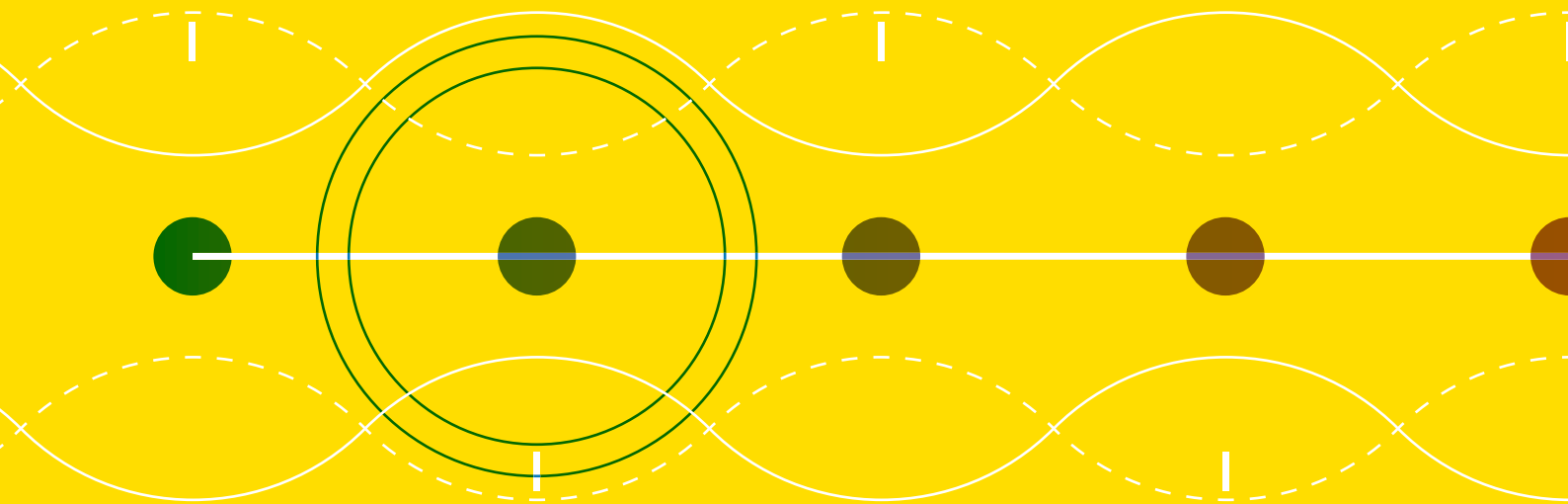


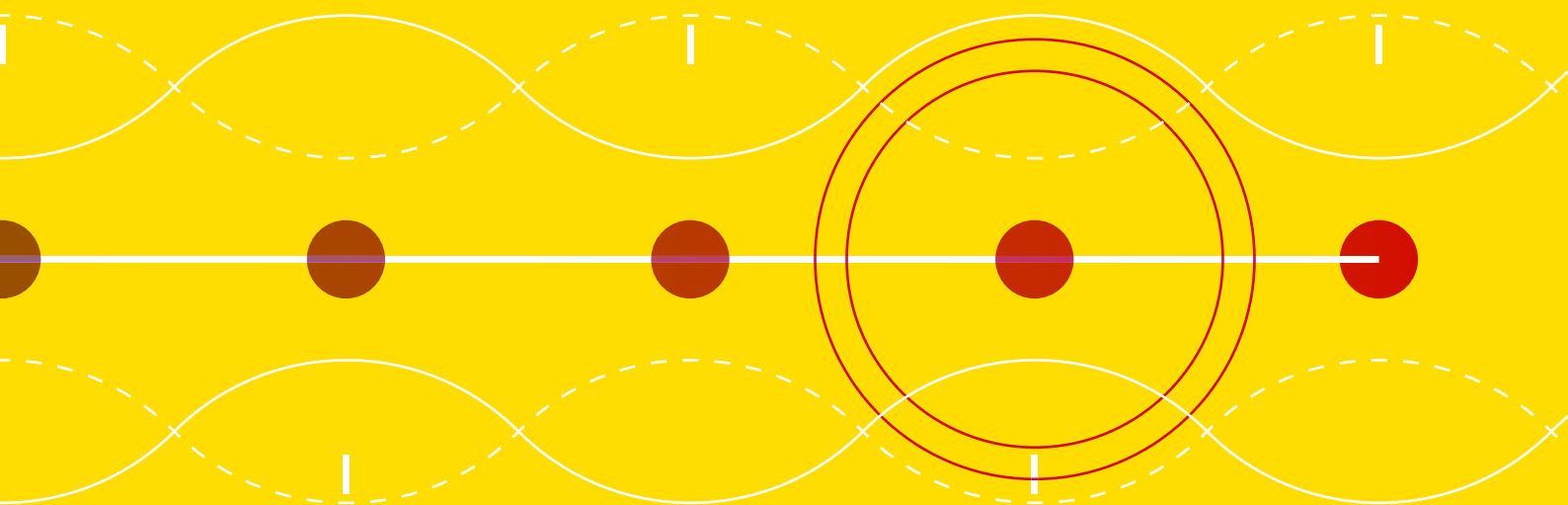


› **Jersey Financial
Services Commission**
› **Annual Report – 2016**

R.61/2017



› **Maintaining Jersey's position as a leading international finance centre with high regulatory standards.**





> Jersey Financial
Services Commission



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› Annual Report

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2016

00

› Highlights & Achievements 2016

› 04



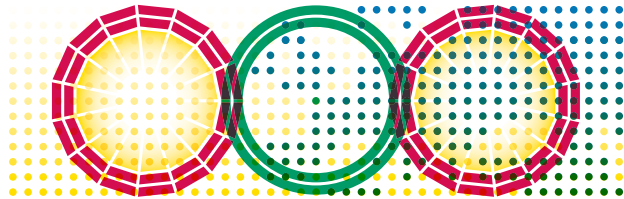
› Initiated implementation of Government's agreed policy with UK on future access of Jersey's Beneficial Ownership Register

› 01



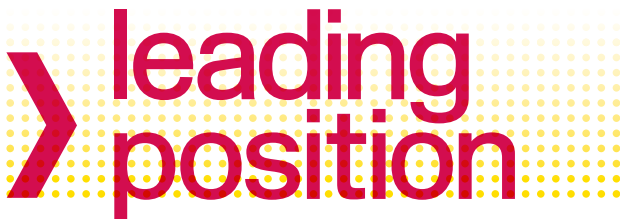
› Introduced online payments for registry & regulatory fees

› 05



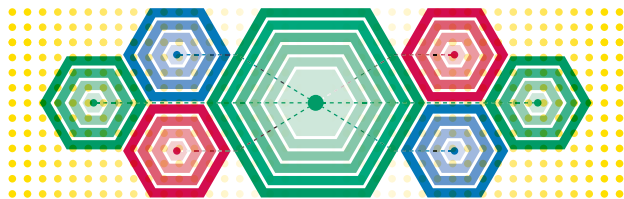
› Hosted first Jersey Study Tour attended by 60 global registry / regulatory professionals

› 02



› MONEYVAL declared "Jersey in a leading position" on Beneficial Ownership transparency & AML/CFT

› 06



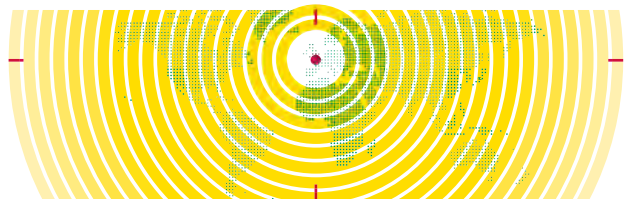
› Launched revised approach to risk-based supervision

› 03



› Landmark MoUs signed with Abu Dhabi Global Market & Liechtenstein's Financial Market Authority

› 07



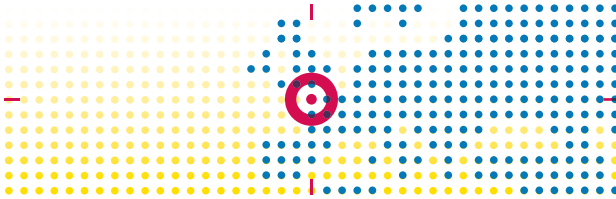
› ESMA recommended granting Jersey an AIFMD Passport

> 08



> Developed concepts for public awareness campaign on investment mis-selling for 2017 launch

> 09



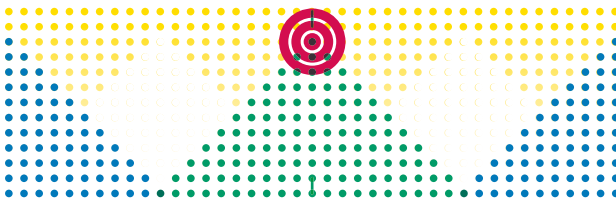
> Secured maximum recognition from the EU as a 'third country' for oversight regime for auditors

> 10



> Enhanced further our internal cyber-security strategy & provided input for Government's strategy

> 11



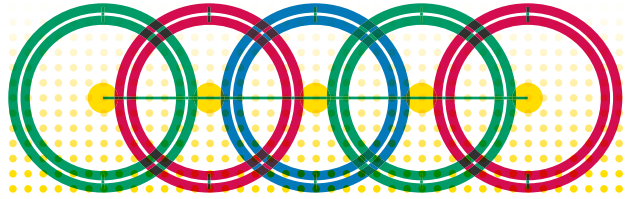
> Debbie Prosser appointed Deputy Chairman of Board of Commissioners

> 12

£ **>7,500**

> JFSC staff raised more than £7,500 for local charities & Children in Need

> 13



> Delivered 2016 elements of Change Programme within budget

> 14



> Introduced dedicated health & well-being programme with aligned staff benefits

> 15

Twitter
> 880
followers

LinkedIn
> 1,200
followers

Facebook
> 1,270
likes

> Continued to develop JFSC's digital output & engagement

01



The Jersey Financial Services Commission

Our Role



What we do

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

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

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

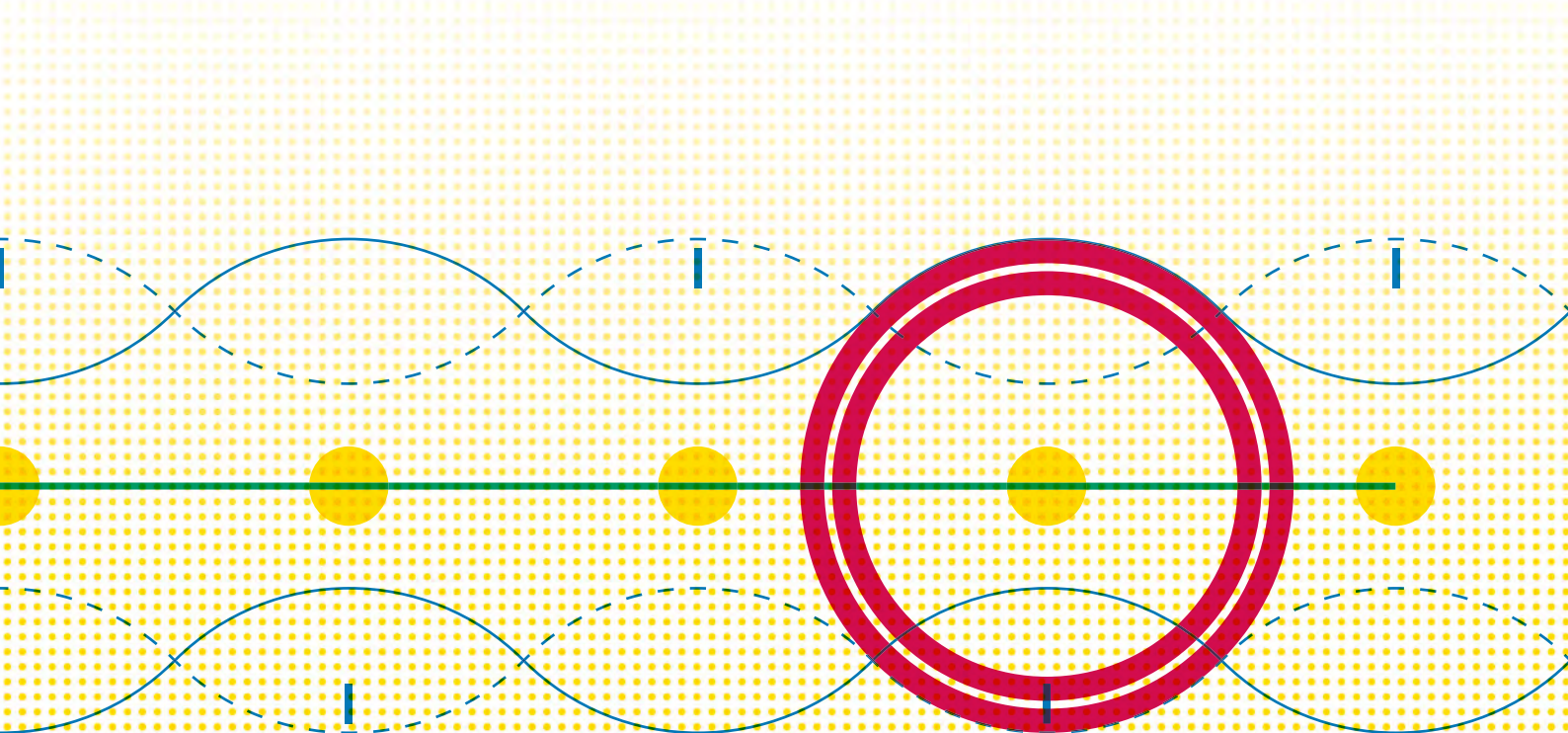


› Our statutory responsibilities are set out in the Financial Services Commission (Jersey) Law 1998 (the Commission Law) and include:

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

› We aim to fulfil these responsibilities by:

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



01













Strategic objectives for 2016

Our strategic objectives for 2016 focused on facilitating access to international financial markets, matching international standards, improving our regulatory performance, meeting legal and other requirements, and delivering business-as-usual. Considerable progress was made throughout the year to advance these objectives.



Performance against 2016 Business Plan Priorities

2016 Priority	Objective	Commentary
MiFID II / MiFIR consultation	Achieved 	Consultation and Feedback papers issued, plus further detailed discussion with Industry.
Funds regime review	Partially achieved 	Agreement reached on regime design changes. Phase 1 outcome to be published in 2017.
Fintech	Achieved 	Cyber-security Industry letter issued. Innovation site launched. Industry engagement increased. Virtual currency exchange regulations introduced.
Basel III	Achieved 	Discussion papers issued to Industry.
FATF implementation	Partially achieved 	Implementation of 2012 recommendations progressed. National Risk Assessment (NRA) scheduled for H1 2017.
MONEYVAL response	Partially achieved 	Positive MONEYVAL report published. Plans to address recommendations progressing.
Supervisory Review	Achieved 	Restructure complete. Entity oversight introduced. Progress made on digitising data interactions.
JFSC Change Programme	Partially achieved 	Phase 1 of CRM system introduced. Website development planned for 2017.
JFSC funding review	Partially achieved 	Feedback paper issued. Revised invoicing and payment arrangements introduced.
Registers for Industry and Government	Achieved 	Worked with Government on Security Interests Register 2, an electronic aircraft register, and other potential registers.

› The Financial Services Industry that we regulate

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

The key sectors of the Island's financial services industry include:

› Banking

Jersey's 28 banks attract clients from more than 200 countries and a sizeable share of the Island's total deposits are held in foreign currencies; a reflection of Jersey's international appeal as a banking centre.

The sector is a sizeable employer and a significant contributor to the local economy.

- › Jersey's banking sector's average capital ratios remain strong and well above Basel III requirements
- › There has been a trend of decline in licence numbers. In part, this has been prompted by rationalisation due to the prolonged low interest rate environment and also by structural reform of the UK banking sector. However, this trend has now largely stemmed and the sector is well placed to benefit from any future interest rate increases
- › Re-structuring to comply with the UK's ring-fencing regime is well under-way and will be significantly progressed in 2017. These changes provide opportunities for banking businesses in Jersey to develop more profitable asset books
- › Jersey's banking model is stable and diversified, with conservatively managed balance sheets that are well placed for the introduction of Basel III requirements
- › Jersey's bank licencing policy provides a workable and flexible foundation for a wide variety of banks to operate within a strong regulatory framework.

› Trust Business

Jersey was one of the first jurisdictions to regulate trust and company service providers and the sector consequently reflects a maturity and breadth of firms, ranging from the largest banks through to owner-managed businesses of many years standing. At the end of 2016, Jersey was home to 180 regulated trust and company service providers, holding between them 849 trust company business licences.

Jersey also remains a key player on the international stage:

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

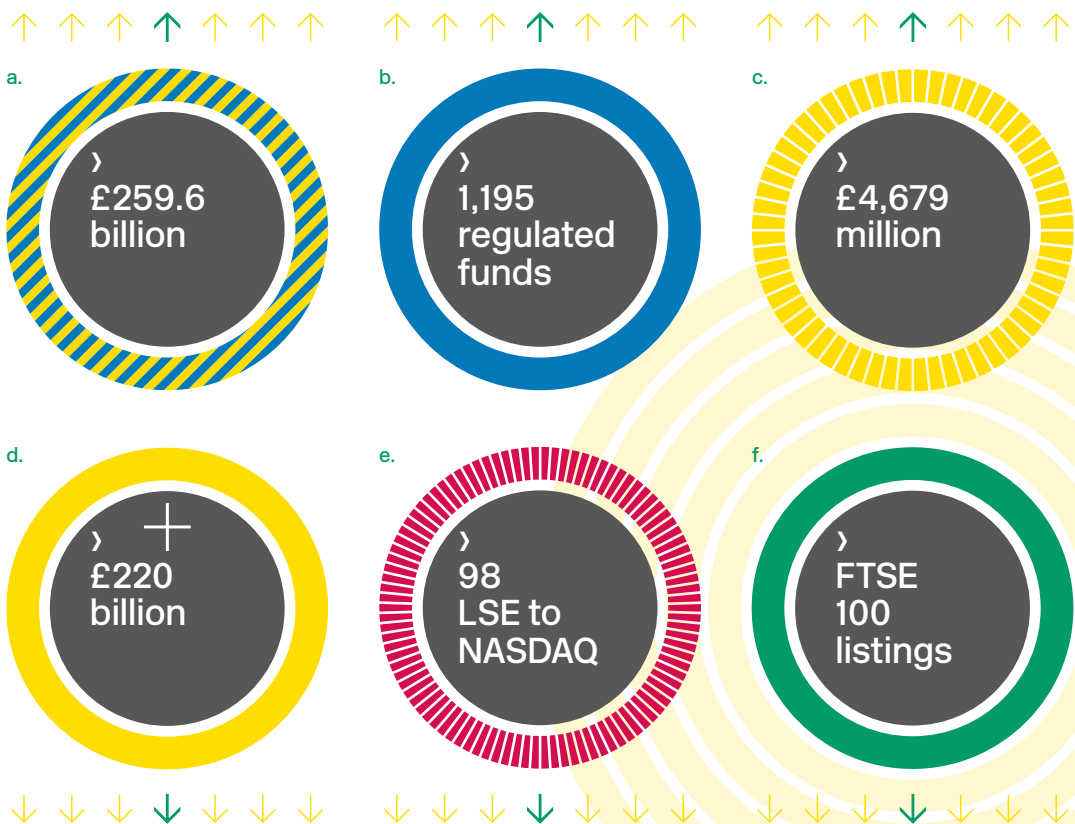
01



Funds

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

- a.) The total net asset value (NAV) of funds serviced in Jersey stands at £259.6 billion
- b.) Jersey has 1,195 regulated funds
- c.) The Private Placement Fund regime was introduced in May 2013 and there are currently 60 Private Placement Funds with a reported collective NAV of £4,679m.



Capital Markets

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

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

- d.) Jersey listed companies on global exchanges held a total combined market capitalisation of £220 billion (compared to £145 billion in 2015)
- e.) Jersey has 98 companies listed on global stock exchanges from the LSE to the NASDAQ
- f.) Jersey still has the greatest number of FTSE 100 companies registered outside the UK.





Vision from the top

Chairman's Statement

- Over the past year the JFSC has made significant progress towards the strategic goal of risk-based regulation as set out in the 2016 Business Plan. The changes necessary in our information systems and operating practices in order to achieve this goal will demand significant developments both in our internal operations and our relationship with Industry.

At the same time we have been pursuing business-as-usual, responding to a series of events and circumstances that affected the Island's financial services businesses and the regulatory environment. Throughout, we have remained committed to being an agile, listening regulator. Indeed many of our new structures and mechanisms are to make that approach possible.

- There has been significant progress in the analysis of risk, both within the Financial Services Industry and the JFSC itself. The input from Industry for our risk severity survey was much valued, particularly as a high correlation emerged between the risks identified by Industry and our own analysis. No one should be surprised that terrorist financing, money laundering and sanction breaches are our highest concerns, since these are not just severe risks but also embody major reputational threat to the Island.

However, one of the challenges of a risk-based approach is that risk assessments are dynamic and subject to change, depending on events and there were some very notable events in 2016. The year will probably be best remembered for the UK's vote to leave the EU and, of course, the outcome of the US presidential election.

The initial impacts of the referendum result were felt by the currency markets, but the UK's Office of Budget Responsibility is still expecting (even under quite optimistic assumptions) a downturn in investment and, post 2017, a slowdown in growth. The full impact on financial services in Jersey is difficult to predict. An immediate consequence has been that Jersey's success in negotiating a path toward AIFMD passporting has been put on hold as the EU seeks to establish how it will deal with third-party jurisdictions in the future, of which the UK will be one.

Maintaining and enhancing market access for Island businesses is a key priority for the JFSC. The UK is at present Jersey's most important market, but sustaining access to EU markets is also essential. Looking at the issue the other way around, recent work by Jersey Finance has highlighted the Island's importance to the UK and to the EU as a source of substantial liquidity.

One unexpected outcome of the referendum is that we, as a regulator with long-term experience of a third-party relationship with the EU, have been providing support and advice to the UK Government in its initial thinking on EU equivalence in financial services.

These events illustrate all too vividly the challenges being faced by savers and pensioners as ever lower interest yields compound the challenge of finding lower risk investments able to pay a regular income. In 2016, we began work on a targeted awareness campaign to remind everyone, including sophisticated investors, of the benefits of a diversified set of assets. Opportunities that look too good to be true are exactly that, and may best be avoided.

We remain committed to compliance with the international standards necessary to ensure that our businesses can access important overseas markets. This landscape is changing fast. An important achievement was the successful completion of the Island's assessment by MONEYVAL (the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism).

But no sooner had the ink dried on the MONEYVAL report than the demands of the new National Risk Assessment took centre stage. In addition, there has been the need to develop systems that could respond to an agreement with the UK Government that the Registry makes available real time Beneficial Ownership information to UK law enforcement agencies. Together with the forthcoming implementation of the Common Reporting Standard, the pressure for increasing transparency as a condition for financial market access seems unlikely to abate any time soon. Fortunately, Jersey is well placed to meet these challenges – indeed far better placed than most other jurisdictions.

Cyber risks have been on the JFSC's agenda for some time, particularly as the Companies Registry (the Registry) has been a regular (though unsuccessful) target of attempted attacks. It is inevitable that cyber risks will feature increasingly in supervisory oversight. The Panama disclosures reinforced the fact that risks can arise from the home team as well as from external actors. It is vital that every member of JFSC staff and members of Industry are trained to be alert for cyber risks from wherever they may originate.

The 2016 Business Plan also focused on improving our own performance. The team has made tremendous strides over the year developing the new supervision risk model to direct our efforts, implementing entity level oversight and restructuring the Supervision team to match new roles and responsibilities. At a time of challenging changes, the enthusiasm and commitment of our staff have never failed to impress.

We are very conscious that our own costs are borne by Industry and that the costs of compliance have increased substantially in recent years. There is a clear focus on the need to contain costs, but we face growing international regulatory demands, together with the necessity for enhanced superior cyber defences (as attackers become more and more sophisticated) and the requirement to recruit and retain high quality people.

We have completed a number of consultations on future fees, following a period in which fee levels were held down and the JFSC dipped into reserves. To seek to mitigate cost increases to some degree we are investing heavily in technology. A major goal is to reduce the expenditure of sharing information between ourselves and Industry. We are an active and committed participant in Digital Jersey and Jersey Finance initiatives regarding Regtech and Fintech in order to lower compliance costs and better understand future business opportunities.

Our Board remains unchanged since John Averty left and Michael de la Haye joined at the start of 2016. There is a demanding schedule with ten board meetings per year, an Away Day, regular sub-committee meetings covering audit and human resources, and the demands of enforcement procedures. I would like to thank all of the Commissioners for their time and effort over the period. I would particularly like to thank Debbie Prosser who was appointed Deputy Chairman at the start of the year and has since provided ready advice and outstanding support, both within the JFSC and in the development of our relationship with Industry.

I resolved last year to spend significantly more time meeting with and listening to Industry. I have learnt a lot. I have also spent more time with Government of Jersey officials and with JFSC staff. I much appreciate the time that all have taken during the year to help me be fully up-to-date in my understanding of the opportunities, as well the threats, facing the Island and its financial services businesses.

02



We have remained committed to being an agile, listening regulator. Indeed many of our new structures and mechanisms are to make that approach possible.



03

› Delivering against our objectives

Director General's Statement

- › For many reasons, 2016 is likely to be a year that is long remembered. While this can be said due to several events arising in the JFSC's external environment, it was also a year where we made significant progress against the declared ambitions set out in our annual Business Plan.

Alongside achievements internationally, such as the excellent MONEYVAL Report published in May, the consolidation of our Change Programme efforts and the further maturing of our internal environment for staff were hallmarks of a successful year. Particularly relating to the latter, areas of note were matching skillsets to roles better than ever before, refining our staff performance management standards, and investing in new learning and development activities.

- › To these can be added a difficult but ultimately successful exercise in bringing regulatory fees up to a level consistent with ensuring the JFSC's long term financial sustainability, enhancing the Companies Registry to become a more responsive and effective service for the Island community, managing the challenges thrown up by external events such as the Panama Papers, and important industry developments, including changes to Jersey's Funds Regime and preparation for our first ever targeted public awareness campaign on investment mis-selling due for launch in early 2017.

Whilst far from exhaustive, these are all indicative of the range and variety of tasks and objectives with which JFSC staff at all levels are confronted on a daily basis. Once again I have been heartened by the way we have collectively risen to the challenges, with the much appreciated support of our Board of Commissioners, so that another year of real progress has been realised.

Central to the Change Programme in 2016 was the move to refine further our risk-based and entity-based approach to supervision, in contrast to the licence by licence focus previously utilised. This went hand in hand with the development of a new prototype risk model and the designation of three categories of supervision - enhanced, pro-active and reactive - which were communicated transparently to each entity.

These developments in turn were backed by the deployment of new technologies, principally the Microsoft CRM tool as our key supervision database and the installation of a portal through which increasingly all industry and JFSC information exchanges and transactions will pass. 2016 saw all fees by regulated entities paid by this method for the first time and these capabilities will be enhanced further in 2017, the last year of our formal Change Programme. By the year-end we hope to have in place a sophisticated, highly automated and e-enabled approach to

supervision, with a fully integrated risk model and case management facility at its heart.

This progress was complemented – as described elsewhere in this Annual Report – by improvements to operations in the Companies Registry, in particular the introduction of new technology which has enabled the range of Registry transactions to be upgraded to automated online processes. We also commenced work to develop new registries in partnership with the Government of Jersey and the first stages of enhancing Jersey's central register of Beneficial Ownership. Concerning the latter, we already hold a leading position, acknowledged internationally and clearly highlighted in the Council of Europe's Press Release which accompanied the MONEYVAL Report. Compared to most regulatory peer organisations, the JFSC is fortunate to have the Companies Registry embedded within it but we believe that, in addition to the generic services it provides as a registry platform for all regulated businesses and Islanders more generally, it gives an important additional regulatory oversight capability; acting as the quality control gatekeeper for new businesses seeking incorporation in the Island.

In terms of the JFSC's interaction with Industry, perhaps four things stand out from the pack in 2016, albeit business-as-usual activity for the Supervision and Enforcement teams remained at high levels throughout the year.

On the policy front, much of the year was spent in liaison with the Government of Jersey and representatives of the Funds Industry to streamline and simplify the range of private funds in the Jersey collective investment schemes offering. This work reached a successful outcome at the end of the year with full implementation due in early 2017.

Despite the introduction of civil penalties in 2015 as an additional sanction available to the JFSC when dealing with inappropriate market conduct, the Enforcement division imposed no such penalty during the course of 2016. An observation is that these penalty powers are somewhat limited given they are only available against firms and not individuals. The gathering international consensus would appear to be that these sanctions are far more relevant and dissuasive if applied to individuals, although only as one of several options within a range of available sanctions. The JFSC intends to consult further with the Government of Jersey on this point over the coming year to consider what might work best in Jersey.

In the banking arena, further consolidation was seen in the Island, as elsewhere, in what has become a global retrenchment exercise for this sector of Industry in the aftermath of the financial crisis. Jersey is far from immune to this trend but, with individual UK banking branches and subsidiaries now well advanced with planning on how best to deal with the ramifications of UK ring-fencing between retail and non-retail operations, there is some cause for optimism that this position is now stabilising.

03

As mentioned by our Chairman, an area in which we have taken a strong and pro-active stance is investment mis-selling with the launch of a public awareness campaign; the first of its kind in the JFSC's operating history for which all preparatory work was undertaken in the latter part of 2016. Working in partnership with the Personal Finance Society, the campaign came in reaction to the growing issue of inappropriate and unsuitable selling and buying of high risk investment products in the Island. In the wake of record low interest rates over a sustained period, we have seen instances where Islanders have literally parted with all of their savings in pursuit of yield from such high risk products without fully understanding the risks.

Sadly, again in a minority of cases, some residents were persuaded by unscrupulous advisers to invest without being suitably advised. These few bad advisers tarnish the integrity of the many good and trusted members of the local advisory community as well as the Island's reputation. The catastrophic consequences for individual investors in these circumstances underline once again the need for Islanders to make informed choices and take responsibility for their own decisions. These messages, together with other simple and straightforward notions about safe investing, were developed through the campaign which was due for roll out in early 2017. Increasingly such consumer education initiatives are expected from regulators. We are proud to have mounted this initial effort and intend to remain at the forefront of similar activity in the future.

The signing of further bilateral Memoranda of Understanding (MoUs) with Abu Dhabi Global Market, Liechtenstein and other jurisdictions continued our pattern of international outreach and regulatory relationship building, undertaken to bolster the Island's overall efforts in international markets. We also developed further our prominent role in the GIFCS; a group of small jurisdiction supervisors which considers the development of an international standard for the supervision of Trust and Company Service Providers (TCSPs) as one of its principal initiatives.

Finally, 2016 has been no exception for the JFSC seeking to invest in our own people. Whilst again not exhaustive, we have rolled out managerial and leadership training, presentation and media skills training,

informative briefings and seminars on both technical and wider environmental matters, performance management and coaching enhancements, and mental health and general well-being awareness initiatives. We have also embraced the very welcome opportunities for our staff to support worthy charitable organisations, evidenced by the tremendous work and fundraising undertaken throughout 2016 in support of Jersey Mencap. This is only a flavour of what is, rightly, a significant commitment by the JFSC to foster an open, engaged and developmental environment for our people. That is desirable in itself, as well as one of the principal ways in which we can strengthen our staff recruitment and retention objectives.

Taking all this in the round, I feel the Commissioners and staff at the JFSC can be pleased with the very real progress made during the past year towards a more progressive, enabled and accessible regulatory organisation, aligned to the needs of the market and Jersey's place within it, during what remain highly challenging times for financial services everywhere.

We have made progress simultaneously on all fronts; people development, technological advancements, refreshed supervisory practices and a maturing relationship with Industry. And Industry has responded well to our initiatives, including recognising that we, as a regulatory agency in today's environment, must be appropriately resourced and financed in order to fulfil our ever-growing and ever more complex responsibilities.

As always, I should like to record my appreciation to the Chairman and Commissioners for their wise counsel, enlightened support and insight across the very wide range of activities we undertake. I also pay tribute to the energetic, committed and professional work of all my colleagues for another year of successful outcomes in realising our objectives and the valuable work that we do collectively. I am privileged to be supported by such dedicated members of the JFSC community and I have no doubt that we make a real and beneficial contribution to the well-being of the Island.

- › **At a time of challenging changes, the enthusiasm and commitment of our staff have never failed to impress.**



04



Principal Risks & Uncertainties





Principal Risks & Uncertainties

- › 2016 has seen significant activity to develop further and embed the JFSC's Enterprise Risk Management framework. This framework covers the risks and uncertainties that we face from a number of directions; from complex global political and economic issues to the local risks presented by regulated firms and our own operations.

The JFSC Board of Commissioners, in partnership with key stakeholders, has been heavily involved in identifying where the greatest risks lie and, for the first time, also sought the views of regulated firms on the risks that could have the greatest potential impact on the JFSC's objectives.

Of those identified through a robust assessment, we currently consider the following to be our principal risks:

› **The UK leaving the EU**

While too early to tell, the victory for the Leave campaign in the UK's In/Out Referendum will inevitably impact the UK, the rest of the EU and Jersey. Although the period of uncertainty in the immediate aftermath has been weathered, the longer term uncertainty surrounding the precise nature of the UK's exit and resulting effects remain.

We have continued to monitor developments and to examine longer term consequences. Most notably we are concerned about the potential effect on market access for Jersey, and ultimately the positioning of the UK outside the EU in the context of EU regulatory standards.

In addition there have been recent indications of wider impacts across the remaining EU members, with the UK's vote to leave unlocking similar anti-EU sentiment in other member states, which could have profound effects on the longer term nature of the EU.

More directly, the Island may also be impacted by the loss of the UK as a liberal EU member state, having implications for the perceptions of Jersey as an international finance centre among the remaining EU members.

› Terrorist Financing and Money Laundering

Jersey is a jurisdiction with no tolerance for financial crime and the strong foundations of our anti-money laundering and terrorist financing regime are critical to our reputation as a leading international finance centre. This reputation was reinforced by the MONEYVAL assessment which reported that Jersey has a '[...mature and sophisticated regime for tackling money laundering and the financing of terrorism](#)'.

In our 2016 survey on the severity of risks, both the JFSC and Industry agreed that terrorist financing and money laundering

were the most severe risks. Against a backdrop of a series of terrorist attacks across Europe and the continued international focus on fighting financial crime, those results were no surprise.

We cannot afford to be complacent in this regard and, in response to the MONEYVAL report, we have carried out a series of thematic examinations in the banking sector to inspect the use of simplified and enhanced due diligence measures. These examinations will be extended to firms across other sectors in 2017.

› Transparency / reputation of offshore finance centres

Transparency of Beneficial Ownership of corporate and legal entities was headline news around the world in 2016. The Panama Papers, the London Anti-Corruption Summit and the Bahamas leaks shone the spotlight on all international finance centres and as a result Jersey has been subjected to its share of scrutiny.

As the operator of Jersey's central register of Beneficial Ownership via the Companies Registry, the JFSC plays a leading role in the Island's position on transparency. The Registry has been independently

endorsed as effective by international assessors and throughout 2016 we worked with the Government of Jersey to further this agenda. This drive to improve transparency will see new requirements around notification of changes in Beneficial Ownership, a new Register of Directors and the swift exchange of information between law enforcement and other authorities to investigate financial crime.

› Loss of data

Risks associated with a cyber-attack involve not just the loss of information, but also the misappropriation of client assets and direct financial loss to regulated firms through increasingly sophisticated frauds.

The frequency, sophistication and impact of cyber-attacks is increasing. In May 2016, the release of the Panama Papers brought home the potential damage that can be caused by a successful cyber-attack. The Island's financial services sector remains an attractive target, with both regulated firms and the JFSC facing this ever-increasing danger. To give some indication of the size of the threat, in 2016 we successfully stopped 289,681 attempts to breach our cyber defences.

We recognise our responsibility to protect the information we hold and in 2016 we continued to upgrade our capabilities to understand and mitigate this risk with up-to-date technology and the recruitment of people with specific skillsets.

We provided regulated firms with further guidance on cyber-security, useful resources to help manage the associated risks, and a reminder of entities' obligations under the Codes of Practice. Those engaging in cyber-attacks are inventive and, as the methods of attacks evolve, our work will need to advance to counter their efforts.



04



Safety of the banking system

The financial crisis highlighted the importance of the banking sector to the economic health of nations across the world. In response, greater emphasis has been placed on prudential supervision of banks to reduce the risk of bank failure. Recent developments in banks across Europe have shown that this is a risk which requires constant attention.

The JFSC is no different in placing a strong emphasis on the financial health of the banking sector. All Jersey banks are part of large groups that are subject to the standards set by the Basel Committee on Banking Supervision, and Jersey has adopted its comprehensive Basel II standards.

Throughout 2016, we worked on implementing the revisions to this standard (in Basel III) around capital adequacy and leverage, and we continue to work on the requirements around liquidity.

The financial crisis also led to the G20 group of large countries seeking a common approach on bank recovery and resolution planning. The Financial Stability Board carried out this work and its standards are being implemented worldwide. We have been working on our approach to banks' recovery plans and, separately, work is underway to introduce a resolution regime in the Island to help address any safety concerns emerging in the banking sector.



Mis-selling of investments

Acknowledged by both the Chairman and the Director General in their respective statements, investment mis-selling is a growing issue in Jersey. We, as the regulator, have a statutory duty to reduce the risk of financial loss to the investing public.

It is impossible for us to prevent every single case of investment mis-selling that affects Islanders, whether the adviser is licensed or not. However, if a local adviser or company is found to be acting inappropriately we deal with them accordingly, and in 2016 we did so.

We cannot provide advice on individual investments, but we can help local investors reflect carefully on whether an investment recommendation is actually in their best interests, and during the year we worked to improve financial awareness locally, culminating in the aforementioned Island-wide mis-selling campaign due for launch in early 2017.

I'VE PAID THE PRICE

IS IT WORTH THE RISK?
The mis-selling of investments is often hard to spot. Make sure you don't pay the price.
www.jerseyfsc.org/yourownbestinterests

Jersey Financial Services Commission

In association with
Personal Finance Society
Standards | Professionalism | Trust | PFS

05

› Summary of Activities





05.1

› Policy

- › The JFSC's Policy division has a number of responsibilities including monitoring and reacting to international regulatory developments, ensuring Jersey's regulatory framework is updated as and when appropriate to changing risks or developments, acting as a knowledge resource for JFSC staff involved in supervision and authorisation, and leading other one-off significant pieces of work such as evaluations by external standard setters.

- › **Key achievements during 2016**

Both our Policy and Financial Crime Policy teams play an important role in maintaining a regulatory environment that enables Jersey's financial services industry to grow and develop in a way that protects the public and the Island's reputation. Significant achievements for our policy work in 2016 include:

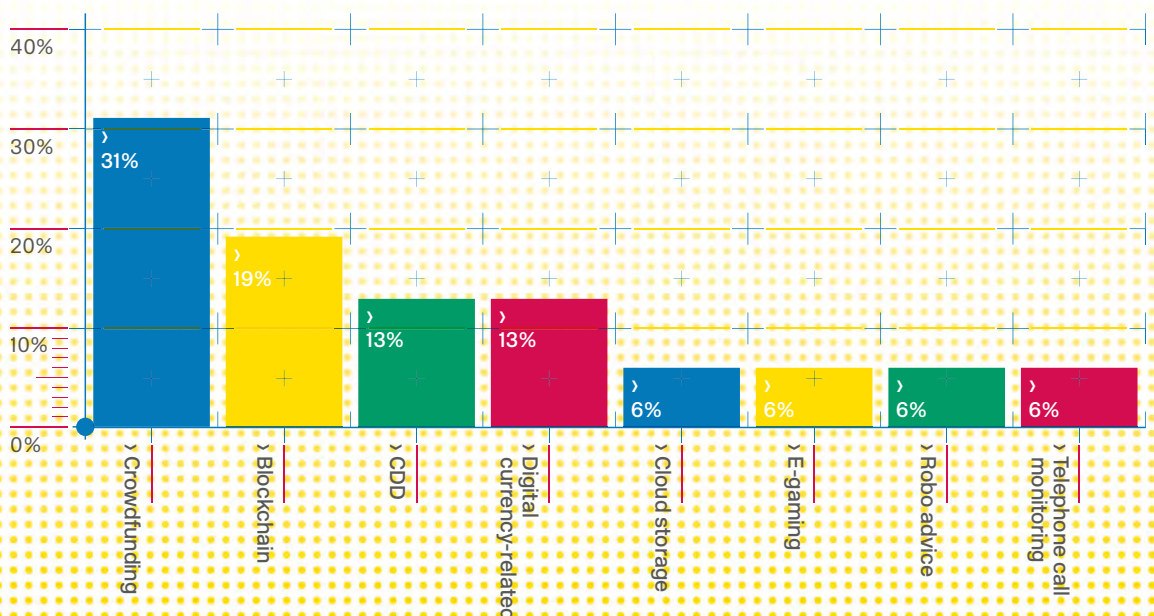
- › Playing a major role in coordinating and contributing to MONEYVAL's assessment of Jersey
- › Consulting on additional guidance for the application of AML/CFT requirements to Funds and Fund Operators, and engaging with Industry on key issues identified
- › Working closely with Government and Industry on the Funds Regime Review, which saw the agreement of a three phase strategy with an initial focus on rationalising and consolidating Jersey's Private Fund regime
- › Issuing consultation and feedback papers on the potential implementation of MiFID II and consequently working with Industry parties on identified issues
- › Completing a consultation and feedback exercise in relation to our own funding arrangements, which received support from Industry on a number of changes that are now being implemented across various sectors
- › Launching a strategic approach to address cyber-security risks in Industry, attending and providing speakers for Fintech and cyber-security events, assisting with the development of the States of Jersey Cyber-Security Strategy as an active member of the Government-run Cyber-Security Task Force, and providing support for local businesses and individuals looking to launch or utilise Fintech products or services.

Other key areas of work

We also progressed a number of other important policy areas during 2016:

- › The development and implementation of a regulatory framework for alternative investment fund managers (AIFMD framework) which enabled the European Securities and Markets Authority to recommend that Jersey should be among the non-EU Member States granted an AIFMD passport (once the passport is granted to third countries)
- › The successful application of Jersey’s Single Euro Payments Area and the granting of market access
- › The maximum recognition for Jersey from the European Union for a third country for its oversight regime for auditors
- › The continued progress in banking for the local adoption of Basel III standards, with the issue of Discussion Papers on Domestic Systemically Important Banks and on other Capital Adequacy elements
- › The issue of a consultation paper and the subsequent work with Industry on revisions to the Outsourcing Policy
- › The continued work to introduce a financial education programme for Jersey schools, which at the end of 2016 had reached more than 2,000 local students
- › The JFSC’s attendance at Government meetings with both HM Treasury and the Foreign and Commonwealth Office in relation to the UK leaving the EU, highlighting the importance of financial services for the Island’s economy
- › The extension of the AML/CFT regulatory scope to include individuals or entities undertaking virtual currency exchange business.

Fintech enquiries / requests for support



05.1

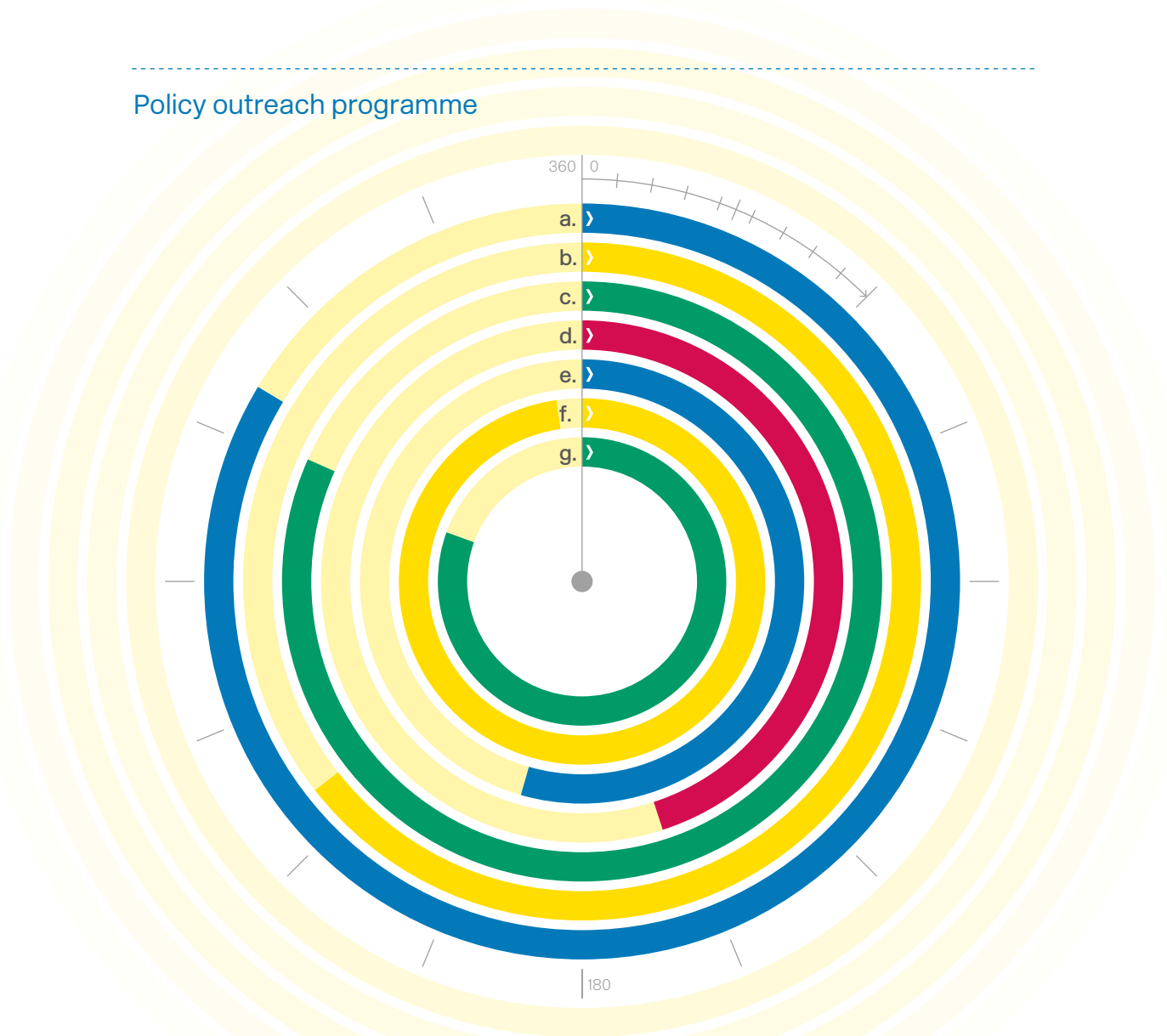
› Working with other stakeholders

In 2016 we continued to maintain strong working relationships with both the Government of Jersey, Industry and important overseas stakeholders and standard setters such as HM Treasury, the UK Financial Conduct Authority, the UK Prudential Regulation Authority, GIFCS, ESMA, the European Commission, MONEYVAL, and IOSCO. These relationships help to enhance Jersey’s reputation, strengthen the JFSC’s voice in policy development and enable us to identify potential issues or opportunities for Industry.

We proactively enhance cooperation with overseas regulators and to date we have signed Memoranda of Understanding (MoUs) with more than 90 jurisdictions. During 2016 we signed new or enhanced MoUs with regulators in Abu Dhabi, Liechtenstein, Luxembourg and the UK.

We also developed further our outreach programme with more than 1,800 people attending our seminars (see below).

› Policy outreach programme



- | | |
|--|---|
| <u>a.) Suspicious Activity Reports – 301</u> | <u>e.) Terrorist Abuse in NPOs – 196</u> |
| <u>b.) Fundamentals of Terrorist Financing – 232</u> | <u>f.) Proposed Funds Section of AML/CFT Handbook – 352</u> |
| <u>c.) Beneficial Ownership – 294</u> | <u>g.) Overview: Sanctions Regime – 290</u> |
| <u>d.) Virtual currency & CDD technology – 162</u> | |



05.2

› Supervision

- › One of our key functions as a regulator is to supervise regulated entities, establishing how well firms comply with their relevant legal and regulatory obligations. The Supervision teams do this by identifying, assessing and mitigating risk through a combination of desk-based and on-site activities.

We are committed to becoming more risk-based in our approach to ensure that our limited resources have maximum impact. Authorisation of regulated persons is a fundamental part of our supervisory activity and aims to ensure that entities meet established minimum standards before they are permitted to carry on regulated activities.

› **Key achievements during 2016**

In early 2016 our Supervision teams were re-organised and transitioned to entity-based supervision. This means having a single consolidated supervisory view per entity rather than per licence. As a result, we are developing an improved understanding of each entity's business model, risk profile and culture. These changes were outlined in correspondence to Industry and also published on our website in April 2016.

Throughout the year, the teams enhanced further their knowledge of entities, following the streamlining and centralisation of certain supervisory processes. We defined our three supervisory approaches towards individual firms as enhanced, pro-active and reactive, which reflect our assessment of their potential impact. An entity will now be supervised based on which of the three approaches it is allocated, with greater intensity of supervision applied to those entities considered to pose the greatest risk. In June 2016, we published the JFSC Risk Overview which reflected the importance of risk to our supervisory approach. During the year, we established a

Supervision Examination Unit (SEU) which is responsible for coordinating and delivering our on-site examination programme. This is improving the consistency of our approach across the Supervision division, helping to embed our revised methodology. The first series of thematic examinations was delivered in 2016 and focused on simplified and enhanced customer due diligence in the banking sector.

Looking forward into 2017, we will undertake a greater number of entity meetings and interactions, enabling more focused, better-informed supervision. We will place increased emphasis on themed examinations with a reduced number of entity specific examinations. The SEU will leverage the thematic work undertaken with banks by extending this to the fund services business (FSB), trust company business (TCB) and designated non-financial business and professions (DNFBP) sectors for the initial three months of 2017. Suitability of investment advice and corporate governance will also form the focus of activities throughout the year.

› Key visit findings

In addition to routine meetings and other interactions, the Supervision division undertook 25 examinations in 2016. The visits covered the whole Industry including banks, investment businesses, fund services businesses, trust company businesses, and designated non-financial businesses and professions. In the vast majority of cases, entities comply with regulatory requirements. However, below are some of the key issues identified during the year that need improvement:

- › In Banking, we found weaknesses in the customer risk assessment process, including failure to identify customers with relevant connections to higher risk countries and former politically exposed persons (PEPs), as well as failure to corroborate source of wealth. This meant that customer due diligence (CDD) was not always commensurate with the customer risk. We noted that both Jersey branches and locally incorporated banks sometimes follow group policies and procedures or rely on group functions, which do not always meet Jersey requirements. There were also failures to apply simplified due diligence
- › In Investment Business, there were continued instances of insufficient evidence to confirm the suitability of advice provided, based upon the client's circumstances and investment objectives. This remains a particular concern in

relation to elderly clients. Continued failings relating to corporate governance arrangements were also identified, as well as a lack of adequate reviews being undertaken of conflicts of interest arising

- › In the FSB and TCB sectors, a number of findings related to AML control weaknesses, for example Business Risk Assessments did not reflect sufficiently the current risks within a business and were not updated when risks changed. Other weaknesses included deficient sanctions policies, reliance on intermediaries (obliged persons) without conducting a risk assessment, and poor risk rating methodology. There were also instances of unsatisfactory assessments of PEPs, periodic reviews not being undertaken in a timely manner, and the use of exception registers permitting client take-on without full CDD. Further findings related to policies and procedures being out-of-date and weaknesses in board oversight and risk assessment.

During 2016, the Supervision teams worked with a number of entities to ensure that identified risks were adequately mitigated or that plans were in place to achieve this over time. Where appropriate, failings were referred to the Enforcement division and such referrals will continue where repeat findings occur.

› Other supervisory activities in 2016

We continued to engage actively with Industry, maintaining close links with a range of trade bodies and other key stakeholders. This included providing speakers for various seminars.

We worked closely with the banking sector to monitor changes to business models, including those driven by ring-fencing in the UK. We also progressed a range of banking policy initiatives such as Basel III, recovery planning and bank resolution.

Supervision is at the heart of the JFSC's Change Programme so in 2016 we continued to drive forward initiatives designed to make engaging with us easier for entities. We introduced the CRM system and the year's fee runs for all licence types were delivered through our new web portal.

Internally, we reviewed our processes to achieve greater consistency and efficiency. To support this we started, and will continue to develop, much better internal guidance so that we facilitate good quality inductions for new staff and ongoing support for supervisors, reinforcing our new supervisory approach.

05.3

› Enforcement

- › The Enforcement division investigates cases where Registered Persons or individuals associated with them have committed or potentially committed a legal or regulatory breach.

Our goal is to engage in constructive dialogue with those that we regulate, acting firmly but fairly, imposing statutory sanctions only where necessary.

Enforcement will always seek to work constructively with a regulated business, particularly where breaches of regulations are self-reported by the business and a clear resolve to address the shortcomings is evident from the outset. Remediation is always our first port of call; of the 467 enforcement cases dealt with in the past five years, less than 12.5% resulted in public statements being issued.

As highlighted elsewhere in this Annual Report, Enforcement has experienced a noticeable rise in cases where local investors, often those who are elderly and vulnerable, have invested in high risk products without seemingly understanding or being appropriately advised of the potential dangers of losing their money. Addressing such a trend became an evident priority for the JFSC in 2016 and will continue to be in 2017.

Enforcement Statistics	2015	2016
› New enforcement cases commenced	76	86
› Active investigation at year end	53	42
› Requests for assistance from overseas regulators	13	18
› Formal notices issued	95	99
› Notices compelling individuals to attend an interview	21	24
› Public statements issued	15	11
› Preventing / restricting work in financial services	6	5
› Calls to whistleblowing line	21	25
› Calls leading to active investigation	10	10

› Fraud Prevention

Protecting Islanders from fraud remains a key objective for the JFSC. To this end the Enforcement division provides the Secretariat to the Jersey Fraud Prevention Forum (JFPF). Working in partnership with JFPF members in 2016, we continued to develop and explore innovative ways of raising awareness and helping Islanders to safeguard themselves from falling victim to increasingly sophisticated scams and frauds. We are particularly grateful to five victims who, with a view to protecting others, agreed to share their experiences publicly of how they were targeted and duped into parting with their savings.

Working effectively and collaboratively internally with the other JFSC divisions has proved increasingly important. The Communications team provided considerable support in producing public awareness material for the JFPF, including victim case study films, and the Supervision division has assisted Enforcement by releasing staff members for short periods to progress larger and urgent cases.

› Key activities 2016

Overall the number of new enforcement investigations in 2016 was 86, slightly above the 2015 figure but still below the five year average of 93.5 cases per annum. However, the trend of increasingly complex investigations remains. The division had 42 active investigations at the end of the year.

We issued 99 formal notices requiring information and documents to be submitted and a further 24 notices requesting individuals to attend a formal interview. We issued 11 public statements during the course of the year, of which five specifically restricted individuals from working in financial services.

The Enforcement division concluded six cases in 2016 through settlement agreements following detailed investigations. Sanctions imposed as a result of these settlement agreements ranged from requiring businesses to undertake detailed remediation programmes and ensuring board members complete further specified training to the most serious sanction of licences being revoked or individuals being prevented or restricted from working in the finance industry.

Assisting other overseas regulators by securing evidence held in Jersey continued to be an important part of Enforcement's role with 18 requests for assistance received and processed during 2016.

The JFSC's intelligence function forms part of the Enforcement division and during 2016 proved critical for quickly identifying problems by connecting pieces of intelligence derived from both internal and external resources. This ensured swift, focused and precise use of limited investigative resources. We saw a slight rise in the number of calls to the Whistleblowing Line with 25 received in total, ten of which led to active investigations.

During 2016, Enforcement continued to provide training on Jersey's regulation and enforcement to other national and international agencies, including financial investigators from the UK National Crime Agency. When interacting with these overseas agencies, the team also took the opportunity to highlight the high regulatory standards in place and enforced in the Island.

05.4

› Registry

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

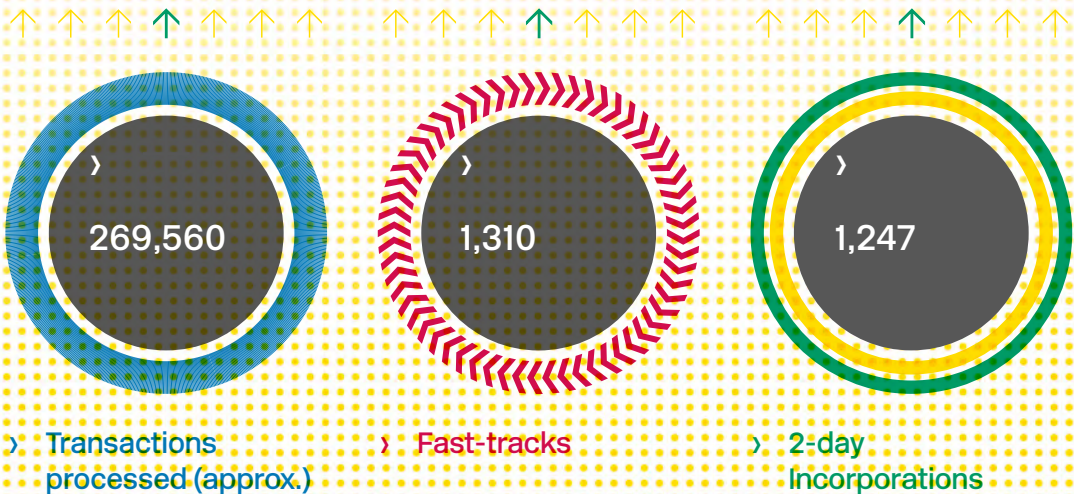
After Trust Company Businesses, the Registry acts as Jersey’s second line of defence for AML/CFT compliance and is also the first line of defence when local residents incorporate companies without using a TCB. As part of this gatekeeping defence function, we administer, develop and evaluate:

- › The activities of each incorporation against the Island’s Sound Business Practice Policy
- › The ownership of new entities so we can update the central register of Beneficial Ownership
- › The issue of consent for the circulation of a Jersey company prospectus.

Compared to the global registry community, Jersey’s Companies Registry is medium-sized. No longer parochial in nature, registries now deal with global continuance, cross-border mergers and international transparency requirements. In order to ensure best practice and interoperability, we are an active member of a small number of international registry forums.

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

Registry Statistics 2016



› Highlights for 2016

› Registry Operations:

Registry operations continued to perform in accordance with expectations. Business volumes in relation to registry developments, additional data requirements and document searches increased in 2016 and all registry service targets were met.

The Registry Change Programme remained on target and the process of e-enablement continued with the launch of a number of online services in December 2016. The automated Jersey Aircraft Register (JAR) build and user acceptance testing also began in December with work scheduled to continue into early 2017.

› Best practices in business registration:

Together with the Government of Jersey, we attended and spoke at a number of international registry meetings during the year and in May we held our own Jersey Study Tour as part of the European Commerce Registries Forum. The Tour, also incorporating the Jersey Secure Transactions Symposium,

attracted internationally renowned professionals to the Island to share their knowledge and expertise. Some 60 delegates from global jurisdictions, including Australia and Malaysia, attended the two day event.

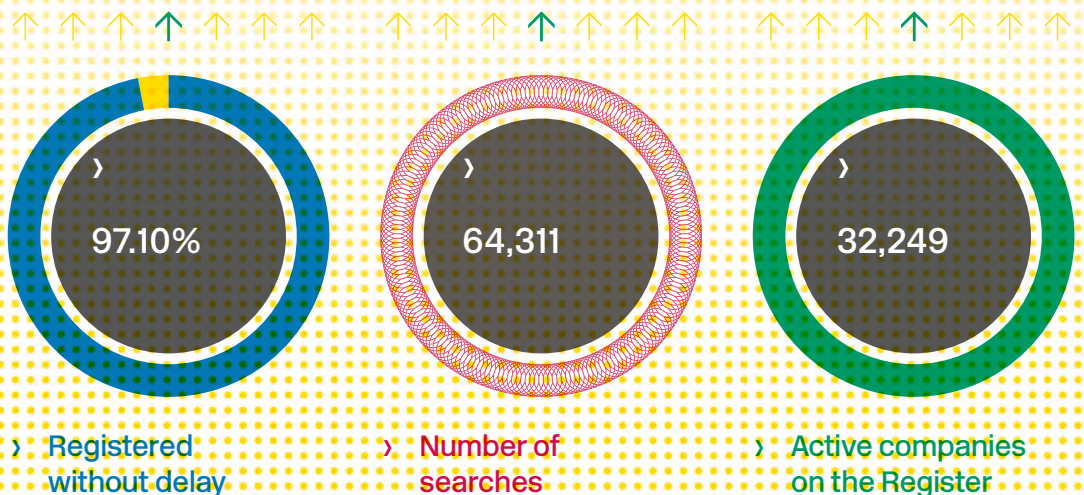
› Registry Policy:

The main focus during 2016 was to ensure all product laws adequately deal with e-enabling provisions and new registry developments. In particular, we worked closely with the Government of Jersey to develop the new Limited Liability Partnership (Jersey) Law.

the Jersey Financial Crime Unit, adhering to new UK Government policy which will come into effect on 30 June 2017.

Towards the latter part of 2016, we began work to deliver a more centralised Beneficial Ownership Register and secure gateways to

During the year, the Registry also continued to work hand in hand with the Government of Jersey on the Tell Us Once project - an initiative to provide a one-stop-shop for residents wishing to set up business in the Island.



05.5

› Finance & Resources

› The JFSC remained under pressure during 2016 due to income remaining relatively unchanged from the previous year. Total fee income increased by only 0.8% compared to 2015. Total income exceeded budget by 2.9%, but this is mostly due to the recognition of deferred income related to the development of Government of Jersey registers.

Whilst total expenditure exceeded budget by 3.15%, overall expenditure increased by only 1.3% compared to 2015. After adjusting for the effect of income and expenses related to development of Government of Jersey registers, for which a matching amount of income has been received, expenditure was in line with budget and continuing expenditure was 0.5% lower than comparative expenditure in 2015.

The result for the year was a net deficit of £430,591 (2015: net deficit of £644,144) against a budgeted deficit of £377,000.

Capital expenditure, in relation to investments in computer systems and information security, continued during 2016. £1.9 million was invested in fixed assets with a consequent rise in annual depreciation charges. The net book value of fixed assets capitalised on the balance sheet increased to £3.4 million by year end (2015: £2.0 million).

Our financial reserves and cash position consequently decreased to £5.8 million and £7.7 million respectively by 31 December 2016.

› Regulatory fees

Total regulatory income increased by 0.8% to £14.8 million. The increase is lower than the blended rate of fee increases which were introduced during the year. This was largely due to the effect of consolidation within the financial services industry, decreases in licenced entities in key sectors, and changes in underlying fee bases used to calculate individual fees.

Despite registry workloads increasing due to on-going development of the Registry, fees decreased by 4.6% compared to 2015. This can be attributed to reductions in the total number of registered entities, document searches, and incorporations during the year.

› Bearing down on costs

We have continued to review expenditure on an ongoing basis. This has proved effective in controlling cost trends, with decreases achieved for travel, premises, professional services, and learning and development costs over the past three years. During this period, overall increases in both operating and staff costs have also been limited.

Cost control remains a core objective for the Finance team and the organisation as a whole; such initiatives will continue throughout 2017.

› Operating costs

Total expenditure for 2016 was £15.6 million (2015: £15.4 million). Several cost category decreases were offset by increases for computer system developments, related depreciation charges and information security costs.

Staff costs remain the most significant item of expenditure. The average number of staff employed increased from 127 full-time employees (FTEs) in 2015 to 130 FTEs by 31 December 2016.

We recognise that staff development is critical to achieving our objectives and we continue to provide both organisational training and support for certain staff studying towards relevant professional qualifications. Learning and development costs decreased by 30.8% during the year. This was due to broad-based organisational training carried out in 2015, compared to more specific and targeted organisational training during 2016.

Computer systems costs increased to £1.1 million during the year with increased cyber-security expenses reflecting the increase in cyber-crime activity and key systems developments, particularly relating to information security which

is a key priority. Continued investment in systems developments will be reflected in expenditure as these assets are depreciated. Other significant increases related to licence, support and maintenance costs on newly implemented systems. In addition to these increases, the indirect effect of currency devaluation has caused above inflationary rises on key supplier costs where some charges were in USD and EUR.

Professional service costs, which include project management and are reflected in the income and expenditure account, decreased following the completion of work associated with the requirements gathering stage of systems developments in 2015. Where these costs related to systems developments, they were capitalised during the year and were included in the balance of fixed assets as at 31 December 2016.

Investigation and litigation costs incurred during the year increased marginally to £613,154 (2015: £591,302). Net investigation costs were reduced by recoveries of £75,943 (2015: £40,000) which were received during the year.

05.5



Financial position

The financial position remains under pressure but was supported by cash reserves of £7.7 million (2015: £10.0 million) at year end.

Total investment in systems of £1.9 million (2015: £1.5 million) largely accounts for the £2.2 million cash outflow (2015: £1.0 million outflow). Key investments in Registry and Supervision systems will continue throughout 2017 in line with the 2016 Business Plan.

Continued investment in new systems created some challenges in terms of human and cash resources. Such challenges are expected to remain until the conclusion of these internal developments. Depreciation charges in relation to newly implemented systems will be fully reflected in the 2017 financial

statements, which will temporarily create a divergence between the net surplus/ (deficit) and cash flows reported in future financial statements.

While these differences may result in short-term financial losses, our principal capital maintenance objectives of providing appropriate levels of working capital, funding investigation costs and replacing assets over the long-term capital cycle continue unchanged.

We remain confident that we hold sufficient cash reserves to deliver our objectives and will continuously monitor our position through robust forecasts and strong budgetary disciplines.



Cost control remains a core objective for the Finance team and the organisation as a whole.



05.6

› Operational Activities

- › Encompassing Communications, Facilities, Finance, Human Resources, ICT and Programme Management, the Operations division manages the necessary systems and support for the JFSC to carry out its functions effectively.

2016 was another busy year for all the teams, responding to business-as-usual requirements, assisting with the continuing roll-out of the Change Programme, retaining and developing staff, and managing unforeseen challenges both internally and externally.

› Key achievements during 2016

Significant successes for the division during the year were:

- | | |
|--|--|
| › Raising Industry awareness on cyber-security and assisting with the States of Jersey Cyber Strategy for the Island | › Creating the JFSC's first ever public awareness campaign on investment mis-selling |
| › Delivering the Change Programme priorities for 2016 within budget, including CRM implementation | › Developing relationships with other jurisdictions to further strengthen the JFSC's profile |
| › Introducing online payments via the JFSC portal to facilitate fee collection | › Enhancing the JFSC's digital presence, including social media and website capabilities |
| › Attracting, developing and retaining talented candidates in challenging market conditions | › Improving financial efficiencies and processes across all JFSC divisions |
| › Creating a dedicated trainee scheme and online staff handbook to reflect the tone and culture of the organisation | › Updating our business recovery procedures to ensure the JFSC remains operational at all times. |
| › Managing communications and media relating to the Panama Papers and MONEYVAL Report | |

05.7

› Corporate Social Responsibility

- › Every year JFSC Staff give their time, money and energy to charitable and environmental causes, and 2016 was no exception. The JFSC fully supports and encourages employees to participate in such activities and, to facilitate this, staff can dedicate up to 14 hours per year volunteering for team and individual challenges and projects.



Although together the team raised more than £7,500 in total during the year for various local and international causes, Jersey Mencap was nominated as the official JFSC charity for 2016. Not only did employees manage to collect more than £2,500 in fundraising to help support children and adults with learning disabilities, employees also got their hands dirty on site at the organisation's Pond Project, building a tool shed, clearing overgrown green areas, and planting more than 20 trees, ably assisted on one occasion by the JFSC Chairman.

Improving our green credentials year on year, in 2016 we became an eco-active member and also went 'green' for a week in June to raise awareness about environmental issues; initiatives we have and will continue to embrace, ensuring our internal operations are more sustainable and our impact on the environment is reduced.

In 2016 we also continued to expand our financial education outreach programme to children in secondary schools across the Island, helping them understand how to make more informed financial decisions.

As well as working with young people, we were also heavily involved with the Jersey Fraud Prevention Forum's numerous projects aimed at protecting Islanders from becoming victims of financial crime.

Many of these community and charitable activities are devised and organised by our Staff Forum and dedicated Corporate Social Responsibility-Green committee; groups of volunteers, representing all levels and divisions of the JFSC, who identify opportunities for staff to engage and make a difference both within the JFSC itself, across the Island and further afield.

06

› Governance

› We aim to deliver balanced, progressive, risk-based financial regulation for the Island.





Governance



Constitution of the JFSC

The JFSC is a statutory body established under Article 2 of the Financial Services Commission (Jersey) Law 1998 (Commission Law) which provides that the JFSC shall be governed by a Board of Commissioners comprising persons with financial services experience, regular users of such services and persons representing the public interest.



Accountability arrangements

The JFSC is an independent body, accountable to the public through the Island's elected representatives namely the Chief Minister and the States of Jersey. The relationship with ministers is set out in a Memorandum of Understanding to ensure the independence of the JFSC, whilst facilitating effective dialogue and working practices. Article 12 of the Commission Law provides that the Chief Minister may give the JFSC general directions, subject to significant safeguards. No such directions were given in 2016.

The JFSC produces an annual Business Plan and separately an Annual Report to inform Government of Jersey ministers, members of Industry and other stakeholders. An open annual meeting is held to present plans and highlight progress to all stakeholders and provides an opportunity for questions.

The JFSC consults extensively on all proposals to create or amend Laws and Regulations, and provides feedback statements to explain how responses were taken into account.



Governance arrangements

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

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

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

› Delegation of powers

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

However, in view of the potential for significant effect to the JFSC's finances or reputation, the Board retains certain powers including:

- › The authorisation of new banks
- › The refusal or revocation of any permit or registration
- › The final stages of a contested enforcement action
- › The determination of the amount of a civil penalty.

› Composition of the Board and appointment of Commissioners

The Board currently consists of the Chairman, Deputy Chairman and eight other Commissioners including the Director General. All of the Commissioners are considered to be independent with the exception of the Director General. A chart of the current Commissioners is set out on page 47 of this Annual Report and further information on their skills, knowledge and experience is set out on the JFSC's website www.jerseyfsc.org

Commissioners are formally appointed by the States of Jersey after being proposed by the Chief Minister on the recommendation of the Board. Commissioners are appointed for an initial term of five years and are eligible for one further term of five years.

The Board seeks to ensure that there is an appropriate degree of knowledge, experience and diversity amongst its members. When a vacancy becomes available, the Board evaluates the current balance of its membership and identifies the characteristics, skills and experience that would most enhance its effectiveness. The Board then works with the Jersey Appointments Commission, appoints head hunters where appropriate and advertises the position.

The candidates are evaluated by the Nomination Committee and a recommendation is made to the Board. The appointment of Commissioner Michael de la Haye was made in 2016.

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

The Board is conscious that there is a cluster of Commissioners who will shortly reach the end of their second and final terms of office and succession planning is therefore at the forefront of current considerations.

06



Board meetings and attendance

The Board met ten times during 2016 to consider regular business. All board members attended all ten meetings with the exception of five Commissioners, of whom four were unavailable for one board meeting and one unavailable for two. The Board also met to review and consider enforcement settlement cases and contested matters.

In addition, Commissioners met for a strategy day and participated in events with fellow regulators, industry representatives and ministers.

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



Board activities

The Board had another busy year as progress was made with the finalisation of the MONEYVAL Report. Much of the focus of the Board during the year was on progress with the Business Plan, in particular the Change Programme and how we reacted to key external events such as Brexit and the Panama papers.

In the latter part of 2015 and the early part of 2016, the Board undertook a governance effectiveness review facilitated by the Global Governance Group, comparing us with best practice consistent with the principles of the Code. Interviews and meetings were held with Commissioners, Executives, Industry and Government of Jersey ministers. The review was positive overall, noting the significant improvements in efficiency in recent times and the clear focus on enforcement, people and controls.

The review identified a number of opportunities for improvement, including potential changes to Board papers, allocation of Board time, more regular reporting of business-as-usual issues, and greater linkages between risk identification and risk management. Notable developments since the report include more focused monthly reporting, two meetings per year devoted to discussing more strategic matters with all Board members and Executive participating fully, and the attendance of the Deputy Director General at Board meetings.

Risk played an increasing part in the JFSC's considerations during 2016. In the middle of the year the Board reviewed progress with our supervisory risk assessment model and validated the risk assessment output from the recently appointed Risk team and Risk Committee. Significant progress was also made on our enterprise risk assessments

and the Board contributed to and reviewed the results of the assessments carried out with input from industry.

The Board receives monthly reports from the Executive on progress with the Change Programme and is able to probe and make suggestions and recommendations to address issues as they arise. Most projects remained on track throughout the year but bottlenecks were identified, arising largely from people resourcing issues.

During the year, the data included in business-as-usual reports for each Board meeting was developed in response to feedback from the effectiveness review. Additional information is now included in Board packs on progress with items such as current supervision reports and learning points, new fund registrations, and cyber developments.

In recent years, the Board has had a keen focus on cost and has kept fee increases to a minimum. This has meant dipping into reserves which have fallen below the minimum level set by the JFSC's reserves policy. Such an approach is unsustainable in the face of cost pressures from responding to ever-increasing cyber threats and the JFSC becoming fully staffed for the first time in a considerable period.

The Board found it necessary in 2016 to make proposals for significant fee increases and a number of fee consultations were completed during the year. The Board hopes that the efficiency improvements from information sharing, including on-line filing and payment arrangements, will help mitigate the impact of such increases by reducing administrative costs for regulated entities.



06

› Commissioners' remuneration

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

Fees paid to Commissioners were not increased in 2016 following increases in 2015. The existing annual amounts are fixed until 2018 whereupon market rates will be evaluated and the views of ministers taken into account.

During the year, the Board concluded its annual evaluation of the performance of the Chairman, noting the substantial and continuing improvement in the regulator's dialogue with ministers and Industry and deeper engagement with the JFSC Executive and other staff members. The Board concluded that the Chairman's remuneration should be reviewed once during his term of office and such a review will be undertaken during 2017 in consultation with ministers.

› Fees paid to Commissioners during the year were as follows:

	2016	2015
	£	£
John Averty (Resigned 21 Jan 2016)	2,223	33,350
Lord Eatwell of Stratton St. Margaret (Chairman)	150,000	150,000
John Harris	-	-
Michael de la Haye (Appointed 1 January 2016)	26,000	-
Peter Pichler (Appointed 21 January 2015)	26,000	23,833
Simon Morris (Appointed 21 January 2015)	36,500	33,458
Debbie Prosser (Appointed Deputy Chairman 21 January 2016)	32,840	26,000
Markus Ruetimann	36,500	36,500
Cyril Whelan	26,000	26,000
Stephan Wilcke	36,500	36,500
Ian Wright	26,000	26,000
	398,563	391,641

John Harris is not paid any fees in his capacity as a Commissioner but rather is paid as an Executive Director in his capacity as JFSC Director General. (Refer to Remuneration Committee report on page 49 for further details).



Nomination Committee report

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

With the retirement of Commissioner John Averty in January 2016, Commissioner Debbie Prosser was appointed as Deputy Chairman by the Chief Minister with effect from 21 January 2016.

Michael de La Haye was appointed as Commissioner by members of the States of Jersey with effect from 1 January 2016, following a thorough search process in partnership with the Jersey Appointments Commission and local recruitment firm Hassell Blampied Associates.

Due to complete his initial term of office in early 2017, Commissioner Ian Wright was invited to be appointed for a second and final term of five years. He was subsequently due for reappointment by the States of Jersey on 18 April 2017.

There were no unexpected vacancies during the year.



06



Remuneration Committee report

Deputy Chairman Debbie Prosser continued as Chairman of the Remuneration Committee with current committee members Markus Ruetimann and Michael de la Haye (appointed to Committee on 26 January 2016) following the retirement of John Averty (retired from the Committee on 20 January 2016). The Committee's Terms of Reference, which are reviewed annually, are available on the JFSC's website.

The Committee met on five occasions during the year and all committee members attended the scheduled meetings. Certain members of the Executive and the JFSC's Human Resources team attended the meetings as required. The remit of the Committee, being fairly broad, encompasses a wide range of remuneration and Human Resources functions and is not solely limited to fixing the remuneration of the Executive.

People are considered to be the JFSC's greatest resource and in 2016 we continued to meet our objective of being an employer of choice. During the year, the Committee noted that the JFSC remains a target for staff losses to Industry which, depending on market conditions, increase staff turnover rates. Conversely the JFSC is able to attract staff from Industry and the Committee was pleased to note that 2016 saw an increase in the number of unsolicited job applications and the arrival of several highly experienced individuals who have a pivotal role to play in the continued success of the JFSC as it moves towards an entity-based supervision model.

The Committee continued its work of the previous two years in assisting, where necessary, with the Human Resources element of the Change Programme. The new competency framework was successfully rolled out and the Pay for Performance Strategy became embedded in the organisation, achieving tangible results in performance management. If the JFSC is to continue to attract and retain high calibre staff, it is essential that it is able to offer appropriate rewards, training and development opportunities. Further work in this respect will continue but the Committee was pleased to note the significant progress made during 2016.

One of the Committee's principal functions is to approve the staff salary and bonus allocations for the year and this process took place in November 2016, with the final figures falling within the annual budget allocation. Consistent with the Pay for Performance Strategy, the JFSC no longer awards across-the-board pay increases correlated to the cost of living. Remuneration and bonus payments are awarded strictly by reference to performance and the Committee was pleased to note that the performance distribution curve has improved. The Committee assists in approving and providing oversight for the awards of bonuses for the highest achieving members of staff, rated 'exceptional'.

The Committee considered the arrangements for long leave entitlement and the impact on management, staffing and morale when long leave is taken. The entitlement was discontinued for all staff joining the JFSC after 2009 and the Committee considered whether entitlement to such long leave for staff who had joined the JFSC before 2009 could be discontinued or bought out. After considering extensive advice, the Committee resolved with the Executive that long leave arrangements would be managed on a case-by-case basis.

The Committee has the responsibility of recommending to the Board the salary and bonus award for the Director General. This takes place in February each year, simultaneously with the Board's annual assessment of the Director General's performance. During the year he received total remuneration of £330,000 (2015: £325,000).

The Committee reviewed its Terms of Reference twice during the year and made two major amendments; one reflecting the Committee's involvement in staff severance agreements and the other removing the restriction on the Deputy Chairman being appointed Chairman of the Committee.

The Committee's performance was reviewed during the 2016 Board appraisal process and therefore it did not undertake a review of its own performance during the year.





Audit Committee report

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

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

In 2016 the Committee was chaired by Ian Wright and its members included Crown Advocate Cyril Whelan and Peter Pichler (appointed during the year). The Committee had appropriate financial and other experience detailed below:

- › **Ian Wright:**
Qualified chartered accountant (ACA), former Senior Partner of the PricewaterhouseCoopers Global Corporate Reporting Group, former Deputy Chairman of the UK accounting regulator and current member of the Audit Committee of the States of Jersey.
- › **Crown Advocate Cyril Whelan:**
Senior Crown Advocate of the Island of Jersey, current Senior Consultant at Baker & Partners and former Senior Legal Adviser in Jersey's Law Officers' Department.
- › **Peter Pichler:**
Qualified chartered accountant (FCA), member of the Canadian Institute of Chartered Accountants, former Chief Operating Officer and Finance Director of Mourant Ozannes, former CEO of Deutsche Bank Offshore (Jersey), former Director of a FTSE 350 company and Chairman of its Audit Committee.

The Committee focused its work on a tender for the external audit, the adoption of new UK accounting standards and the future of internal audit.

Since the JFSC was established, BDO LLP Chartered Accountants (BDO) (and its predecessor firms) have been the regulator's external auditors. In conjunction with the Comptroller and Auditor General of the States of Jersey, the Committee supervised the development of an invitation to tender, the process to ensure that a significant number of suppliers had the opportunity to tender, and the evaluation of the tenders submitted. The Committee reconfirmed its preference for an off-Island audit team to minimise the risk of conflicts of interest and to support

information security.

The Committee concluded that it had received a high quality comprehensive submission from BDO Bristol for the external audit and recommended their appointment to the Board and the Comptroller and Auditor General. BDO Bristol were subsequently re-appointed in 2016.

The adoption of Financial Reporting Standard (FRS 102), issued by the UK Financial Reporting Council, led to a wholesale review of accounting policies during the latter part of 2015 and early 2016. New policies were selected for leases and long-term leave provisions, and a review of asset lives compared to depreciation periods resulted in new assets being assigned longer useful lives. The Committee took a keen interest in the assumptions underlying the long leave provision, which requires estimates to be made of when such leave may be taken and whether individuals may leave the JFSC before such entitlements have fully vested.

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

Towards the end of the year, the JFSC's Head of Internal Audit accepted a new appointment in the UK. The Committee evaluated the future needs for independent assurance and noted that the significant developments in our internal systems meant that we would need different knowledge and skills to provide us with assurance in the future, as we moved from paper-based to database systems with extensive automated interfaces with Industry. The Committee concluded that we should commission work from specialist suppliers, including the external auditors, at least whilst transitioning from one environment to the next, and that the commission of this work would be integrated with our enterprise risk management processes.

The Committee noted that the Whistleblowing Policy had been in place without revision for some years and that it had been tested recently. A number of issues were identified and the Committee supported several improvements. The Committee also reviewed and confirmed its current Terms of Reference, subject to minor amendments.



Auditors

BDO LLP (the auditors) were re-appointed for a term of three years following a tender process that was carried out in conjunction with the States of Jersey Comptroller and Auditor General. The audit term will come to an end after completion of the 2018 financial statement audit.



Responsibility for Annual Report and accounts

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

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

Taking into account general practice, the Commissioners confirm that they are responsible for:

- › Keeping adequate accounting records sufficient to show the financial position within a reasonable period of time
- › Safeguarding the assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities
- › Preparing the financial statements in accordance with applicable laws and regulations
- › Selecting suitable accounting policies and applying them consistently
- › Making judgments and accounting estimates that are reasonable and prudent
- › Preparing the accounts on a going concern basis unless it is inappropriate to presume that the JFSC will continue in business.

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

The Commissioners have considered the financial position as shown by these financial statements, the latest management accounts and recent projections of the JFSC's income and costs for the period ended December 2019. This is considered to be an appropriate period in relation to the assessment of the JFSC's future prospects as it forms the most reliable period over which the JFSC's forecast cashflows, forecast income and expenditures are based. Forecasting over longer periods is considered to be less accurate due to the degree of uncertainty in relation to key underlying assumptions. As a consequence, the Board believes it appropriate to prepare the accounts on a going concern basis and is satisfied that there are no significant threats to the viability of the JFSC within the projection period.

The Commissioners have considered the financial statements on pages 61 to 74 and are satisfied that they show a true and fair view of the deficit for the year and the financial position of the JFSC at 31 December 2016.

The Commissioners have considered the Annual Report and, taken as a whole, confirm that they believe the Annual Report is fair, balanced and understandable.

For and on behalf of the Board
of Commissioners

L Roe
Commission Secretary

6 April 2017

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

- › **Protecting and enhancing the reputation and integrity of Jersey in commercial and financial matters.**





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



Opinion on the financial statements of Jersey Financial Services Commission (the JFSC)

In our opinion the financial statements:

- › Give a true and fair view of the state of the JFSC's affairs as at 31 December 2016 and of its deficit for the year then ended

- › Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice

- › Have been prepared in accordance with the requirements of the Financial Services Commission (Jersey) Law 1998.

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



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

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

01



Revenue consists of regulatory and registry fees. Revenue recognition is a presumed risk under International Standards on Auditing (UK & Ireland). In the case of the JFSC, this risk relates primarily to the completeness of income and recognition in the correct accounting period.

02



For regulatory fees we reconciled the revenue in the financial statements to IT generated reports containing details of the licences held. We also tested on a sample basis that fees for regulated entities had been calculated in accordance with fee notices published by the JFSC. We also recalculated deferred income to ensure it had been correctly accounted for in accordance with the JFSC's accounting policies.

For registry fees we tested on a sample basis that fees had been calculated in accordance with fee notices published by the JFSC. We tested the completeness of SIR (Security Interests Register) income and incorporation fees by selecting a sample of Financing Statement numbers and company numbers respectively through the year and vouching to supporting fee income. We recalculated annual return income based on the number of returns submitted to the registry.



07

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

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

We determined planning and final materiality for the financial statements as a whole to be £252,000. In determining this, we based our assessment on a level of 1.75% of average income over a three year period. Materiality has been based on a higher percentage of average income than in previous years

due to our growing knowledge of the entity and the users of the financial statements.

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

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

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

› 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 JFSC's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial

statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

› Respective responsibilities of Commissioners and auditors

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

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

› Statement regarding the Commissioners' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- › The Commissioners' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity
- › The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- › The Commissioners' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- › The Commissioners' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

› Matters on which we are required to report by exception

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

- › Materially inconsistent with the information in the audited financial statements
 - › Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the JFSC acquired during the course of performing our audit; or
 - › Is otherwise misleading.
- In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Commissioners' statement that they consider the Annual Report to be fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

›

BDO LLP
Chartered Accountants

Bristol
United Kingdom
Date: 12 May 2017

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

08



Financial Statements





Financial Statements

Income and expenditure account For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Regulatory income			
Regulatory fee income	4	11,560	11,281
Registry fee income	5	3,206	3,362
Total regulatory income		14,766	14,643
Other income	6	378	69
Interest income		43	58
Total income		15,187	14,770
Expenses			
Staff costs	7	(11,102)	(11,007)
Computer systems		(1,055)	(873)
Premises costs		(758)	(741)
Professional services		(676)	(739)
Investigation & litigation		(613)	(591)
Other operating costs		(510)	(494)
Depreciation, amortisation and impairments		(484)	(437)
Staff learning and development		(217)	(313)
Travel costs		(202)	(219)
Total expenses		(15,617)	(15,414)
Deficit for the year	8	(430)	(644)

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

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

The notes on pages 64 – 74 form an integral part of the financial statements.

› Balance sheet as at 31 December 2016

		2016	2016	2015	Restated*
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Intangible assets	9	2,899		1,582	
Tangible fixed assets	10	487		437	
			3,386		2,019
Current Assets					
Sundry debtors		500		251	
Prepayments		943		627	
Cash and bank balances	11	7,740		9,958	
			9,183		10,836
Total Assets			12,569		12,855
Creditors - amounts falling due within one year					
Fee income received in advance		4,753		4,624	
Creditors	12	1,717		1,515	
Provisions	13	152		197	
			6,622		6,336
Total Assets less Current Liabilities			5,947		6,519
Creditors - amounts falling due after one year					
Provisions	13		116		258
Total Assets less Total Liabilities			5,831		6,261
Represented by					
Accumulated reserves			5,831		6,261

The notes on pages 64 – 74 form an integral part of the financial statements.

The financial statements on pages 61 – 74 were approved by the Board of Commissioners on 6 April 2017, and signed on its behalf by:

- › John Eatwell Chairman
- › John Harris Director General

*Prior year restatement arises from the reclassification of certain tangible fixed assets to intangible assets. Further details are disclosed in note 10.

08



Statement of changes in accumulated reserves

	Accumulated reserves
	£'000
Balance at 1 January 2015	6,905
Deficit for the year	(644)
Balance at 31 December 2015	6,261
Balance at 1 January 2016	6,261
Deficit for the year	(430)
Balance at 31 December 2016	5,831

The notes on pages 64 – 74 form an integral part of the financial statements.



Statement of Cashflows

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Net deficit for the year	(430)	(644)
Interest receivable	(43)	(58)
Depreciation, amortisation and impairment charges	484	437
Utilisation of provisions	(267)	(15)
(Increase) / Decrease in provisions	80	(18)
Deferred rental incentive	(15)	(15)
(Increase) / Decrease in debtors and prepayments	(556)	625
Increase in creditors	332	146
Net cash consumed by / generated from operating activities	(415)	458
Cash flow from investing activities		
Interest received	48	53
Purchases of tangible and intangible fixed assets	(1,851)	(1,531)
Net cash used in investing activities	(1,803)	(1,478)
Net decrease in cash and bank balances	(2,218)	(1,020)
Cash and bank balances at 1 January	9,958	10,978
Cash and bank balances at 31 December	7,740	9,958
Cash and bank balances consists of:		
Cash at bank and in hand	205	157
Short term deposits	7,535	9,801
Cash and bank balances	7,740	9,958

The notes on pages 64 – 74 form an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1 Significant accounting policies

Basis of preparation

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

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

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, except for the reclassification of computer software from tangible fixed assets to intangible assets. Comparative figures have been reclassified where applicable. Further details are disclosed in note 10.

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

Income

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

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

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

Expenses

All expenses are accounted for on an accruals basis.

Foreign currency

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

08

› Investigation and litigation costs

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

› Cash and bank balances

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

› Government registers

A financial asset is recognised in relation to the design, development and operation of Government registers to the extent to which costs have been incurred where such costs are contractually recoverable under the terms of the arrangement.

› Tangible fixed assets

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

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

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

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

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

› Intangible assets

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

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

› Computer software up to 7 years

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

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

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

› Impairment

Assets that are subject to depreciation and amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is an indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

› Leases

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

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

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

› Pension costs

The costs of defined contribution pension schemes are accounted for on an accruals basis. The costs of annual contributions payable to defined benefit schemes operated by the States of Jersey are accounted for on an accruals basis because the JFSC is unable to obtain the information necessary to apply defined benefit scheme accounting (see note 16).

› Annual leave pay accrual

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

› Provision for long leave entitlements

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

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

08

2 Critical accounting judgements and key sources of estimation uncertainty

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

Provision for long leave entitlements

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

Key accounting estimates and assumptions

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

Useful lives and residual values

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

3 Taxation

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

4 Regulatory fee income

	2016	2015
	£'000	£'000
Banking	1,482	1,467
Funds	4,976	4,850
Insurance companies	672	707
General insurance mediation	104	108
Investment business	1,228	1,174
Trust companies	2,498	2,399
Designated non-financial businesses & professions	557	545
Recognised auditors	26	18
Money services business	17	13
	11,560	11,281

› 5 Registry fee income

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

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

The number of annual returns received during the year was:

	2016	2015
Annual returns received	34,052	33,533
	2016	2015
	£'000	£'000
Total annual return fee income	5,108	5,030
Less: collected on behalf of the States of Jersey	(3,916)	(3,856)
Retained by the JFSC	1,192	1,174
Other Registry income	2,014	2,188
Total Registry income	3,206	3,362

› 6 Other income

	2016	2015
	£'000	£'000
Income from hosted events	7	16
Investigation and litigation recoveries*	76	40
Registry development services	283	-
Sundry income	12	13
	378	69

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

08

› 7 Staff costs

	2016	2015
	£'000	£'000
Staff salaries	9,026	9,109
Commissioners' fees	399	392
Social security contributions	429	412
Pension contributions	765	743
Permanent health and medical insurance	286	267
Other staff costs	149	132
Long leave provision	80	(33)
Annual leave pay accrual	(32)	(15)
	11,102	11,007

Contributions to staff pension schemes are payable monthly to pension scheme administrators. All contributions that were payable to the schemes had been paid at year end (2015: all contributions paid).

The average number of staff employed during the year was 130 (2015: 127).

› 8 Deficit for the year

Stated after including the below:

	2016	2015
	£'000	£'000
Depreciation of tangible fixed assets	210	437
Amortisation of intangible assets	274	-
Foreign exchange differences	(2)	4
Contributions to employee pension schemes (refer to note 16)	765	743
Operating lease expenditure	520	477
Audit fees	25	31

9 Intangible assets

	Computer systems under development	Computer systems	Total
	£'000	£'000	£'000
Cost			
At 31 December 2015 as previously stated	-	-	-
Transfer from tangible fixed assets	1,113	2,972	4,085
Restated balance at 1 January 2016	1,113	2,972	4,085
Additions	1,461	130	1,591
Completed computer systems	(1,468)	1,468	-
At 31 December 2016	1,106	4,570	5,676
Amortisation			
At 31 December 2015 as previously stated	-	-	-
Transfer from tangible fixed assets	-	(2,503)	(2,503)
Restated balance at 1 January 2016	-	(2,503)	(2,503)
Charge for the year	-	(274)	(274)
At 31 December 2016	-	(2,777)	(2,777)
Net book value at 31 December 2016	1,106	1,793	2,899
Restated net book value at 31 December 2015	1,113	469	1,582

The principal expenditure during the year related to the Change Programme and included Registry platform systems development and the relationship management system.

During the year assets classified as computer software and developments were re-classified from tangible fixed assets to intangible assets in order to more accurately classify these assets as being without physical substance. Cost and accumulated depreciation of Computer software was transferred to intangible assets as at 1 January 2016. Comparative figures have been restated accordingly.

08

› 10 Tangible fixed assets

	Office furniture, fittings & equipment	Computer systems under development	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 31 December 2015 as previously stated	766	1,113	4,144	10	6,033
Transfer to intangible assets	-	(1,113)	(2,972)	-	(4,085)
Restated balance at 1 January 2016	766	-	1,172	10	1,948
Additions	8	-	252	-	260
Disposals	-	-	(15)	-	(15)
At 31 December 2016	774	-	1,409	10	2,193
Accumulated depreciation					
At 31 December 2015 as previously stated	(666)	-	(3,341)	(7)	(4,014)
Transfer to intangible assets	-	-	2,503	-	2,503
Restated balance at 1 January 2016	(666)	-	(838)	(7)	(1,511)
Charge for the year	(39)	-	(169)	(2)	(210)
Disposals	-	-	15	-	15
At 31 December 2016	(705)	-	(992)	(9)	(1,706)
Net book value at 31 December 2016	69	-	417	1	487
Restated net book value at 31 December 2015	100	-	334	3	437

During the year assets classified as computer software and developments were re-classified from tangible fixed assets to intangible

assets. Comparative figures have been restated accordingly. Further details are disclosed in note 9.

› 11 Cash and bank balances

	2016	2015
	£'000	£'000
Current accounts	203	154
Deposit accounts	7,535	9,801
Petty cash	2	3
	7,740	9,958

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

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

› 12 Creditors

	2016	2015
	£'000	£'000
Trade creditors	979	464
Accruals	518	552
Deferred rental incentive	76	91
Sundry creditors	144	408
	1,717	1,515

› 13 Provision for long leave

	2016	2015
	£'000	£'000
At 1 January	455	488
Amounts provided for during the year	173	-
Reversal of unused provision	(93)	(18)
Utilised during the year	(267)	(15)
At 31 December	268	455
Falling due within one year	152	197
Falling due after one year	116	258
	268	455

Following another year of experience in relation to the provision for long leave, the assumptions applied in the measurement of the provision have improved and the estimates were revised accordingly.

Probabilities applied to the provision were decreased marginally to better reflect the expected liability and associated cash flows. The overall effect of this adjustment in 2016 was a decrease in the provision of £20,000.

08

14 Commitments under operating leases

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

	2016	2015
	£'000	£'000
Not later than one year	516	490
Later than one year but not later than five years	2,063	1,960
Later than five years	172	490
	2,751	2,940

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

15 Financial instruments

The JFSC's financial instruments are analysed as follows:

	2016	2015
	£'000	£'000
Financial assets		
Financial assets measured at amortised cost	8,243	10,170
Financial liabilities		
Financial liabilities measured at amortised cost	(1,014)	(638)

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

Financial liabilities measured at amortised cost comprise trade creditors and other creditors.

16 Pension costs

The JFSC 2012 Staff Pension Scheme

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

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

Salaries and emoluments include pension contributions for staff to the schemes of £739,444 (2015: £721,137). Contribution rates have remained unchanged. Aggregate contributions increased due to changes in membership numbers, ages and employment grades.



Public Employees Contributory Retirement Scheme

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

Salaries and emoluments include pension contributions for staff to this scheme amounted to £25,531 (2015: £22,025). The average contribution rate paid by the JFSC during the year was 13.6% (2015: 13.6%) of salary. The contribution rate is unlikely to be adjusted following the results of the 31 December 2013 actuarial valuation. As at the date of these financial statements, the 2016 actuarial valuation had not yet been completed.

The JFSC is unable to identify its share of the underlying assets and liabilities

of PECRS in accordance with Financial Reporting Standard 102 (Section 28) and accordingly accounts for contributions to the scheme as contributions to a defined contribution scheme.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2013, which reported a surplus of £92.7 million. The next actuarial valuation is due to be undertaken to value the underlying scheme assets as at 31 December 2016. This valuation is not yet due to be released. No account has been taken of the JFSC's potential share of this surplus because the scheme is accounted for as if it is a defined contribution scheme.

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



17 Related party transactions

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

Key management personnel include the Commissioners, the Director General and Executive Directors who together have authority and responsibility for planning, directing and controlling the activities of the JFSC. Total compensation paid to members

of key management personnel during the year was £2.4 million (2015: £2.2 million).

Remuneration of the Commissioners and the Director General is set out on page 47 and 49 respectively of this Annual Report. There were no other transactions with key management personnel other than reimbursement of expenses incurred for JFSC purposes.



18 Subsidiary undertakings

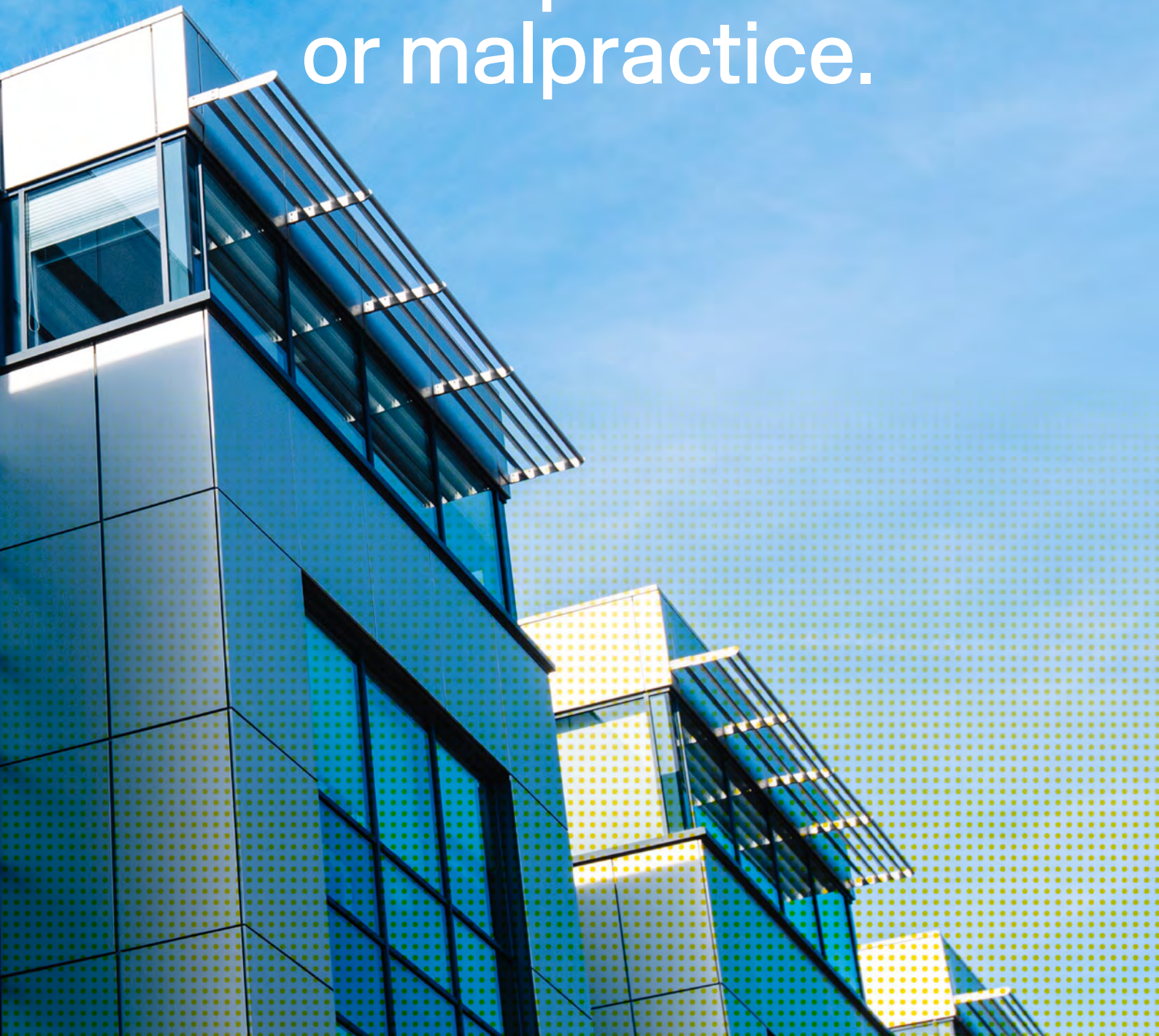
At 31 December 2016, the JFSC had an interest in one wholly owned subsidiary company (2015 one wholly owned subsidiary company). Further details are outlined below:

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

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



› Reducing risk to the public of financial loss due to dishonesty, incompetence or malpractice.



09

> Appendices

> 01 Commissioners 2016



Lord Eatwell
Chairman



Debbie Prosser
Deputy Chairman



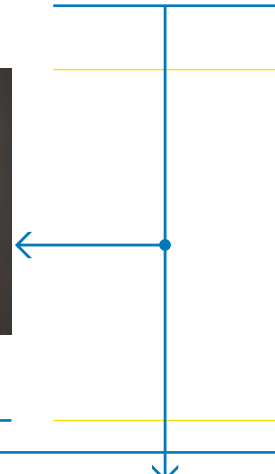
John Harris
Director General



Markus Ruetimann



Cyril Whelan





Stephan Wilcke



Ian Wright



Simon Morris



Peter Pichler



Michael de le Haye

09



02 Executives & Heads of Unit 2016



John Harris
Director General



John Everett
Deputy Director General



Mark Sumner
Director of Supervision and Risk



Jill Britton
Director of Supervision



Mike Jones
Director of Policy



Sam Davison
Head of Supervision Examination Unit



Andrew Garbutt
Head of Supervisory Risk



Roy Geddes
Head of Unit, Supervision



Anita Matthews
Head of Unit, Supervision



David Porter
Head of Unit, Policy



Francis Katamba
Head of Central Support

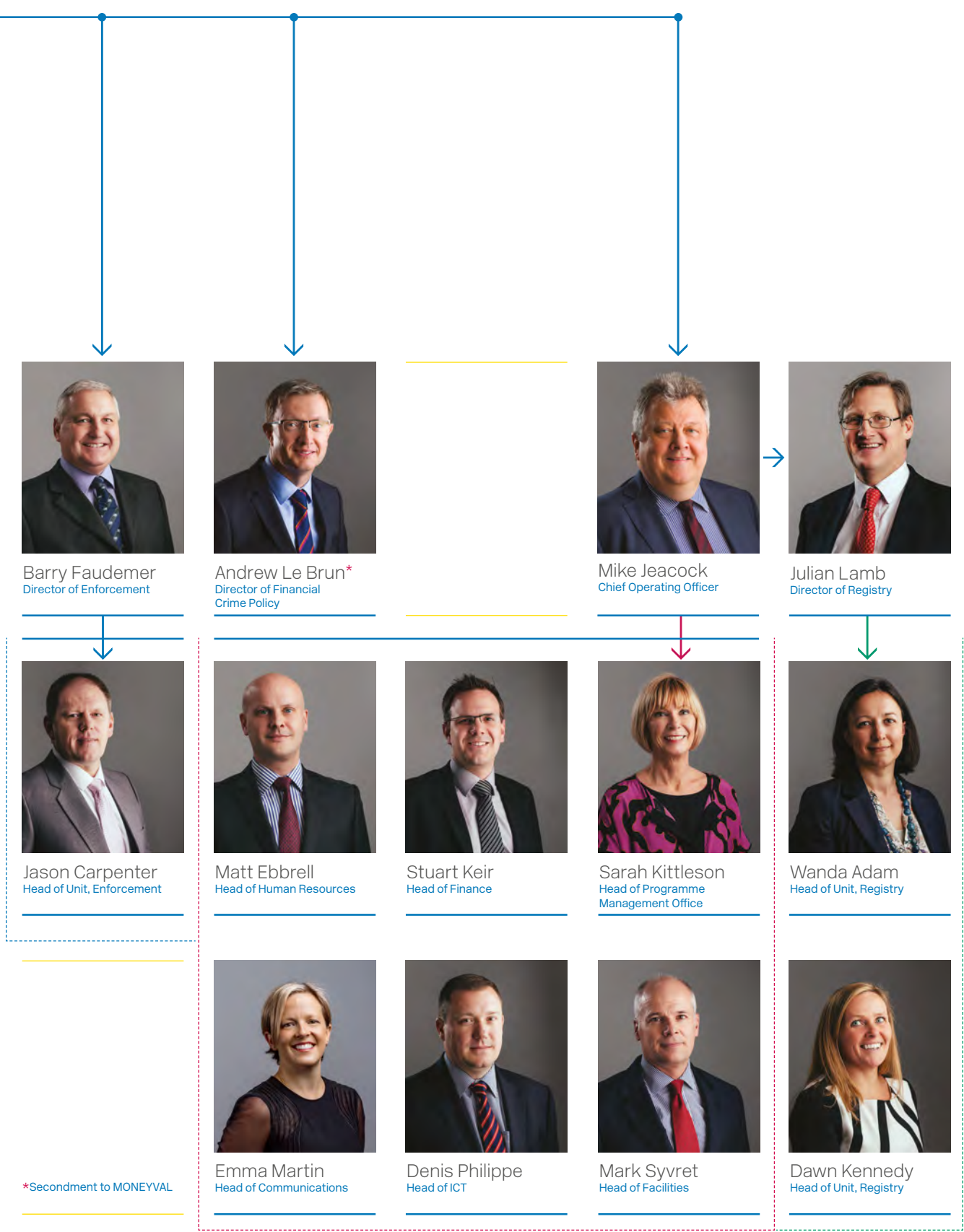


Andrea John
Head of Banking



Tony Shiplee
Head of Unit, Supervision





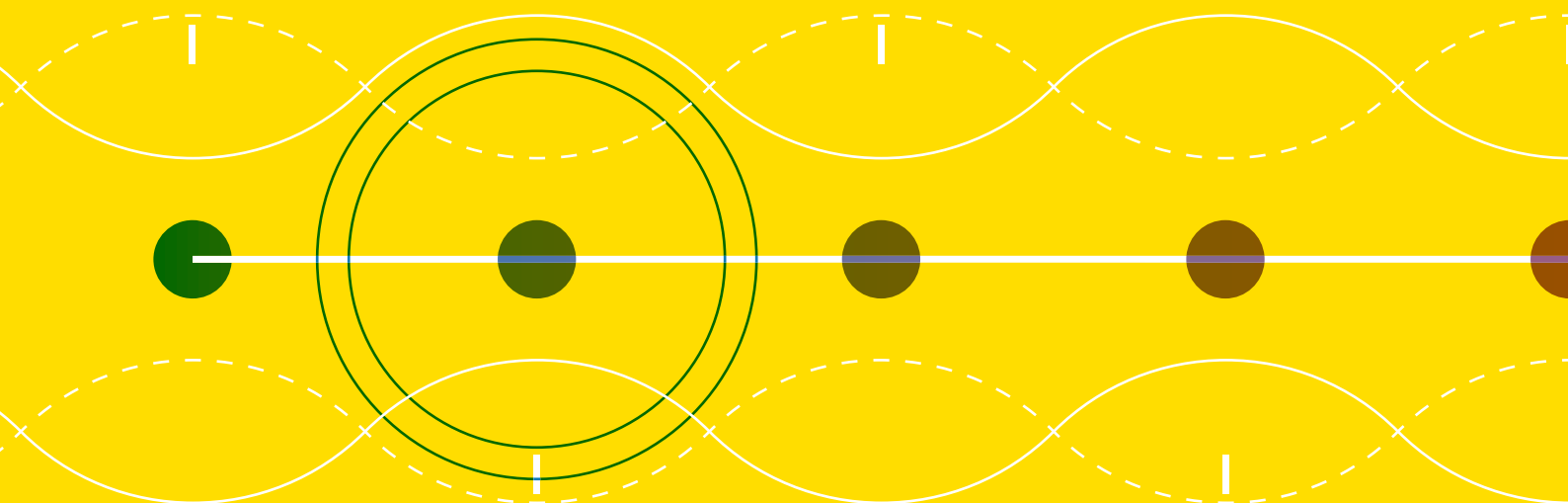
*Secondment to MONEYVAL

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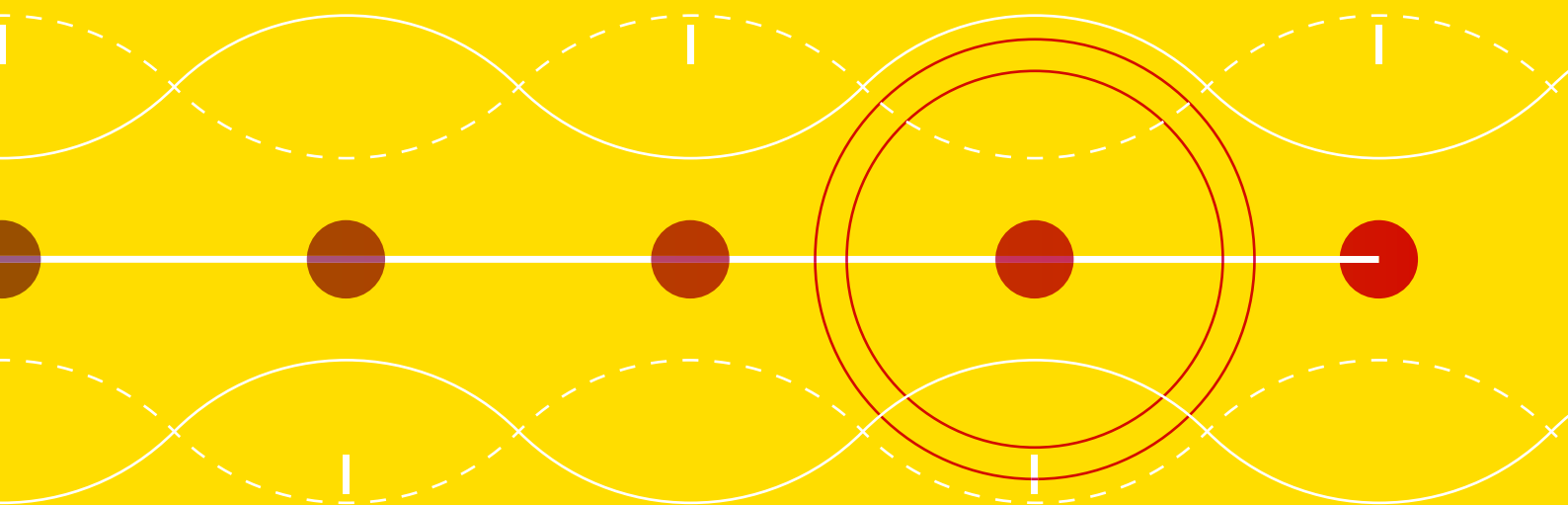


Notes

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



› **Safeguarding
the best economic
interests of
the Island.**





>

Jersey Financial Services Commission

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