central theme such as we had in 2008 and 2009 with the all important IMF evaluation. Nonetheless, the sheer range of work and challenges in terms of both maintaining and developing the regulatory, supervisory and enforcement activities of the Commission, together with those of the Companies Registry, has placed significant demands during 2010, and much has been accomplished both in terms of completed initiatives and also in laying important foundations for the future.

Priorities for 2011

The Commission expects another very full year of events and developments in 2011. Internationally, there will be a need to monitor developments in the area of international standards and regulatory requirements, with a particular emphasis on the EU implementing measures for the AIFM Directive and the conclusion of the IOSCO work on the development of its Principles and related methodology. Important areas of work will also be seen in the Single European Payments Area (SEPA) initiative and the conclusion of a project seeking equivalence recognition from the EU in respect of the oversight arrangements for Jersey auditors who act for companies admitted for trading on EU exchanges. It should also be expected that a good deal of further effort will be expended in managing the relationship with the successor organisations to the FSA as well as continuing representation in a variety of international bodies and in bi-lateral endeavours such as, for example, colleges of Banking Supervisors.

In Supervisory work, a key area to be explored in 2011 will involve the Commission's intended review of its supervisory model to ensure that the relative distribution of effort between on-site and off-site activity is optimum. It will also seek to ensure, as far as possible, that Codes of Practice across the different sectors are streamlined and made as uniform as possible, which will be a significant benefit to multiple licence holders in Jersey. The second predominant theme in 2011 will be the continuing work to define the Island's desired approach to business emanating from "higher risk jurisdictions". This will need to embrace take on procedures, ongoing due diligence and wider general best practice in dealing with the challenges thrown up by such business for licence holders. The Commission does not pretend that it has a monopoly of wisdom in this area and is keen to engage in enhanced dialogue with all practitioners and stake-holders to ensure that the right balance is found between the Island being open for new business from various different geographical sources whilst at the same time being aware of and capable of managing the differential risks that may arise.

On the policy front the Commission will continue its work on developing the AML/ CFT regime, both in terms of addressing the remaining recommendations from the 2009 IMF evaluation as well as, where appropriate, tailoring the regime to emerging realities such as the "higher risk jurisdictions" agenda. A significant policy area for further development in 2011 will be that of civil penalties where dialogue continues about the Commission having the ability to add to its range of regulatory sanctions the possibility of levying a civil penalty in respect of a regulatory infraction. Important discussions in this respect are underway with the Island's Attorney General to determine the scope of such a civil penalties regime and its appropriate calibration.

In addition to managing the civil penalties agenda, it is expected that Enforcement will continue to develop its international links with other supervisors, intelligence and law enforcement communities. Domestically, Enforcement will seek both a high level of case conclusion, by way of settlement agreements, as well as the further development and streamlining of the Commission's Decision-Making Process for those cases which are not appropriate to be dealt with in settlement form. Enhancing the Commission's capabilities in terms of the receipt, analysis and dissemination of intelligence both to inform its supervisory effort and to assist cross border co-operation, where necessary, will also be pursued.

For the Companies Registry, 2011 can be expected to be another busy year consolidating recent progress, particularly in respect of greater automation but also with the expected development of further new registers from recent legislation in the Island such as the creation of a new Securities Interest Law and also supporting new structures such as Special Limited Partnerships (SLPs) and Incorporated Limited Partnerships (ILPs), all of which require registry capability for their full and effective implementation.

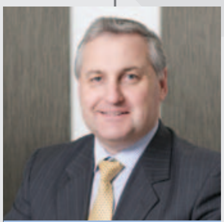
On the HR front, again we will be looking to build on the progress of recent years and develop a theme for the year of "looking outwards" towards the forging of greater links in the HR field with fellow supervisors world wide and the possibility of secondment programmes both outward and inward which provide great opportunities not only for personal development and enrichment, but also the development of further good relations with our peers internationally. On the ICT front, 2011 will see a significant overall upgrading of the Commission's core ICT infrastructure, a project that is likely to dominate for the division over the next 12 months. Notwithstanding, there are some exciting and challenging projects operationally in both the Registry and Supervision areas which ICT will be expected to support, including an effort to streamline and improve the receipt and processing of personal questionnaires for senior and key employees of registered persons which require the Commission's review and agreement.

Finally, in terms of external activity, 2011 will see a further Industry Survey commissioned and the further development of the consumer education initiative via the Commission's own dedicated website in this respect called "Protect your Money" which was launched in March.

I should like to conclude this year's Annual Report statement by thanking the Board of Commissioners for their unfailing wisdom and energy in support of the Executive's efforts during the past challenging 12 months, and by paying tribute to the Commission's Executive Directors and staff for their own extensive efforts in discharging the range of commitments and obligations of the Commission.

As in previous years, I should like to underline that the Commission believes it makes a significant contribution to Jersey's international profile and overall standing in financial and commercial matters and I am privileged, as Director General, to be supported in this endeavour by energetic, hard working and committed staff who help me address our multiple challenges with a good deal of success.

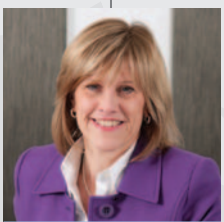
Andrew Le Brun
Director International & Policy



Barry Faudemer
Director Enforcement

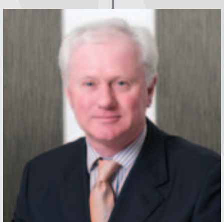
Nick Troy
Deputy Director
AML Unit

Jamie Biddle
Deputy Director
Enforcement



Gail Chadwick
Deputy Director
Internal Audit

Mark Sumner
Director Banking and Insurance



David Banks
Director Securities

Darren Boschat
Deputy Director
Securities

David Hart
Deputy Director
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Roy Geddes
Deputy Director
Securities

Michael Jones
Deputy Director
Securities

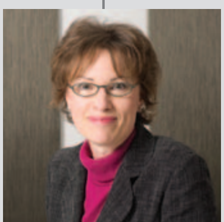
John Harris
Director General

Nigel Woodroffe
Chief Financial Officer

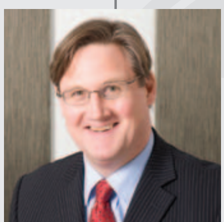
Annette Cullen
Director Human Resources and Facilities Management

Shaun Roberts
Director I.C.T.

Chris Renault
Commission Secretary



Debbie Sebire
Director Trust Company Business



Julian Lamb
Director Registry

Chris Cooke
Deputy Director TCB

Eric Dolan
Deputy Director Supervisory Operations

Sarah Kittleson
Deputy Director Registry and Non-Supervisory Operations

The Commission continued to take an active role in developing and administering the regulatory framework to counter money laundering and terrorist financing and promoting the understanding of sanctions legislation within the Island.

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

Review of 2010

The International & Policy (**"I&P"**) Division has continued to promote, and assist other Divisions with, the development of the regulatory and supervisory framework in which the Commission functions. It has also continued to consider the scope of the Commission's current regulatory activities in light of developments in the UK and elsewhere in the European Union (the **"EU"**).

Scope of regulatory framework

In May 2010, I&P issued a consultation paper on options for regulating and supervising providers of payment services, with the aim of meeting criteria that have been set for non-European Economic Area (**"EEA"**) jurisdictions - such as Jersey - to join the Single Euro Payments Area (the **"SEPA"**). As a result, I&P has requested law drafting time in 2011 to implement legislation in Jersey that is based on Titles III and IV of the Payment Services Directive – the scope of which would be limited to the regulation of SEPA payment instruments.

In July 2010, the Commission published a Feedback Paper which summarised the responses received to its November 2009 Consultation Paper on options for the future regulation of electronic money (**"e-money"**). The responses supported the Commission's view that the Island should introduce a regulatory framework for e-money issuers based on the recently updated EU model. Law drafting time to achieve this has been requested.

Legislation

Work resumed in the year on proposals to introduce a consistent approach under all the Regulatory Laws[1] for the Commission's involvement in the appointment of an auditor by a regulated business. I&P expects to consult on draft legislation in 2011. In addition, I&P has coordinated the preparation and delivery of law drafting instructions to generally "maintain" the Regulatory Laws and also the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 (the **"Supervisory Bodies Law"**), and expects to consult on draft legislation in 2011. General liaison with the Law Draftsman's Office has continued, including co-ordination of the delivery of specific law drafting bids.

I&P supported the Enforcement Division as it sought to amend existing legislation to provide for the Commission to be able to recover some or all of its costs and disbursements incurred due to enforcement action and investigations undertaken. Whilst the necessary legislation was drafted, further work was put on hold pending separate discussions on whether the Commission should have a power to impose civil penalties, where a regulated business had failed to comply with a principle or rule that was set in the Codes of Practice (the **"Codes"**) that have been issued by the Commission[2].

During 2010, I&P continued to develop, and contribute to the development of, legislation that sets out how companies and other legal persons are to be constituted, administered and audited.

- The Companies (Amendment No. 4) (Jersey) Regulations 2009 (the **"Companies Regulations"**) came into force on 5 April 2010. The Companies Regulations amended Part 16 of the Companies (Jersey) Law 1991 (the **"Companies Law"**) and introduced a mechanism for registering and overseeing the work of auditors of market traded companies. The Companies Law refers to such auditors as 'Recognized Auditors' and, to date, 19 firms have been registered with a further 4 currently at the application stage. Between them, the firms audit approximately 110 market traded companies.
- I&P contributed to discussions that have led to the delivery of law drafting instructions to amend the Limited Liability Partnerships (Jersey) Law 1997. I&P's interest has been to understand who it is proposed may act as secretary to a limited liability partnership and what accounting records are to be held in, or accessible from, Jersey by the secretary.
- I&P completed a detailed assessment of the Separate Limited Partnerships (Jersey) Law 201- and the Incorporated Limited Partnerships (Jersey) Law 201–. A number of consequential amendments will be required to the Regulatory Laws and it has been agreed that the Commission should instruct the Law Draftsman's Office in due course.

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

[2] With respect to the imposition of civil penalties "Codes" is to be read as including the AML/CFT Handbooks.

A significant amount of Division time has been spent co-ordinating changes that are proposed to the Codes. The changes that are proposed may be grouped into one of two categories: those that are proposed to bring the wording of the current seven Codes closer together, and those that are specific to a particular set of Codes. It is also proposed to amend the introduction to the Codes to clarify the legal basis upon which they are set, and how they apply to overseas branches of Jersey incorporated companies, and companies incorporated overseas that carry on business in Jersey. Linked to this work, consideration has been given to how the Commission's statutory Codes-making power may be amended to better reflect the "binding" nature of principles and rules set in Codes. Work will continue in this respect in 2011.

Policy statements and guidance notes

I&P co-ordinated changes to the documentation associated with principal and key persons, and a revised package of documents was published in May 2010, which included:

- a new guidance note;
- a revision to the questionnaire that the Commission requires all principal and key persons to submit before appointment; and
- new forms to be used where an existing principal or key person wishes to take on additional appointments or ceases to hold one or more appointments.

Work has also started on revising the Commission's sensitive activities policy for applications that are made under the Control of Borrowing (Jersey) Order 1958 (**"COBO"**).

Assistance has also been provided to the Enforcement Division on redrafting the guidance note on the decision-making process. In particular, work started on updating the guidance note to set out the process that is to be followed where it is possible to agree with the subject of a decision: (i) that there has been wrongdoing; and (ii) on the sanction that is to be applied, including the circumstances when delegated powers may be used to conclude the agreement and when it must be referred to the Board. The revised guidance note will be published in 2011.

Anti-money laundering and countering the financing of terrorism ("AML/CFT")

I&P continued to take an active role in developing and administering the regulatory framework to counter money laundering and terrorist financing and promoting the understanding of sanctions legislation within the Island. This work has included:

- Supporting the Anti-Money Laundering Unit (**"AML Unit"**) with its consultation on fees to be paid by persons carrying on business activities that are listed in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999 (the **"Proceeds of Crime Law"**). Unfortunately, the Commission has been unable to agree with those persons an appropriate fee to be paid, and the Bailiff has appointed three Jurats to set a fee that is to be paid under the provisions set out in Article 21(7) of the Supervisory Bodies Law.
- Following consultation with the Commission's AML/CFT Steering Group, the AML/CFT Handbook has been revised to take account of a group of countries that have been identified by the Financial Action Task Force (the **"FATF"**) as having strategic AML deficiencies, but which are taking positive action to deal with those deficiencies. The result of this is that Appendix D of the Handbook refers now to three separate groups of countries and territories.
- Preparing a bid for law drafting time to update and/or amalgamate the Proceeds of Crime Law, the Drug Trafficking Offences (Jersey) Law 1988 (the **"Drug Trafficking Law"**) and the Terrorism (Jersey) Law 2002 (the **"Terrorism Law"**) to meet developing international standards and resolve practical difficulties experienced by the prosecuting authorities. This work is being undertaken by I&P on behalf of the Chief Minister's Department, with input from the Law Officers' Department and the Joint Financial Crimes Unit.
- Work was undertaken to produce Industry guidance on sanctions during the latter part of 2010, which was published on the Commission's website during January 2011.

I&P devoted a substantial amount of time to assisting the Island's authorities with the development of two separate pieces of legislation which will allow the Chief Minister to:

- apply countermeasures to a person who is suspected of money laundering, terrorist financing or assisting with the proliferation of weapons; and
- freeze the property of persons who are suspected of being connected to terrorism.

International focus

I&P continued to support the Commission by representing it at meetings of international standard setters.
In particular, I&P actively participated in the work of:

- the Implementation Task Force of the International Organisation of Securities Commissions (**"IOSCO"**) and, in particular, the group considering the methodology for assessing compliance with IOSCO Principles 1 to 11 - Regulator and Self-Regulation (including systemic risk and conflicts of interest); and
- the Offshore Group of Banking Supervisors by providing representation at a number of meetings of FATF Expert Group A, which, inter alia, is considering revisions to Recommendations 5 (customer due diligence), 9 (reliance on third parties), 33 (transparency of legal persons) and 34 (transparency of legal arrangements).

I&P has also met with the European Commission to discuss auditor oversight provisions in place in the Crown Dependencies (the **"CDs"**) and arrangements for assessing the equivalence of those provisions under the EU's Statutory Audit Directive. It seems unlikely that such an assessment will be undertaken before 2012 and, in the meantime, Jersey will continue to be covered by transitional arrangements.

I&P's responsibilities also extend to co-ordinating and assisting assessments of Jersey's compliance with international standards in a number of areas.

- Following publication of the final assessment reports of the International Monetary Fund (the **"IMF"**) in 2009, publishing four action plans in February 2010. The action plan to further enhance Jersey's framework for countering money laundering and terrorist financing was updated in November 2010.
- Participating in a peer review by the OECD Global Forum of implementation in Jersey of international standards for transparency and exchange of information for tax purposes. In particular, the review focused on the information on beneficial ownership that is held in Jersey (and by whom) and accounting records that are held in, or can be accessed from, Jersey (and by whom). The Global Forum's report has yet to be published.

I&P also has responsibility for co-ordinating and assisting with the agreement of memoranda of understanding between the Commission and overseas regulators.
As a result, work continues on an agreement with the French Autorité de Contrôle Prudentiel, whilst a memorandum with the South African Reserve Bank was signed in April 2010.

Domestic focus

I&P took an active role in a number of developments in the domestic environment in which the Commission functions.

- Submitting comments to the Privileges and Procedures Committee (the **"PPC"**) on a revised draft of the Freedom of Information (Jersey) Law 201- (the **"draft FOI Law"**). The principal concern with the draft FOI Law was that, in the Commission's view, the proposed exemptions were not wide enough and might require the Commission to supply information that it considered to be prejudicial to the exercise of its statutory functions. Following written and oral representations to the PPC, the Committee agreed to lodge an amendment to the draft law to widen the type of information held by the Commission that would be exempt from disclosure (subject to a 'public interest test' against disclosure being met).
- Raising a number of concerns surrounding the proposed introduction of the Jersey Vetting Bureau with respect to persons employed in the finance sector. Most of these concerns have still to be addressed.
- Finally, negotiations have been concluded on the content of a memorandum of understanding with the Jersey Bank Depositors Compensation Board.

KEY TASKS FOR 2011:

- Prepare and deliver instructions to the Law Draftsman's Office to replicate in Jersey legislation Titles III and IV of the EU's Payment Services Directive. However, the scope of legislation will be limited (at least to start with) to the regulation of SEPA payment instruments.
- Develop proposals for the Commission to have statutory powers to impose civil penalties in relation to breaches of the Codes that are issued by the Commission.
- Promote an amendment to Codes-making powers in the Regulatory Laws and the Supervisory Bodies Law to better reflect the "binding" nature of principles and rules that are currently set in the Codes.
- Co-ordinate publication of revised Codes following consultation on each set.
- Consult on proposals to introduce a consistent regime that will allow it to object to the appointment (and continued appointment) of auditors of persons that are supervised under the Regulatory Laws, if it is not satisfied that the auditor has the requisite qualifications, skill, resources or experience for a particular audit, or if it would not be in the best interests of clients/customers of a registered person.
- Contribute to the development of legislation that sets out how companies and other legal persons are to be constituted, administered and audited.
- Publish a funds sector specific section for the AML/CFT Handbook.
- Continue to monitor the development of the draft FOI Law.

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

Authorisations

Work continued with authorising new funds and fund services businesses (**"FSB"**), in addition to approving changes to existing fund arrangements. Liaison was maintained with the Funds Authorisation User Group. Compared to 2009, there were six times as many unclassified funds, a 20% increase in Expert Funds, a 75% increase in Very Private COBO structures, and a 60 % increase in FSB applications / amendments. However, new Sub-funds were down by 50% on last years figures with sub-fund revocations being 140% higher.

The number of licensed investment businesses has remained broadly stable for the year. A reduction in the number of banks and some consolidation in the IFA sector had resulted in some revocations, but these have been balanced by some more specialist investment business offerings setting up in the Island.

2010 was a busy year for the Insurance Division, with 24 applications approved and 23 licences surrendered, which resulted in the overall total of regulated persons increasing by just one.

2010 was unusually quiet in respect of bank registration applications, with just two received. Whilst both were ultimately authorised, neither case has yet progressed to a new registration.

There were 38 new trust company business applications successfully determined during 2010, comprising two affiliation leaders, five individuals who were registered to provide directorship services and 31 participating member companies. The two affiliation leaders represented new start up businesses to the Island with the participating member applications representing additions to existing businesses. The Commission introduced a new de minimis exemption whereby an individual can now undertake up to six directorships (that would otherwise not be exempt), before the need to register is triggered. Five individuals providing directorship services were successfully granted registration. This population of registered persons has continued to see steady growth in the Island, where the specialism of providing, typically, non-executive oversight to the boards of both private and fund type arrangements is in high demand.

During 2010, the Anti-Money Laundering Unit (the **"AML Unit"**) registered 48 persons who were carrying on a business specified in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999, where that person was not carrying on a business already regulated by the Commission under one or more of the Regulatory Laws [1].

Examinations

The Commission has continued its focus on risk-based supervision through on-site examinations and following up any necessary action arising out of those examinations. The themes arising from the examinations have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers (**"Dear CEO letters"**), the Quarterly eNewsletter and the Website. The Commission completed 248 examinations during 2010 against a target of 251. There were 249 examinations during 2009.

Total Examinations 2010

Division	Themed	Focused	Discovery	Outreach	Total
TCB	30	1	8	0	39
Funds	3	8	21	0	32
IB	12	3	10	0	25
Banking	14	2	7	0	23
Insurance	14	4	3	0	21
AML Unit	0	0	59	49	108
Total	**73**	**18**	**108**	**49**	**248**

Examination activity was a significant feature of 2010. The main issues that have arisen from the on-site examination programme during 2010 are summarised below by each Industry sector.

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

Banking

All supervisory activities were completed as planned, including overseas examinations in Guernsey and the Middle-East. Themed on-site examination efforts focused on completing programmes previously started in the risk areas surrounding anti-money laundering and countering the financing of terrorism (**"AML/CFT"**), and credit provisioning. Additionally, an examination programme was run looking at conduct (largely advertising and the handling of customer complaints). In each case, summary findings have been published on the Commission's website for Industry guidance.

Overall, the Commission found that the banking sector was in large part operating in accordance with its obligations under the respective Laws, Orders, and Codes of Practice (including the AML/CFT Handbook). However, it also identified some areas for improvement which have been addressed by way of the published findings and with the individual banks. In terms of the AML/CFT programme, key findings concerned the overall business risk assessment conducted by the bank and the potential risks of dealing with higher risk jurisdictions. The credit provisioning examinations identified areas for improvement in management information and oversight. The conduct of business programme highlighted the importance of tailoring procedures to local regulatory requirements and ensuring that the bank reflected upon the "lessons learnt" from complaints, and then identified areas for improvement.

Insurance

The planned number of on-site examinations was duly completed, including examinations in the Middle-East and the United Kingdom. Themed on-site examination efforts focused on the sale of payment protection insurance by credit providers and the provision of travel insurance by travel agents. Summarised findings have been published on the Commission's Website for Industry guidance.

Key findings arising from the 2010 on-site examination programme included inadequate systems and controls for insurance money remitted to insurance counterparties outside Jersey, the late reconciliation of insurance broking accounts and insurance cover having been arranged with insurers that did not have an insurance business permit under the Insurance Business (Jersey) Law 1996. Other findings included the poor maintenance of customer files and inadequate compliance monitoring and reporting to the board.

Investment Business

The Investment Business Team (the **"IB Team"**) was bolstered by the recruitment of two additional staff during 2010. The IB Team has used this resource to undertake a significantly higher number of on-site examinations and to continue work on the investor education initiative which was launched in Q1 of 2011.

The key themes that emerged from the 2010 on-site examination programme were recommendations to switch from one product to an alternative product not being sufficiently comprehensive or balanced, inadequate or insufficiently independent compliance arrangements, inadequate disclosure of commissions, fees and underlying charges, and AML/CFT risk ratings not being completed for some clients.

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

A "mystery shopping" exercise[2] on the suitability of the advice and sales processes provided to customers by regulated investment businesses was completed at the end of 2010 and the results published on the Commission's Website. Based on the information collected from the mystery shopping interviews, a potential area for improvement was in the advice and sales processes to aid customer understanding. The exercise also identified where the failure of such processes might result in inadequate or inappropriate advice for the customer.

Funds

The Funds Supervision Unit undertook 32 on-site examinations during 2010, three of which were themed examinations looking at all aspects concerning the valuation of fund assets. Common themes included a lack of appropriate due diligence on promoters and other parties in relation to new funds, a failure to demonstrate proper oversight by the board, a failure to separate governance and accounting appropriately between legal entities, and a failure to comply with all the requirements of the Island's AML/CFT regime.

The Funds Team continued to manage a number of forensic investigations in conjunction with the Enforcement Division.

Operationally, in Q4 2010 the Commission launched the facility to file funds statistics on-line in order to make the process of statistics reporting by Industry quicker and more straightforward.

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

Trust Company Business

A total of 39 on-site examinations were conducted during 2010, compared with 56 in 2009, comprising 1 focused, 8 discovery and 30 themed, with the key theme of AML/CFT threading through the majority of examinations. Examination numbers were lower in 2010 due to the Examination Team not being at its full compliment for the year, which was coupled with the fact that there were a number of key issues identified with certain firms during 2010 that required close monitoring and hence resource allocation. Additionally, two trust company businesses were closed during the year in circumstances where management within those firms needed to work very closely with the Commission to achieve a satisfactory cessation of business, again having a resource implication.

The results of the on-site examinations have again been mixed, ranging from businesses demonstrating excellent working practices to the Commission finding material breaches of the regulatory regime. One of the main findings related to the take on of new business, with examples identified of firms not following their own procedures designed to identify undesirable business. There were also instances where the procedures themselves had not kept pace with the growing need to undertake greater degrees of due diligence both initially and on an ongoing basis in respect of higher risk business.

AML Unit

The AML Unit conducted 108 on-site examinations, against its target of 100 for 2010. Business risk assessments, sanctions and suspicious activity reporting issues continued to dominate the examination findings.

Regulatory Developments

2010 saw a period of consolidation following the changes made to the Island's regulatory framework during 2008 and 2009. Against a backdrop of the international regulatory response to the recent financial crises, the Commission monitored and, where possible, participated in those discussions. The 2011 Business Plan anticipates a number of consultations with Industry, some of which reflect international developments.

Banking

Changes in key personnel have been made without disruption to effort or performance, although the Division has been fortunate in the strength of available candidates, which eased the challenge considerably.

The Division has needed to apply significantly heightened supervisory oversight of the banking sector over the last two to three years, given the stressed circumstances seen globally across the financial sector during that period. Banking groups worldwide have contracted and restructured, this on occasion leading to bank departures from the Island.

Most essential project work will have been completed or is well under way, although international developments in areas such as regulatory capital requirements and liquidity management have been quite drawn out. The Division continues to monitor both these and related implementation plans in the home jurisdictions of registered banks.

Early adoption by the UK's Financial Services Authority (**"FSA"**) of revised liquidity standards has created a significant challenge to the offshore banking model, which often involves "upstreaming" funds to group entities, many of which are UK based. The Commission engaged with Industry on this at an early stage and is also in dialogue with relevant jurisdictions.

A good level of progress has been achieved in addressing the recommendations contained in the 2009 International Monetary Fund (**"IMF"**) Report, which formed the bulk of the Division's project work. This has spanned revisions to large exposure requirements, financial and other disclosures by banks, a general update of the Codes of Practice for Deposit-taking Business (the **"Deposit-taking Codes"**), including the incorporation of the Basel Committee's recommendations in respect of the compliance function, an Accounts Order, and the publishing of much broader Industry wide data.

The Commission has also been active in supporting the Government's initiative of introducing a depositor compensation scheme, which will require the ongoing provision of relevant Industry data to the newly formed Jersey Bank Depositors Compensation Board.

2010 saw a period of consolidation following the changes made to the Island's regulatory framework during 2008 and 2009. Against a backdrop of the international regulatory response to the recent financial crises, the Commission monitored and, where possible, participated in those discussions.

Securities

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

Funds Team

Changes to the Outsourcing Policy have been agreed with Industry in respect of funds and have been presented to the Board of Commissioners for approval. Work continues on the revised Certified Funds Prospectuses Order and the Codes for Funds although completion has been delayed pending finalisation of the AIFM Directive and the changes to the IOSCO principles referred to below.

Close liaison is being maintained with Jersey Finance and the Jersey Funds Association on a number of initiatives, including the EU Directive on Alternative Investment Fund Managers (the **"AIFM Directive"**). Consideration has been given to proposed changes to the recognized fund rules as well as the creation of new categories of recognized fund.

There has been active participation in the proposed changes to IOSCO's core principles of securities regulation and related methodology. The Commission is represented on the Implementation Task Force considering the changes and has attended a number of key meetings.

The Division conducted an all day seminar for the funds sector.

Investment Business Team

The IB Team has been closely monitoring emerging proposals under the FSA's Retail Distribution Review (the **"RDR"**) and has continued working with local trade associations on this topic. It is intended to participate in a local seminar in 2011 prior to issuing a position paper setting out the Commission's response to the proposals.

Trust Company Business

The introduction of the de minimis regime for directors was accompanied by an update of the Guidance Note "Natural Persons Undertaking the Activity of Acting as a Director Under the Financial Services (Jersey) Law 1998".

2010 also saw the updating of the Licensing Policy in respect of those activities that require registration under the Financial Services (Jersey) Law 1998. The Policy was updated to take account of the additional risks posed to the Island in respect of businesses owned by, associated with or undertaking work within higher risk jurisdictions.

Insurance

A new Guidance Note for licence applications under the Insurance Business (Jersey) Law 1996 was published on the Commission's website following the re-issue of the Insurance Licensing Policy in 2009.

Good progress has been made in addressing recommendations contained in the 2009 IMF Report. This work focused on applying the Commission's risk assessment model to the Jersey branch operations of Category A permit holders. The Division also developed an internal methodology for assessing whether regulation by home state regulators of Category A insurers is equivalent to that of Jersey.

AML Unit

2010 was the third year that the AML Unit had conducted supervision of Designated Non Financial Businesses and Professions (**"DNFBPs"**). In September 2010, as part of its ongoing review process, the AML Unit published a report entitled "Summary Findings - Themed On-Site Examination Programme 2008-2010" on the Commission website. The report summarised the supervision activities of the AML Unit to date and sought to provide assurance through the examination programme that entities were operating in compliance with the specified regulatory requirements and laws.

International Communication

The Commission continued its active involvement in international regulatory fora.

Improving and extending regulatory contacts has been a key aim during the international financial crisis, both for the Banking Division and banking regulators around the world. An increased number of regulatory colleges are being held in home jurisdictions, which the Division has attended where appropriate. Collaborative work with the other Crown Dependencies has also continued on a regular basis, with significant mutual benefit.

The Banking Division has continued to support the activities of the Offshore Group of Banking Supervisors and its contributions to international regulatory fora.

Memoranda of Understanding were signed with the Bank Supervision Department of the South African Reserve Bank; the UK's Professional Oversight Board; the Institute of Chartered Accountants in England and Wales; the States of Guernsey Commerce and Employment Department; and the Isle of Man Financial Supervision Commission.

The Insurance Division continued to support the efforts of the International Association of Insurance Supervisors (**"IAIS"**) and the Offshore Group of Insurance Supervisors (**"OGIS"**) to promote and develop international regulatory standards.

The Commission became an approved signatory to the IAIS Multilateral Memorandum of Understanding on Co-operation and Information Exchange (**"MMoU"**). To achieve this, Jersey had to demonstrate to the IAIS that it has the necessary legislation, powers and practices for the Commission to effectively co-operate on information exchange with other regulatory jurisdictions worldwide and to ensure that information exchanged is properly controlled.

The Insurance Division hosted and led the annual OGIS training seminar for insurance regulators. Delegates from a wide range of international insurance regulatory authorities visited Jersey to attend the event that was based on the theme of practical supervision and was based upon the Insurance Core Principles of the IAIS.

The Securities Division maintained its international obligations by attending IOSCO meetings in Madrid, Washington and Rio de Janeiro, and dealing with inter-regulator enquiries. The Commission also hosted a meeting of securities regulators from across the world.

KEY TASKS FOR 2011:

- Consult on the results of the Commission-wide project conducted last year, with regard to the proposed amendments to the Codes of Practice to ensure greater alignment across all of the sectors.
- The on-site examination programme will continue across all the Supervision Divisions to ensure the effectiveness of the implementation of the legal and regulatory frameworks, including the revised AML/CFT Handbook.
- A revision of the Bank Licensing Policy to better reflect the criteria that may be applied by the Commission and additional criteria in respect of applicants from higher risk jurisdictions.
- Completion of the drafting of an Accounts Order for Banking Business.
- Completion of drafting amendments to the General Provisions (Banking Business) (Jersey) Order 2002 and related changes to the Deposit-taking Codes in respect of required disclosures.
- An initial updating review of the Banking Business (Jersey) Law 1991.
- Completion of amendments to requirements in respect of large exposures, to include the withdrawal of the current blanket exemption for exposures to banks under twelve months, and full incorporation of these within the Deposit-taking Codes.
- Increasing the level of data published on the banking sector's financial performance.
- Review all the TCB Exemption Orders and ensure that they remain fit for purpose, amend as necessary and consider combining all Exemption Orders into one Order, with any resultant actions being consulted upon with Industry.
- A revision of the Insurance Business Licensing Policy in respect of applicants from higher risk jurisdictions.
- The issuance of a guidance note on insurance business transfer schemes under Schedule 2 to the Insurance Business (Jersey) Law 1996.
- The completion of an updating review of the Codes of Practice for General Insurance Mediation Business.
- Completion of a self assessment against the proposed revised Insurance Core Principles of the IAIS in order to identify any revisions required to the Island's related regulatory requirements needed to continue to meet international standards.
- The monitoring of developments in respect of the EU's Solvency II insurance regime and IAIS risk-based solvency requirements.
- The monitoring of the proposed revisions to the EU's Insurance Mediation Business Directive to assess any consequent need to change Jersey's regulatory requirements for general insurance mediation business.
- Participating further in the review of IOSCO's core principles of securities regulation with a view to undertaking an assisted self-assessment in Q1 2012.
- Monitoring progress of the AIFM Directive and responding accordingly. The Commission is likely to continue spending a significant amount of time working with Industry on the Directive.
- Publication of the revised Policy Statement and Guidance on Outsourcing (the **"Outsourcing Policy"**), to include a section on delegation by Jersey certified funds and fund services businesses. A full review of the Outsourcing Policy across all of the sectors will be undertaken in 2011.
- Codes of Practice for Funds will be introduced, together with an amalgamated Prospectus Order giving equal treatment to funds constituted as open-ended or closed-ended companies, limited partnerships and unit trusts.
- Competency requirements will be reviewed within the investment business sector and, in March 2011, the Commission launched a new website for consumer education, particularly in relation to improvements required in the interface between investors and financial advisers, under the title 'Protect Your Money'.
- Guidance will be offered on the use of pension products. Whilst pensions are not subject to direct product regulation in Jersey, suitable advice must be provided by regulated financial advisors in relation to such products as an investment.
- Consideration of changes to the Recognized Funds Rules, revising the Guide to open-ended unclassified collective investment funds offered to the general public (the OCIF Guide), and producing a similar document for closed-ended funds. Consultation is planned on a Client Assets Order for fund services business and work will be undertaken with the International and Policy Division on a funds sector specific section of the AML/CFT Handbook.

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

Deterring, detecting, and preventing regulatory breaches and striving to protect investors

The Commission's use of its enforcement powers not only serves the purpose of punishing wrongdoing and preventing future repetition, but also aims to act as a significant deterrent effect on certain sections of the regulated community where standards may not have reached the levels to which the Island aspires. It is however recognised that, in most cases, compliance is achieved through the use of enhanced supervision. Although cases may have commenced as an enforcement investigation, the successful conclusion may result in the matter being addressed voluntarily by the regulated business through the use of enhanced supervision rather than an enforcement sanction.

The Enforcement Division investigated 80 cases in 2010 representing a slight increase on the figure of 78 undertaken in 2009 and an increase on the five year average of 68 cases per annum. Cases included processing 19 requests for assistance from overseas regulatory authorities with an average turn around time of 21 days, which compared favourably with a five year average of 14 cases per annum and an average turn around time of 29 days. The requests for assistance were predominantly focused on cases of market manipulation and insider dealing where the proceeds of the conduct had been transferred to Jersey.

14 public statements were issued during the year compared to a five year average of 18 per annum. The aim of issuing a public statement is primarily to warn members of the public, but also to inform and educate the finance industry.

Following detailed investigations, four individuals were considered a risk to the finance industry and were issued with directions preventing them from obtaining employment in the finance industry without securing prior consent of the Commission.

Where the Commission issues a public statement to warn of a scam using a Jersey address and purporting to be a regulated business, Enforcement often receives contact from members of the public from around the world who have fallen victim to the scam. In such circumstances Enforcement will offer advice to the victims, advise regulators in the jurisdiction receiving the payment and encourage reporting to the victim's local Police Service. In many cases the release of such public statements helps to inform the public before they make an investment, and during the year several members of the public contacted Enforcement to report that the public statement helped them to conclude that they should not invest in what appeared to be a scam.

In 2010, Enforcement issued 73 notices requiring the production of information to the Commission, together with 25 notices requiring the attendance at the Commission of senior members of regulated businesses to answer questions relating to suspected regulatory breaches.

Following the introduction of a whistleblowing line in April 2010, the Commission received 11 calls reporting a wide range of issues and regulatory concerns, which were all followed up.

Enforcement developed the use of settlement agreements in 2010, which resulted in eight cases being concluded by way of a settlement agreement enabling the early completion of cases and better use of Enforcement resources. The Division aims to publish guidance on the use of settlement agreements in 2011.

During 2009, Enforcement carried forward 41 cases into 2010 compared to only 19 cases from 2010 into 2011. The reduction in the carry forward of cases is attributable to the more efficient completion of cases through the introduction of a computerised case management system, effective use of settlement agreements and more focused investigations.

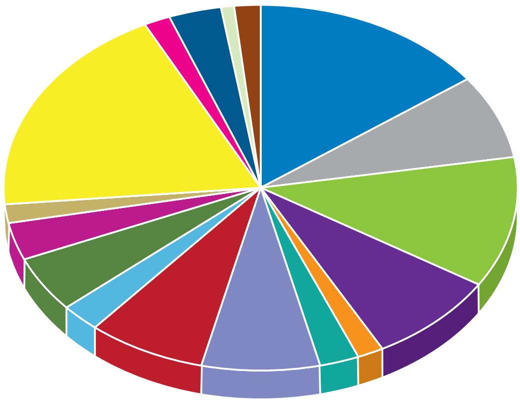
KEY TASKS FOR 2011:

- Enforcement, in conjunction with International & Policy and the Law Officers' Department, will be researching civil penalty regimes in other jurisdictions and bringing forward proposals for the introduction of civil penalties for breaches of the Commission's Codes of Practice.
- Provide a briefing seminar (or, subject to demand, seminars) on the generic Industry failings observed by the Division and provide the Industry with general advice on best practice.
- Enforcement operates a financial intelligence function within the Commission and during the year will seek to strengthen the intelligence function as part of the move towards becoming more of an intelligence led regulator.

Following detailed investigations, four individuals were considered a risk to the finance industry and were issued with directions preventing them from obtaining employment in the finance industry without securing prior consent of the Commission.

Enforcement case statistics

Percentage breakdown of Enforcement Division activity during the year ended 2010



Financial Services (J) Law - Investment Business - Non Reg 14.9%
Financial Services (J) Law - Investment Business - Reg 7.4%
Financial Services (J) Law - Trust Company Business - Non Regulated 11.6%
Financial Services (J) Law - Trust Company Business - Regulated 8.3%
Financial Services (J) Law - Money Service Business - Non Reg 1.7%
Financial Services (J) Law - Fund Services Business - Non Reg 2.5%
Financial Services (J) Law - Fund Services Business - Reg 7.4%
Financial Services (J) Law - Insider Dealing 7.4%
Financial Services (J) Law - Market Manipulation 2.5%
Financial Services (J) Law - Misleading Statements and Practices 5.0%
Banking Business (J) Law - Non Reg 3.3%
Companies (Jersey) Law 1.7%
Proceeds of Crime (Jersey) Law 19.0%
Insurance Business (J) Law - Reg 1.7%
Collective Investment Funds (J) Law 3.3%
Investigation of Fraud Law 0.8%
No Specific 1.7%

Total Enforcement Cases during the period from 1 January to 31 December 2010

Law	Active 1 January 2010	New Cases in Year (to 31/12/2010)	Total during year (to 31/12/10)	Total shown as percentage	Balance 31 December 2010
Financial Services (J) Law - Investment Business - Non Reg 14.9%	5	13	18	14.9	2
Financial Services (J) Law - Investment Business - Reg 7.4%	6	3	9	7.4	2
Financial Services (J) Law - Trust Company Business - Non Regulated 11.6%	3	11	14	11.6	5
Financial Services (J) Law - Trust Company Business - Regulated 8.3%	7	3	10	8.3	4
Financial Services (J) Law - Money Service Business - Non Reg 1.7%	1	1	2	1.7	
Financial Services (J) Law - Fund Services Business - Non Reg 2.5%	1	2	3	2.5	
Financial Services (J) Law - Fund Services Business - Reg 7.4%	4	5	9	7.4	1
Financial Services (J) Law - Insider Dealing 7.4%		9	9	7.4	1
Financial Services (J) Law - Market Manipulation 2.5%	2	1	3	2.5	
Financial Services (J) Law - Misleading Statements and Practices 5.0%	1	5	6	5.0	
Banking Business (J) Law - Non Reg 3.3%		4	4	3.3	
Companies (Jersey) Law 1.7%	1	1	2	1.7	2
Proceeds of Crime (Jersey) Law 19.0%	4	19	23	19.0	1
Insurance Business (J) Law - Reg 1.7%	1	1	2	1.7	1
Collective Investment Funds (J) Law 3.3%	4		4	3.3	
Investigation of Fraud Law 0.8%	1		1	0.8	
No Specific 1.7%		2	2	1.7	
Total	41	80	121	100.0	19

The Commission operates Jersey's Companies Registry (the **"Registry"**). Under the Registry banner are registers for companies, limited liability partnerships, limited partnerships, business names and foundations. The Registry's primary function on an ongoing basis is to maintain these registers and to provide an efficient and effective service. The Registry's work complements the Commission's aim to "ensure that all entities that it authorises meet fit and proper criteria".

Registry

The Registry incorporated 2,484 companies in 2010, an increase of 6.7% compared with the previous year. The increase shows the change in business activity as the global economy progressed further out of recession. However, the number of companies on the Register at 31 December 2010 was 32,722, a fall of just over one per cent on the previous year.

Limited partnership formations during the year were 102 compared to 94 during 2009.

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

The Registry adheres to published response time-scales, all of which were met in 2010, as shown in the table on page 40.

In February 2010, the Registry User Group met and discussed a number of issues such as the quality of service provided by the Registry, online services, business volumes flowing through the Registry, and new products and fees.

During 2010, the revised Business Names Law was progressed. Work continued on the development of the automated disputes resolution system, which is a fundamental part of the new Business Names Law. The legislation drafting was put on hold while wider aspects of the law were considered, such as the developing intellectual property rights legislation. Changes in the Companies (Jersey) Law 1991 and the Limited Partnerships (Jersey) Law 1994, and the development of a Foundations Law were also progressed.

Automation and e-commerce projects

During 2010, the online search facility, online monitoring and the online filing system were enhanced. All systems continued to be embedded in the online environment known as Easy Company Registry (**"ECR"**).

Training

In 2008, the Registry unveiled an ambitious training programme to help launch ECR and this programme continued throughout 2010. The programme, which is free and ongoing, is aimed at companies' owners, directors and secretaries who would benefit from the filing, searching, and monitoring of Jersey company documents. The monitoring aspect of ECR is also a useful tool for others wishing to keep informed of changes to a Jersey company, such as investors or other stakeholders, including listing agencies and regulators. Registry staff received special training to present this programme.

International Development of the Jersey Registry

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

After entering into an information sharing agreement with the European Business Register (**"EBR"**) in 2006, basic Jersey company information was made available through the EBR network from May 2007. The EBR now has a membership of more than 24 European countries providing access to information on more than 24 million companies. The Director, Registry, attended and spoke at two EBR general meetings, and he also chaired the Corporate Governance Committee during the year. In May 2008 and again in May 2010, the Director, Registry, was elected to the Board and holds the position of vice chair of the EBR.

In May 2010, the Director, Registry, attended and spoke at the International Association of Commercial Administrators (**"IACA"**). IACA represents the company registries of the United States (**"US"**) and Canada. The Director, Registry, was again elected to be the chair of the international section of IACA and a director of the board. The US continues to review its disclosure requirements for the beneficial ownership of US companies and other global issues affecting registries. Canada and the US are regarded as the leading jurisdictions for the administration of secure transactions. With Jersey's new Security Interests Law being developed in 2011, access to expert support will be beneficial.

The Commission continues to promote greater communication between registries globally. Contributions to EBR and the European e-justice initiatives during 2010 have kept initiatives on cross-border migration to the fore, ensuring that the Jersey Companies' Registry continues to be active internationally.

KEY TASKS FOR 2011:

- Maintain an efficient service to users of the Registry.
- Continue to provide a training programme to promote the ECR and develop Registry employees' knowledge and capabilities.
- Continue to progress the implementation of the Registry's ECR online environment, and commence work on business-to-business (B2B) developments for Registry users.
- Deliver the revised Business Names Law and contribute to the development of Registry related legislation such as the new separate limited partnerships and incorporated limited partnerships legislation, new cross-border merger legislation and the introduction of Amendment No. 11 and 12 to the Companies (Jersey) Law 1991.
- Continue to make a contribution to the development of registries internationally.

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

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

ICT

ICT has continued to deliver performance from technology and communication services to the Commission despite a year of great change in the Division. The Division was again fully staffed in Q3 of 2010 and it is expected, given the quality of recruits, that they will deliver significant benefits to the Commission's technology and management information capabilities. The Division has also been strengthened with a senior management position to cover the diverse range of work and increased governance requirements.

During the year, the OneSys VI platform was completed for the Registry. This comprised a completed platform upgrade, along with many new workflows to save processing time and open up opportunities to incorporate new Registry functions in the future. This was completed along with the large task in preparing for the new platform for the European Business Registers (**"EBR"**) services.

ICT have continued to improve the security of online services and in particular the financial transactions used within Registry services. These enhancements have all passed audit by the external security auditor to the ISO27001 information security standard.

A new online Funds Statistics reporting process was implemented towards the end of the year, which will greatly streamline what was a demanding manual process. A system for Enforcement was completed, which provides a case management system. It has consolidated three legacy systems and therein significantly reduced the administrative burden and rekeying of data, which is now entered once and used many times.

In this challenging climate, ICT has played a significant part in reducing costs to the Commission in owning and maintaining its bespoke software. This has been achieved through good supplier governance and attention to detail in deleting software code that is no longer required.

ICT continues to "champion" development of the SharePoint platform to assist Commission workflows and reduce the administrative burden of users rekeying data. ICT has also developed a project management process for SharePoint, which provides automated workflows to key stakeholders to aid decision making, signoffs and project transparency. This should prove beneficial to the Commission meeting audit demands through the consistency of its project selection, resource planning and management processes.

HR

The HR Division's mission is to provide excellence in human resource leadership by capturing and nurturing quality talent. The success of the Division is driven by the core values of attracting and inspiring excellence, professionalism, integrity, teamwork and respect for one another.

2010 saw a period of consolidation for the Commission as it operated with a full head count and all vacant positions were successfully filled. Concentrating on another core activity of employee engagement, HR successfully delivered a comprehensive, structured and relevant learning and development programme. This ensures that our personnel are trained to operate at a high technical and managerial capacity, thereby improving the service to the regulated community. One highlight for HR during 2010 was the successful facilitation of Industry seminars at which Commission staff presented to a total audience of some 1,200 Industry delegates.

KEY TASKS FOR 2011:

ICT

- Implement a new infrastructure in the Commission comprising: new server infrastructure at its Castle Street premises, new high speed storage disks for core systems, and upgrade all server operating software and telephone systems. This will also include new operating systems and Office suite to all users' desktops. This will be managed through a thin client delivery that will assist software management and governance.
- Continue to develop the SharePoint platform so as to ensure it is correctly resourced to deliver projects, workflows, task automation, version control of documentation, and increased systems integration. This will include developing a process and strategy for management information that will link with the business plan and KPI development. This will include network performance monitoring essential to a "high availability" network supporting online services.
- Roll out a new Commission website that will include the infrastructure for in-house content management and control, and meet increased external user demands for information updates.
- Maintain ICT systems and processes to the ISO27001 information security standard.

HR

- Develop secondment opportunities (both locally and internationally) to enhance the Commission's regulatory knowledge and best practice.
- Provide internships and work experience placements in order to give students an opportunity to view the workings of the Commission.
- Continue to develop the learning culture within the Commission.
- Roll out a new Staff Handbook and undertake a full review of contracts of employment.

The Commission has continued to improve the security of online services and in particular the financial transactions used within Registry services. These enhancements have all passed audit by the external security auditor to the ISO27001 information security standard.

Insurance Business

Total number of insurance licences = 185 of which:

Category A = 178
Category B = 7

At 31 December 2010 there were 121 registered general insurance mediation businesses.

Companies

Registry Processing - performance against target

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

Registry Processing - items processed

Date	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2008	29,007	95,806	747	125	2,155
2009	48,464	8,313	775	94	1,922
2010	57,320	673	823	102	2,258

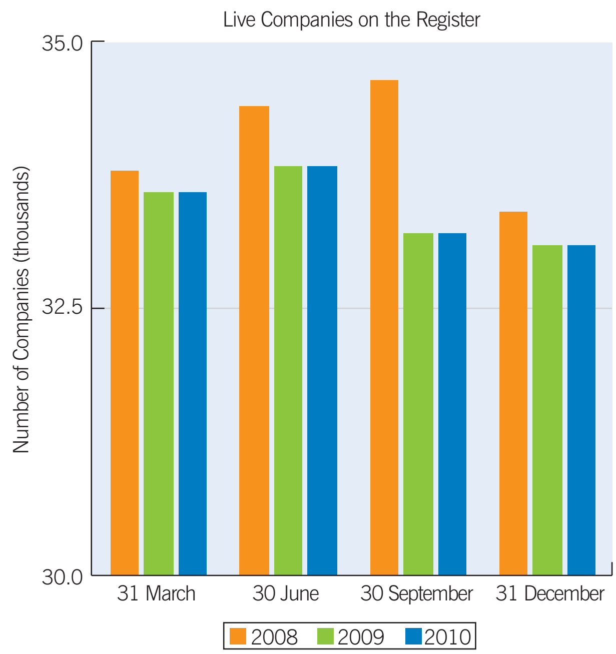
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2008	761	799	661	537	2,758
2009	577	533	628	591	2,329
2010	709	586	605	584	2,484

Live Companies on the Register

At 31 December 2010 (2009) there were 32,722 (33,074) live companies registered in Jersey.

Date	31 March	30 June	30 September	31 December
2008	33,784	34,372	34,622	33,395
2009	33,579	33,811	33,187	33,074
2010	33,379	33,570	33,634	32,722



Funds

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

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2010

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

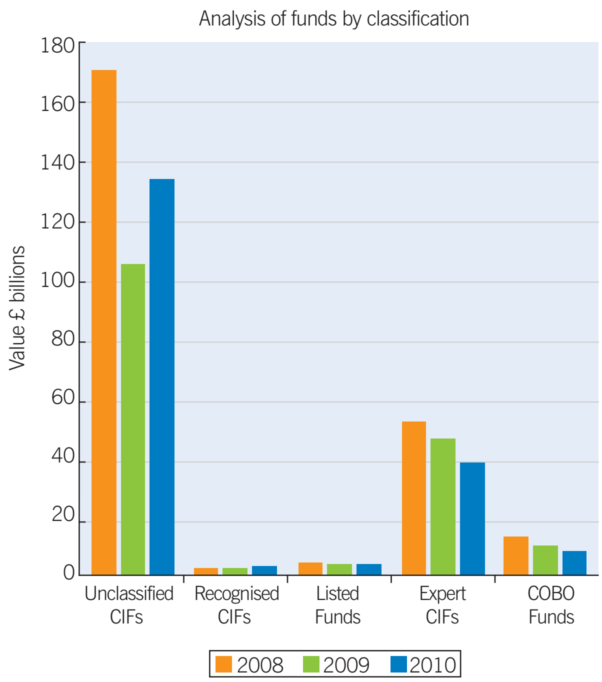
Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2008	241.172	1,472	3,129
31 December 2009	166.156	1,294	2,725
31 December 2010	184.703	1,324	2,522

Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	96.534	482	552
CIFs	Open	80.468	655	1,781
	CIF Sub Total:	**177.002**	**1,137**	**2,333**
COBO Funds	Closed	6.498	164	164
COBO Funds	Open	1.203	23	25
	COBO Sub Total:	**7.701**	**187**	**189**
	Total:	**184.703**	**1,324**	**2,522**

Analysis by Class - 31 December 2010

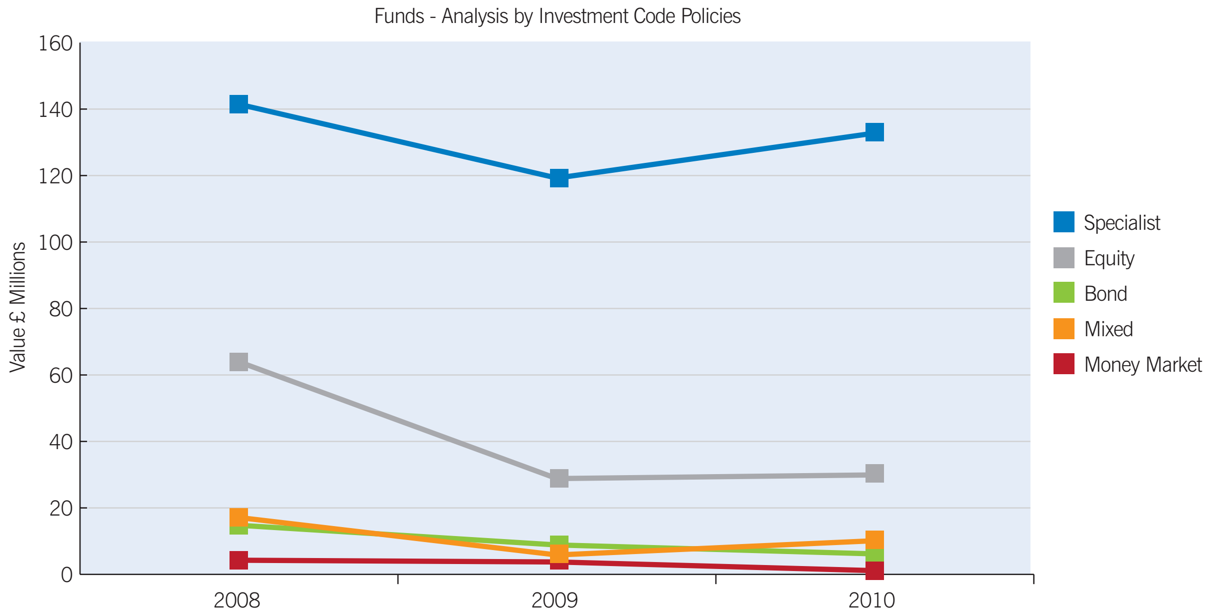
Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	133.419	679	1,622
Recognised CIFs	2.677	11	54
Listed Funds	3.274	22	23
Expert CIFs	37.632	425	634
CIFs Sub Total	**177.002**	**1,137**	**2,333**
COBO Funds	7.701	187	189
CIFs & COBO Funds Total	**184.703**	**1,324**	**2,522**

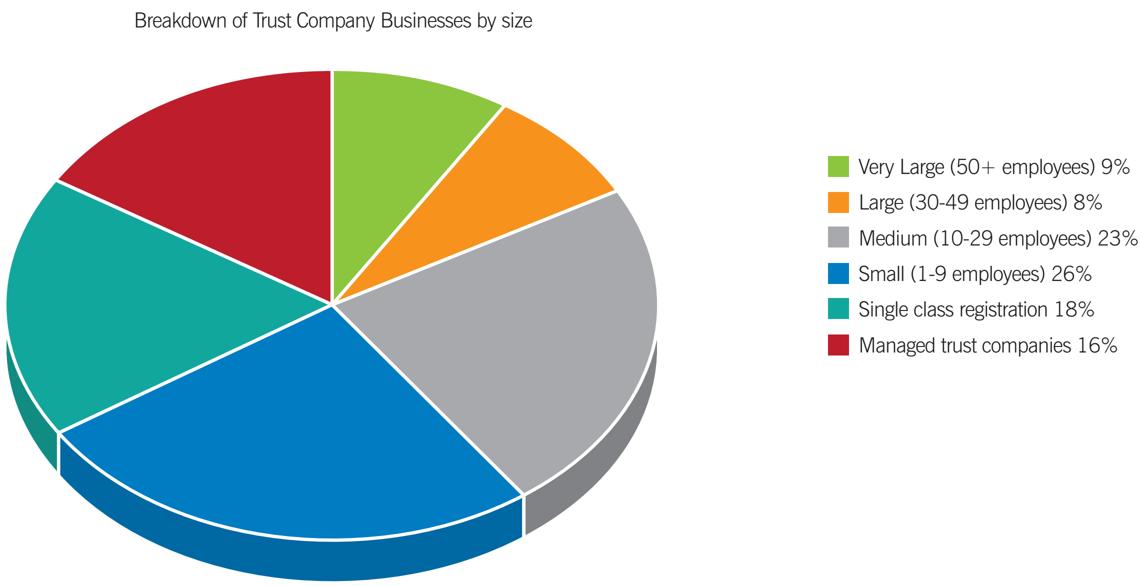


Funds

CIFs & COBOs - Analysis by Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	5	30	82	113	2,014
B02 - Bond-UK Debt	4	15	49	54	1,463
B03 - Bond-US Debt	1	7	46	29	850
B04 - Bond-Europe	1	9	8	27	583
B05 - Bond-Other	3	22	35	40	784
Sub Total Bond	**14**	**83**	**220**	**263**	**5,694**
E01 - Equity-UK	13	16	69	15	1,304
E02 - Equity-Europe (Including UK)	15	11	1,905	173	12,069
E03 - Equity-Europe (Excluding (UK)	11	3	65	9	1,000
E04 - Equity-US (North America)	8	11	109	18	1,177
E05 - Equity-Japan	2	2	0	2	12
E06 - Equity-Far East (Including Japan)	6	4	30	32	1,300
E07 - Equity-Far East (Excluding Japan)	3	4	18	15	133
E08 - Equity-Global Emerging Markets	5	6	20	163	934
E09 - Equity-Global Equity	23	111	326	210	9,667
E10 - Equity-Other	52	48	93	116	5,298
Sub Total Equity	**138**	**216**	**2,635**	**753**	**32,894**
X01 - Mixed-Mixed Equity and Bond	25	200	565	450	10,283
Sub Total Mixed	**25**	**200**	**565**	**450**	**10,283**
M01 - Money Market-Sterling	1	9	29	56	208
M02 - Money Market-US Dollar	0	9	19	74	262
M03 - Money Market-Euro	0	7	8	52	312
M04 - Money Market-Swiss	0	2	4	47	155
M05 - Money Market-Other	0	6	4	9	35
Sub Total Money Market	**1**	**33**	**64**	**238**	**972**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	42	0	96	39	5,342
S02 - Specialist-Venture Capital/Private Equity - Other	249	2	1,858	393	31,000
S03 - Specialist-Real Property	161	49	442	123	22,110
S04 - Specialist-Derivatives	7	13	17	15	213
S05 - Specialist-Traded Endowment Policies	14	23	121	61	1,427
S06 - Specialist-Hedge/Alternative Investment Funds	389	577	4,841	4,288	51,348
S07 - Specialist-Other	87	199	3,027	2,224	23,420
Sub Total Specialist	**949**	**863**	**10,402**	**7,143**	**134,860**
Grand Total	**1,127**	**1,395**	**13,886**	**8,847**	**184,703**


Funds - Analysis by Investment Code Policies
160
140
120
100
80
60
40
20
0
Value £ Millions
2008
2009
2010
Specialist
Equity
Bond
Mixed
Money Market

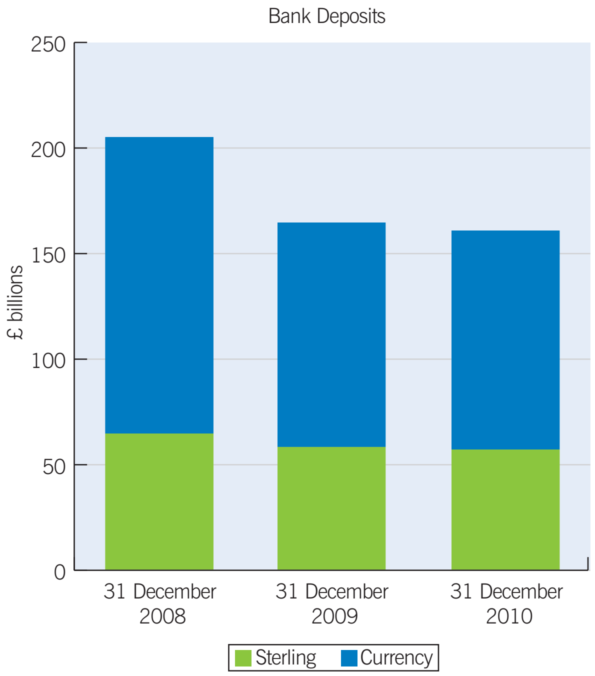

Breakdown of Trust Company Businesses by size
Very Large (50+ employees) 9%
Large (30-49 employees) 8%
Medium (10-29 employees) 23%
Small (1-9 employees) 26%
Single class registration 18%
Managed trust companies 16%

Banking

Deposit takers registered under the Banking Business (Jersey) Law 1991 are referred to herein as "Banks".

Banks and Bank Deposits - £ billions

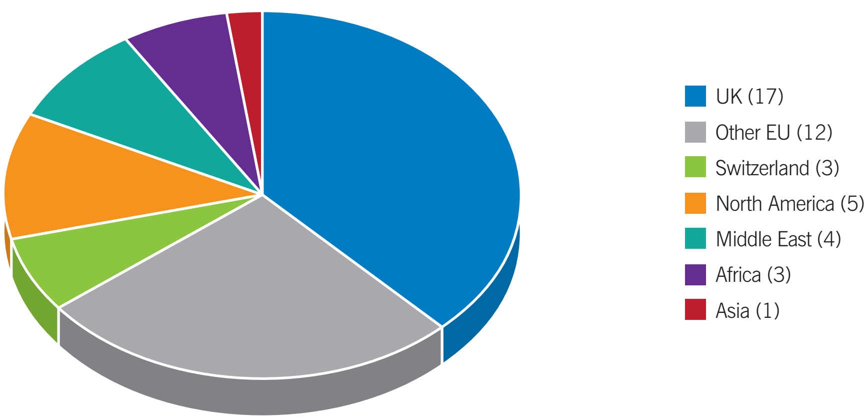
Date	Number of banks	Sterling	Currency	Total
31 March 2008	47	68.838	141.090	209.928
30 June 2008	47	68.794	128.072	196.866
30 September 2008	47	69.392	127.584	196.975
31 December 2008	47	65.050	141.030	206.080
31 March 2009	46	63.025	132.885	195.910
30 June 2009	45	59.520	114.692	174.212
30 September 2009	47	57.379	113.219	170.599
31 December 2009	47	57.471	107.749	165.220
31 March 2010	46	58.955	118.648	177.603
30 June 2010	46	57.474	109.411	166.885
30 September 2010	45	57.089	110.066	167.155
31 December 2010	**45**	**56.376**	**105.217**	**161.593**



Analysis of Bank Deposits - 31 December 2010 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	9.437	5.262	14.699
Jersey Financial Intermediaries etc	5.724	8.090	13.814
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	24.286	15.794	40.080
Subtotal	**39.447**	**29.146**	**68.593**
Other EU Members	2.786	10.387	13.173
European Non EU Members	3.887	28.133	32.020
Middle East	1.424	17.663	19.087
Far East	2.174	7.318	9.492
North America	2.312	7.715	10.027
Others, Unallocated non Jersey, UK etc	4.346	4.855	9.201
Subtotal	**16.929**	**76.071**	**93.000**
Overall total of deposits	**56.376**	**105.217**	**161.593**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	5.8%	3.3%	9.1%
Jersey Financial Intermediaries etc	3.5%	5.0%	8.5%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	15.0%	9.8%	24.8%
Subtotal	**24.4%**	**18.0%**	**42.4%**
Other EU Members	1.7%	6.4%	8.2%
European Non EU Members	2.4%	17.4%	19.8%
Middle East	0.9%	10.9%	11.8%
Far East	1.3%	4.5%	5.9%
North America	1.4%	4.8%	6.2%
Others, Unallocated non Jersey, UK etc	2.7%	3.0%	5.7%
Subtotal	**10.5%**	**47.1%**	**57.6%**
Overall total of deposits	**34.9%**	**65.1%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2010



Assets of Banks

Totals and sub-totals for all Banks, split between those that are incorporated in Jersey (**"Subsidiaries"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Branches"**).

Activity		2006	2007	2008	2009	2010
All Loans		**231,476**	**276,509**	**301,013**	**221,370**	**197,664**
	Subsidiaries	74,066	87,726	93,264	79,155	82,402
	Branches	157,410	188,783	207,749	142,215	115,262
of which:						
Funding of group companies		204,868	241,472	260,767	188,368	164,613
	Subsidiaries	53,779	60,518	63,662	53,185	56,166
	Branches	151,089	180,954	197,105	135,183	108,447
of which intra-Jersey is:		2,538	3,626	3,712	3,790	5,178
Other Loans		26,608	35,037	40,246	33,002	33,051
	Subsidiaries	20,287	27,208	29,602	25,970	26,236
	Branches	6,321	7,829	10,644	7,032	6,815
of which:						
Interbank loans				5,666	3,545	3,116
	Subsidiaries			2,794	3,473	2,974
	Branches			2,872	72	142
Customer Loans				34,581	29,457	29,936
	Subsidiaries			26,808	22,497	23,263
	Branches			7,773	6,960	6,673
of which:						
Retail Loans				7,624	5,737	4,409
	Subsidiaries			4,600	3,478	2,442
	Branches			3,024	2,259	1,967
Residential Mortgages				6,538	6,575	6,448
	Subsidiaries			4,057	4,174	3,879
	Branches			2,481	2,401	2,569
Commercial loans				20,419	17,145	19,079
	Subsidiaries			18,151	14,845	16,942
	Branches			2,268	2,300	2,137
All investments		**19,050**	**14,074**	**12,115**	**9,562**	**11,871**
	Subsidiaries	4,448	4,571	7,095	7,523	8,209
	Branches	14,602	9,503	5,020	2,039	3,662
All other assets		**26,278**	**27,254**	**5,961**	**19,979**	**31,558**
	Subsidiaries	2,661	4,608	3,250	2,912	3,119
	Branches	23,617	22,646	2,711	17,067	28,439
Balance Sheet Total		**276,804**	**317,837**	**319,089**	**250,911**	**241,093**
	Subsidiaries	81,175	96,905	103,609	89,590	93,730
	Branches	195,629	220,932	215,480	161,321	147,363
Risk Weighted Assets (Subsidiaries only)		**29,100**	**35,907**	**47,910**	**41,626**	**43,222**

2010 Commentary

The £11 billion increase in "All other assets" reported by Branches represents group financing transactions that replaced funding of group companies, and partly explains the £27 billion decline in this item (Branches only). The second largest driver behind that decline was the net reduction in senior debt issued by Branches, see table 2, which totalled circa £10 billion.

Intra-Jersey funding represents deposits placed by banks registered in Jersey with other Jersey banks.

Funding of Banks

Totals and sub-totals for all Banks, split between Subsidiaries and Branches.

Activity	2006	2007	2008	2009	2010
All Deposits	**192,235**	**215,946**	**209,792**	**169,010**	**166,771**
Subsidiaries	73,370	87,884	87,998	78,114	80,665
Branches	118,865	128,062	121,794	90,896	86,106
of which:					
Customer Deposits			120,603	106,801	109,816
Subsidiaries			83,007	73,607	74,978
Branches			37,596	33,194	34,838
Bank Deposits			89,189	62,209	56,955
Subsidiaries			4,991	4,507	5,688
Branches			84,198	57,702	51,267
of which intra Jersey is:	2,538	3,626	3,712	3,790	5,178
All senior debt issued	**77,382**	**93,027**	**87,072**	**63,528**	**54,089**
Subsidiaries	1,474	1,624	5,084	2,270	2,779
Branches	75,908	91,403	81,988	61,258	51,310
All other liabilities and equity	**7,187**	**8,864**	**22,226**	**18,374**	**20,234**
Subsidiaries	6,331	7,396	10,526	9,207	10,287
Branches	856	1,468	11,700	9,167	9,947
Balance Sheet Total	**276,804**	**317,837**	**319,089**	**250,911**	**241,093**
Subsidiaries	81,175	96,905	103,609	89,590	93,730
Branches	195,629	220,932	215,480	161,321	147,363
Regulatory capital (Subsidiaries only)	**4,689**	**5,244**	**6,634**	**6,325**	**6,617**
Capital and Reserves (Subsidiaries only)	**3,918**	**4,526**	**5,561**	**5,373**	**5,569**

2010 Commentary

The reduction of approximately £10 billion in the Balance Sheet Total was principally the result of a net reduction of a similar amount in senior debt issued by Branches. Deposits declined overall, reflecting a decrease in deposits from other banks.

Please note that “Bank Deposits” reported here include intra-Jersey deposits - deposits from banks registered in Jersey - which are excluded in calculating deposit totals for the purpose of the tables “Banks and Bank Deposits” and “Analysis of Deposits”.

Key trends and profitability of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010
Trend in Balance Sheet Total		+19.4%	+6.9%	-13.5%	+4.6%
Trend in Customer Loans				-16.1%	+3.4%
Trend in Customer Deposits				-11.3%	+1.9%
Trend in Regulatory Capital		+11.8%	+26.5%	-4.7%	+4.6%
Net Interest Income ("NII")	1,019	1,253	1,653	1,338	1,183
		+23.0%	+31.9%	-19.1%	-11.6%
Total Income	1,591	1,938	2,630	2,294	2,084
		+21.8%	+35.7%	-12.8%	-9.2%
Operating Expenses	789	903	1,183	1,088	1,118
		+14.4%	+31.0%	-8.0%	+2.8%
Bad Debt Provisions	33	51	194	793	355
		+54.5%	+280.4%	+308.8%	-55.2%
Profit Before Tax	769	984	1,253	413	611
		+28.0%	+27.3%	-67.0%	+47.9%

2010 Commentary

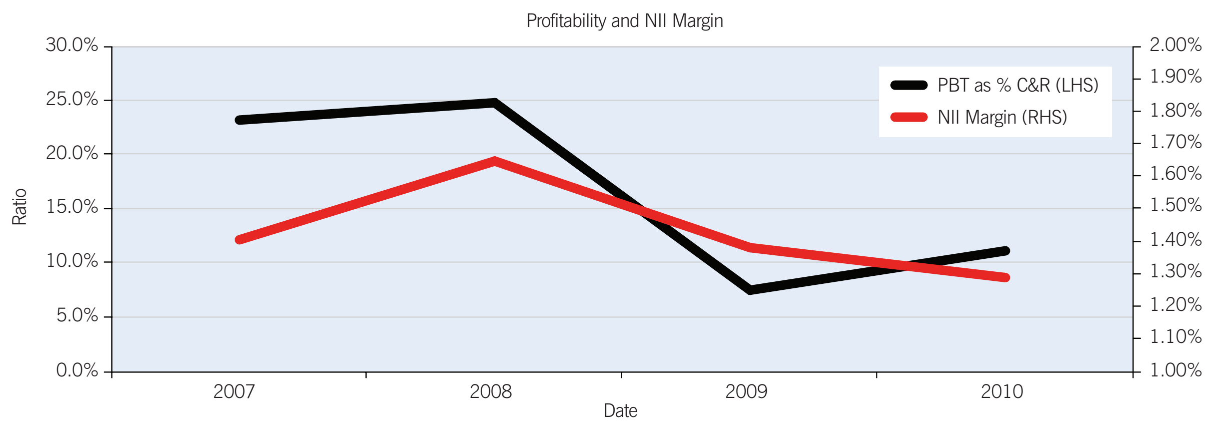
2010 saw a return to growth, albeit at a modest level. Net interest income continues to be impacted by the low interest rate environment, but profitability has partly rebounded due to a reduction in bad debt provisions.

Key Performance Indicators of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010
Profit before tax ("PBT" as percentage of total assets		1.11%	1.25%	0.43%	0.67%
PBT as percentage of capital and reserves ("C&R")		23.3%	24.8%	7.6%	11.2%
PBT as percentage of regulatory capital		19.8%	21.1%	6.4%	9.4%
NII margin (i.e. as a percentage of total assets)		1.41%	1.65%	1.39%	1.29%
Cost/Income ratio (Operating Expenses as a percentage of Total Income)	49.6%	46.6%	45.0%	47.4%	53.6%

2010 Commentary

The rebound in profitability in 2010 still leaves profitability at around half the pre-crisis level. The drop in the NII margin is the main driver behind the increased Cost/Income ratio.

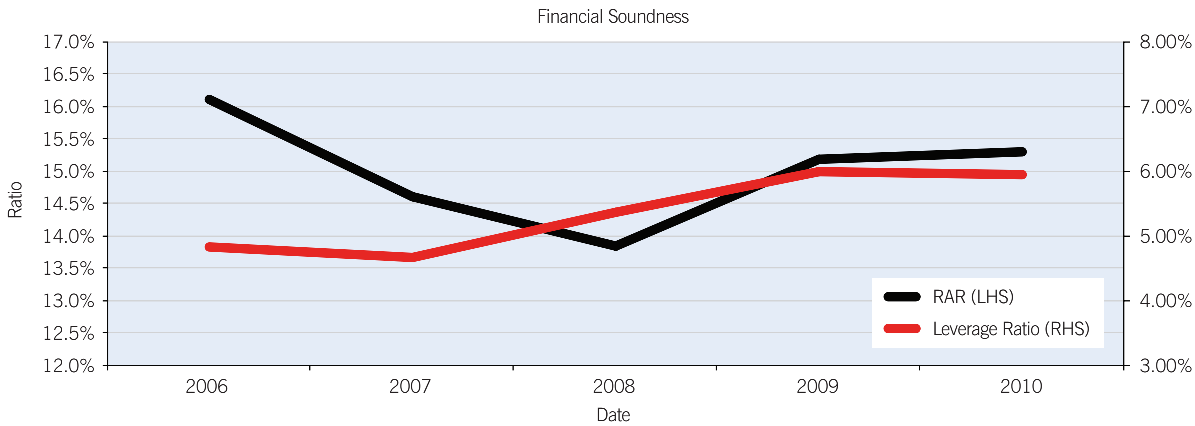


Key risk ratios of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010
Regulatory capital as percentage of risk weighted assets ("RAR")	16.1%	14.6%	13.8%	15.2%	15.3%
Capital and Reserves as percentage of total assets ("leverage ratio")	4.8%	4.7%	5.4%	6.0%	5.9%
Non-performing loans ("NPLs", i.e. all loans considered to be impaired, to any extent)			258	869	1,517
NPLs as % of Customer Loans			1.0%	3.9%	6.5%
Provisions			245	797	982
Provisions as % of NPLs			95.0%	91.7%	64.7%
Interest rate risk ("IRR", impact of 200 bp adverse move)				199	257
IRR as % of regulatory capital				3.1%	3.9%
FX Risk (Aggregate net open Foreign Exchange position)				502	716
FX Risk as % of regulatory capital				7.9%	10.8%

2010 Commentary

Capital ratios are broadly the same as at the end of 2009. New provisions in 2010 principally related to debt that had been restructured or where specific evidence of impairment existed but where some recovery was expected.

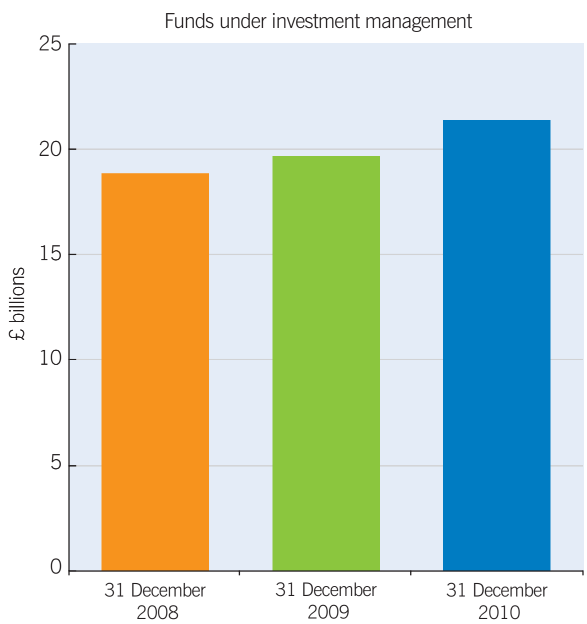


Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998 = £21.4 billion.

The total number of clients of investment managers = 14,736

Date	Funds under management (£ billions)	Number of clients
31 December 2008	18.844	15,584
31 December 2009	19.686	14,765
31 December 2010	21.394	14,736



Despite the international economic conditions, levels of income from funds and the Companies Registry in particular appear to have held up well.

FINANCIAL STATEMENTS

Fee income in 2010 was £12.33 million compared to £11.45 million in 2009. Despite the international economic conditions, levels of income from funds and the Companies Registry in particular appear to have held up well, and indeed the level of fee income received by the Commission in 2010 was higher than in the previous year across all sectors of the finance industry.

However, bank deposit interest received was £37,000, a reduction of more than 27% from the amount received in 2009, as a result of the continuing low level of interest rates throughout 2010. Other income received came from the seminars for the finance industry that were held during the year. The cost of these seminars has been included in other operating expenses.

The Commission's major item of expenditure is staff costs. In previous years the Commission has been increasing staff numbers to a level that is sufficient for it to be able to properly carry out its functions, and to be able to deal with the increasing scope of regulation. However, during 2010 this trend was not continued and staff numbers were not increased, with the result that the Commission was able to maintain staff costs close to the same level as in 2009. An analysis of this expenditure is contained in note 5 to the financial statements.

Expenditure on computer systems continued, in order to improve administrative efficiency but, again, costs have been held to 2009 levels. The amount of spend represents the maintenance costs for all systems (hardware and development costs are capitalised and depreciated over three years) and the software licence fees.

In contrast, the net amount spent on investigations and litigation during the year increased to £522,000 from £108,000 a year earlier. The increase arose mainly because in 2009 the Commission was able to recover a significant proportion of costs from the regulated businesses that had been under investigation, something that was not achievable in 2010. During the year, the Commission has continued its efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Expenditure on business travel increased in 2010 because more frequent visits were made to overseas regulatory authorities and to international standard-setting organisations. It is important to maintain regular liaison and information exchange with these international bodies, and this will continue in the coming years.

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

Overall, the level of operating expenses increased from £11.31 million in 2009 to £11.89 million in 2010. The net result for the year was an operational surplus of £610,000 and a consequent rise in reserves to £6.50 million. The Commission has continued its policy in respect of its accumulated reserve in order to build up such a reserve to an amount equal to six months' operating expenditure plus the average of the last five years' cost of investigations and litigation. This is in order to meet contingencies, particularly the sizeable sums of money that may be required to fund investigations and litigation.

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

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

The Financial Services Commission (Jersey) Law 1998 requires the Commissioners to prepare financial statements for each financial year. Under that law the Commissioners have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (being United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commissioners are responsible for keeping proper accounts and proper records in relation to the accounts. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

For and on behalf of the Board of Commissioners
C. F. Renault
Commission Secretary
16 May 2011

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

We have audited the financial statements of the Jersey Financial Services Commission (the **"Commission"**) for the year ended 31 December 2010 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice (being United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom).

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

Respective responsibilities of Commissioners and Auditors

As explained more fully in the Statement of Commissioners' responsibilities, the Commissioners are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).
Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Commissioners, and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Commission's affairs as at 31 December 2010 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Statutory Auditors
Norwich,
United Kingdom

16 May 2011

	Note	£000	2010 £000	£000	2009 £000
Regulatory Income:					
Regulatory fees	4 (a)		9,844		9,008
Registry fees	4 (b)		2,487		2,437
Total regulatory income			12,331		11,445
Other income:					
Bank deposit interest received		37		51	
Other income		100		-	
			137		51
Total income			12,468		11,496
Operating expenses:					
Staff salaries, social security and pension contributions	5	8,273		8,260	
Operating lease expenditure		466		462	
Other premises costs		293		307	
Computer systems costs		544		566	
Legal and professional services		244		205	
Investigations and litigation	6	522		108	
Public relations costs		19		25	
Travel costs		223		187	
Staff training		228		237	
Recruitment costs		79		103	
Other operating expenses		330		253	
Auditors' remuneration		15		14	
Depreciation of tangible fixed assets	7	617		580	
Loss on disposal of tangible fixed assets	7	5		-	
Total operating expenses			11,858		11,307
Excess of income over expenditure			610		189
Accumulated reserve brought forward			5,886		5,697
Accumulated reserve carried forward			6,496		5,886

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

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

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

The notes on pages 58 to 63 form an integral part of these financial statements.

	Note	2010 £ooo	2010 £ooo	2009 £ooo	2009 £ooo
Fixed Assets:					
Tangible assets	7		785		1,121
Current Assets:					
Fee income receivable		12		14	
Sundry debtors		63		42	
Prepayments		438		255	
Cash at bank and in hand	8	9,752		8,925	
		10,265		9,236	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	3,951		3,963	
Sundry creditors	9	603		508	
		4,554		4,471	
Net Current Assets			5,711		4,765
Total Assets less Current Liabilities			6,496		5,886
Represented by:					
Accumulated reserve			6,496		5,886

The notes on pages 58 to 63 form an integral part of these financial statements.

The financial statements on pages 55 to 63 were approved by the Board of Commissioners, and signed on their behalf on 16 May 2011 by:

C S Jones
Chairman

J R Harris
Director General

		2010		2009
	£000	£000	£000	£000
Reconciliation of net income to net cash inflow from operating activities				
Net income for the year		**610**		189
Interest received		**(37)**		(51)
Depreciation charges		**617**		580
Loss on sale of tangible fixed assets		**5**		-
(Increase) in debtors and prepayments		**(202)**		-
Increase in creditors		**83**		221
Net cash inflow from operating activities		**1,076**		939

Cash Flow Statement

Net cash inflow from operating activities	**1,076**	939
Returns on investments and servicing of finance		
Interest received	**37**	51
Capital expenditure		
Payments to acquire tangible fixed assets	**(286)**	(515)
Increase in cash	**827**	475

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year	**827**	475
Net funds at 1 January	**8,925**	8,450
Net funds at 31 December	**9,752**	8,925

1. Accounting policies

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

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

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

b) Registry income from annual returns is divided between the States of Jersey and the Commission. The proportion payable to the States of Jersey is collected by the Commission as an agent of the States of Jersey, and subsequently remitted to the States Treasury. Income received on behalf of the States of Jersey is therefore not accounted for in the financial statements (see note 4b).

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

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

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

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

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

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

2. Related party transactions

Whilst there are transactions on an arms length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions. However, Jacqueline Richomme is a partner of Mourant Ozannes and was also a Commissioner until her retirement from the Commission on 31 May 2010. During the year, the Commission used Mourant Ozannes to provide certain professional services. Costs incurred in the period to 31 May 2010 were £79,000 (2009 full year - £139,000) of which £nil (2009 - £28,000) remained to be paid at 31 May 2010 (2009 - the balance sheet date). These services were contracted on an arms length basis, and are not considered to be significant in the context of the business of the parties.

3. Taxation

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

4. Income

	2010	2009
	£000	£000
a) Regulatory fees		
Banking	1,351	1,325
Funds	3,511	3,413
Insurance companies	744	667
General insurance mediation	106	97
Investment business	1,301	1,221
Trust companies	2,552	2,275
Anti-money laundering unit	249	-
Recognised auditors	19	-
Money services business	11	10
	9,844	9,008

b) Registry fees

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

Registry fees include annual return fees.
The amount of the annual return fee payable to the Registry comprises two elements - an amount (£35) payable to the Registry to cover its administration costs and an additional amount (£115) set by, collected on behalf of, and payable to, the States of Jersey. The number of annual returns received during the year was 32,149 (2009 - 32,532).

	2010	2009
	£000	£000
Total annual return fee income	4,822	4,880
Less collected on behalf of, and payable to, the States of Jersey	3,697	3,741
Retained by the Registry	1,125	1,139
Other Registry income	1,362	1,298
Total Registry income	2,487	2,437

c) Regulatory fees received in advance	2010	2009
	£000	£000
Banking	1,418	1,464
Funds	1,548	1,547
Insurance companies	529	525
General insurance mediation	4	-
Investment business	424	425
Trust companies	28	2
	3,951	3,963

5. Staff salaries, social security and pension contributions

	2010	2009
	£000	£000
Staff salaries	**6,962**	6,959
Commissioners' fees	**218**	221
Social security payments	**290**	279
Pension contributions	**586**	558
Permanent health and medical insurance	**157**	149
Other staff-related costs	**60**	94
	8,273	8,260

The average number of staff employed during the year was 114 (2009 - 114)

6. Investigation and litigation costs

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

In a few cases, some or all of the Commission's costs may be recoverable, although not necessarily in the same financial year as the expenditure. In such cases the recovery is recognised when received. Costs incurred in 2010 amounted to £522,000 (2009 - £444,000), against which there were recoveries of £nil (2009 - £336,000). Net costs incurred during 2010 therefore amounted to £522,000 (2009 - £108,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	**Computer Equipment**	**Computer Systems under construction**	**Total**
	£000	**£000**	**£000**	**£000**
Cost of assets at 1 January 2010	**560**	**2,273**	**65**	**2,898**
Additions during year	**30**	**95**	**161**	**286**
Systems completed during year	**-**	**201**	**(201)**	**-**
Disposals during year	**-**	**(115)**	**-**	**(115)**
Cost at 31 December 2010	**590**	**2,454**	**25**	**3,069**
Depreciation at 1 January 2010	**262**	**1,515**	**-**	**1,777**
Charged during year	**115**	**502**	**-**	**617**
Eliminated on disposals	**-**	**(110)**	**-**	**(110)**
Depreciation at 31 December 2010	**377**	**1,907**	**-**	**2,284**
Net book value at 31 December 2010	**213**	**547**	**25**	**785**
Net book value at 31 December 2009	**298**	**758**	**65**	**1,121**

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

8. Financial instruments

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

9. Sundry creditors

	2010	2009
	£000	£000
General expense creditors	311	228
Accruals	292	280
	603	508

Accruals contain an amount of £167,000 (2009 - £182,000) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

10. Contingent liabilities

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

11. Financial commitments

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

	2010	2009
	£000	£000
The annual rentals payable under this operating lease are:		
For a period of more than five years	490	490

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

12. Interest in wholly-owned companies

The Jersey Financial Services Commission has two (2009 - three) wholly owned companies, JFSC Property Holdings No.1 Limited and JFSC Pension Trustees Limited.

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

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

Having been dormant since 2006, JFSC Property Holdings No.2 Limited was dissolved during 2010.

13. Commissioners' remuneration

Fees paid to Commissioners were as follows:

		2010 **£**	2009 £
Clive Jones	(Chairman)	**47,000**	26,997
Colin Powell	(retired 17 September 2009)	**n/a**	33,552
Jacqueline Richomme	(Deputy Chairman - retired 31 May 2010)	**10,417**	25,000
John Averty	(appointed Deputy Chairman 1 June 2010)	**22,500**	19,000
John Boothman	(resigned 30 June 2009)	**n/a**	9,500
Alastair Clark	(appointed 20 January 2009, resigned 31 October 2009)	**n/a**	22,556
Lord Eatwell of Stratton St. Margaret	(appointed 22 April 2010)	**20,139**	n/a
John Harris		**nil**	nil
Deborah Lang		**19,000**	19,000
John Mills	(appointed 23 October 2009)	**19,000**	3,654
Frederik Musch	(retired 31 May 2010)	**12,083**	29,000
Markus Ruetimann	(appointed 14 September 2010)	**8,680**	n/a
Philip Taylor	(appointed 23 October 2009)	**19,000**	3,654
Cyril Whelan	(appointed 1 June 2010)	**11,083**	n/a
Sir Nigel Wicks		**29,000**	29,000

John Harris is the Director General of the Commission. During the year he was paid no fees as a Commissioner, but received total remuneration of £272,000 for the year (2009 - £266,000) in his capacity as Director General.

14. Pension costs

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

   Salaries and emoluments include pension contributions for staff to this scheme amounting to £80,000 (2009 - £83,000). The Commission has adopted Financial Reporting Standard 17 "Retirement Benefits" (**"FRS17"**). Because the Commission is unable to readily identify its share of the underlying assets and liabilities of PECRS under FRS 17, contributions to the scheme have been accounted for as if they are contributions to a defined contribution scheme.

   The contribution rate paid by the Commission during the year was 13.6% of salary, and this rate is expected to continue to be payable during 2011.

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

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

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

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

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

   Salaries and emoluments include pension contributions for staff to this scheme amounting to £506,000 (2009 - £475,000). The increase is due to rising membership numbers.

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

Introduction

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

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

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

Constitution of the Commission

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

Functions of the Commission

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

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

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

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

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

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

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

Constitution of the Board

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

Currently, the Board consists of a Chairman, Deputy Chairman and eight other Commissioners. One Commissioner is the Director General of the Commission; all other Commissioners are considered to be independent non-executive members of the Board. Six of the Commissioners live in Jersey.

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

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

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

(c) individuals representing the public interest.

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

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

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

Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States of Jersey. When seeking to fill vacancies that arise, the Board follows the procedures recommended by the Jersey Appointments Commission (**"JAC"**) - a body set up by the States of Jersey to overview all public sector appointments - and a member of the JAC sits on the Selection Panel. Once a suitable candidate is identified by the Selection Panel, the Board sits to decide whether to make a recommendation to the Minister. If the Minister is satisfied with the Commission's recommendation, the Minister will take an appropriate proposition to the States for debate.

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

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

Operation of the Board

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

During 2010 the Board of Commissioners met ten times. Attendance was as follows:

Clive Jones	10/10
Jacqueline Richomme	3/4
John Averty	10/10
John Harris	10/10
Lord Eatwell	6/7
Deborah Lang	9/10
John Mills	9/10
Frederik Musch	3/4
Markus Ruetimann	0/2
Philip Taylor	10/10
Cyril Whelan	6/6
Sir Nigel Wicks	10/10

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

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

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

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

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

The Board maintains a rolling three-year business plan and an annual budget. In the last quarter of each year, the Executive of the Commission prepares a draft business plan and budget incorporating, amongst other things, any strategic issues raised by the Board at its annual Away Day. The draft business plan and budget is considered by the Board in December of each year.

The Commission publishes an abridged version of the detailed internal business plan used by the Commission's staff for comprehensive planning and monitoring purposes.

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

The Board monitored key risks during 2010 in compliance with the guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Board maintains a Risk Schedule that identifies the risks faced by the Commission and the controls that are in place to keep each risk within an acceptable level. The Board reviews this Schedule at least once a year to ensure that it continues to reflect the perceived risks. Regular reports are submitted to the Board to enable it to ensure that appropriate controls remain in place.

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

On 4 January 2010, the newly created post of Deputy Director, Internal Audit, was successfully filled, which strengthened the Commission's internal audit function.

Committees of the Board

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

Audit Committee

The key duties of the Audit Committee are:

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

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

The members of the Audit Committee during 2010 were John Averty (Chairman), Sir Nigel Wicks, and Philip Taylor. The Audit Committee met three times during 2010.

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

Nomination Committee

The key duties of the Nomination Committee are:

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

All members of the Board of Commissioners are members of the Nomination Committee. Whilst the Nomination Committee did not formally meet during 2010, all of its duties were effectively carried out by the Board.

Lord Eatwell of Stratton St. Margaret was appointed on 22 April 2010 to fill the vacancy created by the resignation of Alastair Clark, CBE, on 31 October 2009. Commissioners Jacqueline Richomme and Frederik Musch retired on 31 May 2010 having both completed three full terms as Commissioner. Crown Advocate Cyril Whelan was appointed on 1 June 2010 to fill the local vacancy and Markus Ruetimann was appointed on 13 September 2010 to fill the international vacancy.

The Institute of Directors led the first independent evaluation of the performance of the Board and its Committees, the results of which were presented at the annual Away Day held in September 2010.

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

Remuneration Committee

The key duties of the Remuneration Committee are:

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

The members of the Remuneration Committee during 2010 were Jacqueline Richomme (Chairman until May 2010), Debbie Lang (Chairman from June 2010), Clive Jones, and John Mills (appointed June 2010). The Remuneration Committee met twice during 2010. The Remuneration Committee's full Terms of Reference can be obtained from the Commission's Website.

The procedures followed by the Commission ensure that the setting of remuneration packages for Commissioners is formal and transparent.

Accountability Arrangements

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

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

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

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

Whilst the Commission does not have any shareholders, the Board has taken steps to understand the views of the Commission's major stakeholders by holding annual meetings with senior Government Ministers and bi-annual meetings with Jersey Finance Limited and representatives of other Industry bodies. In addition, the Executive also meets with Government Ministers and Officers, and representatives of Jersey Finance Limited and other Industry bodies, on a regular basis. The Commission held an Industry Survey in late 2009, which was reported upon in early 2010, and has embarked on a programme of improvements based on the resulting feedback. A similar exercise is planned for late 2011.

NOTES

www.jerseyfsc.org

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