2011 ANNUAL REPORT

Jersey Financial Services Commission

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

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

Within its 45 square miles the Island has a population of around 98,000 and enjoys a reputation as a well-regulated international finance centre.

Jersey's allegiance is to the British Crown but it is not part of the United Kingdom. The Island is not a Member State of the European Union nor a part of the European Economic Area.

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

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

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

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

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

The Commission's key purpose is:

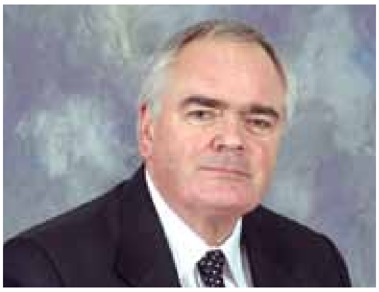
To maintain Jersey's position as an international finance centre with high regulatory standards by:

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

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

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

Non-Executive Commissioners



Clive Jones - Chairman

Clive Jones joined the Board of Commissioners on 23 October 2007 and was appointed Chairman in September 2009.

Clive retired in June 2007 from an international career with Citi which took him from London to Seoul, Sydney, Melbourne, Athens, Zurich and finally to Jersey over a 36-year period. In Jersey he was the Citigroup Country Officer for the Channel Islands.

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

Clive is a Fellow of the Institute of Directors and a Chartered Director.

John Averty – Deputy Chairman

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

He was born in Jersey and educated at Victoria College.

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

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

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

Lord Eatwell of Stratton St Margaret

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

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

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

John Mills CBE

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

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

John is a member of the Jersey Harbours and Airport Shadow Board, and also serves in the Island on the States Members Remuneration Review Body and as an Income Tax Commissioner of Appeal. In the UK he is vice-chairman of the Port of London Authority and a board member of the Commission for Rural Communities.

Advocate Debbie Prosser

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

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

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

Markus Ruetimann

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

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

Markus was Global Head of Technology & Portfolio Services at UBS Global Asset Management in London from 1999 to 2004. He was Chief Operating Officer at Phillips & Drew (now part of UBS Global Asset Management) in London from 1988 until 1998.

Non-Executive Commissioners

Philip Taylor, FCA (until February 2012)

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

Philip is a Member of the Jersey Financial Services Advisory Board, Chairman of the Board of Governors of the Jersey College for Girls and a director of several companies. Philip resigned from the Board of Commissioners on 2 February 2012.

Crown Advocate Cyril Whelan

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

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

As head of the Section within the Law Officers' Department responsible for Serious Crime and International Mutual Legal Assistance, Crown Advocate Whelan has advised on all aspects of public law, including serious crimes such as complex fraud and money laundering. He also acted on behalf of successive Attorneys General in the implementation of major regulatory and mutual assistance legislation in Jersey.

Crown Advocate Whelan retired from the Law Officers' Department in 2007 and is currently a Senior Consultant at the local law firm Baker & Partners and is also a Door Tenant of Chambers at Seven Bedford Row, London.

Sir Nigel Wicks

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

Executive Commissioner

John Harris - Director General

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

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

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

The Commission continues to work with international bodies in order both to be seen to be a pragmatic standard-setter as well as to be seen to be active among its peers.

2011 saw a continued evolution of international financial services legislation. Indeed, it is evolving at a faster pace than many of us have seen in the course of our careers. For a jurisdiction such as Jersey, which is committed to meeting international standards and, for an authority as modest in size as the Jersey Financial Services Commission (the **"Commission"**), this evolution presents challenges. It also presents challenges for our Industry, which has to meet the requirements of new extraterritorial legislation in order to be able to continue to conduct its business in certain key markets. I shall reflect on these challenges later in this statement, but it is clear that addressing them with care and skill is going to be one of our key tasks in 2012.

During 2011, one of the Commission's main aims was to consolidate and enhance the effectiveness of its supervisory activities. The Commission believes that on-site supervision continues to represent one of the best tools it has for policing adherence to the relevant legislation and Codes of Practice, for sharing best practice with the wider Industry, and for monitoring general standards of conduct. The total number of on-site examinations conducted in 2011 was 208. This was slightly down on 2010's total of 248. This was partly due to senior staff having to be diverted to help manage a number of serious cases of apparent non-compliance and also in part to the need to manage a number of entities that have been subject to heightened supervision as they work to correct previously identified shortcomings.

Finding a balance between the need for effective on-site supervision and the increased consumption of human resources that it requires is a matter the Board has spent time considering during the year. The Commission is funded by its licence holders and the Commission is conscious it does not have a mandate to levy fees to an unlimited extent in order to fund its work, however well justified it may feel such funding to be. To the extent possible for a regulatory organization, the Commission will seek to develop models that deploy supervisory staff in the most effective way and also will harness technology to make supervisory processes more efficient. To this end the Board authorized preliminary changes to the supervisory packages for Funds and for Trust Company Business, to take effect in 2012. It has also authorised funding for the first of a series of technology projects to improve the Industry's interaction with the Commission in the area of Personal Questionnaires.

"Scaleability" is not a concept readily associated with financial services regulators. Whilst it may never be achievable in its purest sense, the Commission will continue to look for ways in which to conduct its important work more effectively. That said, it must be recognized on all sides that the Island's stated objective of meeting international standards will continue to require investment in people and systems if we are to avoid falling behind.

As I noted earlier, those international standards continue to evolve rapidly. During 2011 work continued with Jersey Finance Limited and with the Jersey Funds Association on the EU's Directive on Alternative Investment Fund Managers (**"AIFM Directive"**). During the year, dialogue with the Island's insurance sector led us to conclude there was no regulatory or other reason to adopt Solvency II at this time. Coming hard on the heels of the FSA's revised liquidity regime for banks, the report of the Independent Commission on Banking may pose further challenges to the business models of a number of banks operating in the Island and these challenges will be receiving close attention in 2012, in consultation with the Industry.

In September 2011 the International Organization of Securities Commissions (**"IOSCO"**) published its revised Methodology, and the Financial Action Task Force (**"FATF"**) published its revised recommendations in February 2012. Close attention will be given to the best way to meet these revised standards in 2012.

In a number of areas the Commission has worked closely with its sister Commissions in the Isle of Man and in Guernsey. In many instances there is a high degree of common interest and therefore a strong tripartite approach can be more effective than 'going it alone'.

One example of this tripartite approach concerns working with the government of the UK so that the three Crown Dependencies can all participate in the mutual evaluation processes and procedures of MONEYVAL, which operates as a FATF style Regional Body and which can therefore formally keep our compliance with the FATF Recommendations under review. Another example is the approach of the Crown Dependencies to the European Securities and Markets Authority to discuss possible approaches to third country passporting arrangements under the AIFM Directive.

The Commission continues to work with international bodies in order both to be seen to be a pragmatic standard-setter as well as to be seen to be active among its peers. To this end, members of the Executive worked throughout the year with IOSCO's Implementation Task Force, and with the Group of International Finance Centre Supervisors by attending a number of FATF meetings.

During the year, a Memorandum of Understanding was signed with France's Autorité de Contrôle Prudentiel, and relationships with the German regulator BAFIN were further cemented when the latter delivered its government's formal acceptance of the equivalence of Jersey's Anti-money Laundering and the Countering of the Financing of Terrorism (**"AML/CFT"**) regime.

There were no changes to the Board of Commissioners during 2011. However at the end of the year Commissioner Philip Taylor gave notice of his intention to stand down early in 2012. Commissioner Taylor has given valuable service since his appointment in October 2009 and we shall miss his counsel.

As foreshadowed in my statement last year, a Proposition was duly lodged by the Minister for Economic Development, debated by the States and approved in July 2011 whereby Commissioners' terms of appointment now run for five years rather than the previous three. It is hoped that this measure will give Commissioners more opportunity to develop their experience in this demanding role and at the same time help to extend the Board's 'corporate memory'.

During the year an appraisal of the Board's performance was conducted by the Institute of Directors. This was the second successive such appraisal and it yielded further helpful results. However, there is a limit to the value in conducting the exercise annually - and indeed the UK Corporate Governance Code does not require it - and so we will probably not return to this until 2013, by which time we will have been joined by two new Commissioners.

In 2011, more emphasis began to be placed on ensuring members of the Board received appropriate training for their roles. One manifestation of this was a two day course on international financial regulation, devised in conjunction with the London School of Economics (**"LSE"**), which was put on for the Boards of all three Crown Dependencies' Commissions by the LSE prior to the Commissions' annual tripartite meeting. This was generally felt to be a success, and Board training and development will continue to receive attention in 2012.

The Board feels itself fortunate to have a Director General, Executive and staff who conduct the business of the Commission with such skill and dedication. On its behalf I thank them. I too am fortunate to be supported by a Board of talented and experienced individuals who, by their actions, are clearly committed to the success of the Island and its premier industry. I thank them for that support.

Without any doubt 2011 saw the increasingly significant impact of external change on both the financial services sector in the Island and on the Commission.

During 2011, the Commission was once again called upon to address a generally difficult economic environment, coupled with the increasingly fast pace of regulatory change worldwide, in order to meet its external and internal challenges. The general backdrop was one of an anaemic recovery in Jersey from the economic lows generated by the financial crisis of 2008 and in some respects elements of recovery within the financial services sector in the Island were difficult to discern at all.

Notwithstanding this environment, or perhaps because of it, a good deal of hard work was done by the Commission to consolidate progress made in recent years in disparate fields. These ranged from international co-operation, through to enhancing regulatory standards to keep pace with emerging new international norms, to dealing with variable conduct within some financial services firms in the Island as a function of the Commission's supervisory oversight, and to equipping the Commission in terms of both technology and evolving working practices to meet the dynamic demands of the modern work place. All of this added up to a substantial body of activity and effort and I believe the Commission and the Island, albeit without the need for fanfare, can be pleased with the results achieved.

International Development

Without any doubt 2011 saw the increasingly significant impact of external change on both the financial services sector in the Island and on the Commission. In the Jersey banking sector, the landscape was dominated by significant reforms internationally including those being implemented by the Basel Committee on Banking Supervision (**"BCBS"**) both in terms of new capital standards under Basel 2.5 and Basel 3, as well as (under the same set of new accords) additional liquidity management requirements for banks. These new standards will be implemented in Jersey and work began during 2011 involving the Commission and Island based banks to ensure a satisfactory "glide path" towards achieving this objective. In addition, individual liquidity management measures undertaken by regulators elsewhere, particularly the UK Financial Services Authority (**"FSA"**), impacted on Jersey banks necessitating the agreement of further measures between them and the Commission's Banking Division, in addition to a consultation undertaken on large exposures which was largely completed during the year. At the same time, the euro crisis in the latter part of 2011 could not but intrude upon Jersey banks to a large extent given the predominant European ownership of banking entities in Jersey and the consequent concern about downstream consequences for the Jersey entities of parent groups potentially exposed by the crisis. Some very good contingency planning work was carried out between the Commission and the banks with respect to modelling the impact of a euro crisis on the local sector with broadly reassuring results.

It remains to be seen whether the pattern of early 2012, which has seen some improvement in the euro crisis environment, particularly following large scale liquidity operations of the European Central Bank, will have positive effects flowing down to Jersey entities in the short term. Whatever the short term may hold, it seems likely that further modelling will be required with most commentators agreeing that the euro crisis is far from over.

The second significant matter which saw further clarification and implementation in 2011, having been begun in 2010, was the European Union (**"EU"**) Alternative Investment Funds Manager Directive (**"AIFM Directive"**). With the publication of the AIFM Directive Level Two implementation measures by the European Securities and Markets Authority (**"ESMA"**) in November 2011, the future requirements for Jersey fund managers and funds have become clearer and a significant amount of work has commenced in order to put in place the necessary co-operation agreements between Jersey as an identified "third country" within the AIFM Directive process and European regulatory counterparts to meet the various demands of each implementation phase of the AIFM Directive. These seek to allow the Island to continue to offer in the medium term private placement funds to European investors in addition to seeking "passporting" capability for all alternative funds into EU markets as foreseen by the AIFM Directive from 2015 onwards. At the time of writing, a good relationship has been established between all three Crown Dependency (**"CD"**) regulators in Jersey, Guernsey and the Isle of Man, and ESMA regarding the detailed implementation of such agreements, and a practical and focused dialogue has commenced. The Commission has also recognised that the scope and extent of this work is such that a full time resource at senior level will need to be dedicated to the task for at least the next two years. This resource has been identified and is already in place within the Commission to work with other Island agencies, CD counterparts and with the EU bodies to address this hugely important work stream for the Island.

During the year the relationship with the International Organisation of Securities Commissions (**"IOSCO"**) also continued to evolve. The development of the revised set of Principles for securities regulation worked on by IOSCO throughout 2010 was concluded in 2011 and the revised Principles and accompanying Methodology for compliance were published. The Commission continued its previous involvement with the development of the Principles, in addition to being involved in other IOSCO working party activity, and detailed work has now commenced for the Island to seek opportunities to demonstrate compliance with the revised Principles.

The Commission once again sought to develop its general international profile and relations during the past year.

The signing of a new Memorandum of Understanding (**"MoU"**), respectively with the United Arab Emirates Central Bank and the French Autorité de Contrôle Prudentiel, being two highlights. Both represent the development of relationships in markets which in differing ways are critical to Jersey's future. Further MoU development work is on-going and additional agreements can be anticipated during 2012 in furtherance of the objective of developing the Jersey profile and forging relationships with important overseas counterparts.

The Commission also maintains its active membership of the Group of International Finance Centre Supervisors (**"GIFCS"**) (formerly known as the Offshore Group of Banking Supervisors (OGBS)). Through this the Island continues to benefit from access to major multi-lateral standard setting bodies such as the Financial Action Task Force (**"FATF"**) and the BCBS. It is appropriate at this point to record appreciation of the work done by Colin Powell CBE, formerly Chairman of the Commission, as Chairman of the GIFCS over more than 30 years from 1981 until September 2011, when he stepped down to be succeeded by John Aspden, Director General of the Isle of Man Financial Supervision Commission. Colin's contribution during this long tenure was highly influential in assisting Jersey and other small finance centres to be understood and hopefully better appreciated by the wider international community, including standard setting bodies and national regulators. He is certainly owed a great deal of gratitude by many in this respect.

More specifically, the Commission continues to develop its bi-lateral relationships with other national regulators with individual visits during the year to counterparts in India, the Middle East, Germany and Switzerland, and regularly to the FSA in the UK. The Commission will continue to put effort into such bi-lateral contacts not least in seeking to consolidate its relationship with the successor bodies to the FSA when they become operational during the next 12 months. In this, the benefits of the work over recent years with the FSA on international securities development, banking supervision and joint working with the FSA's own intelligence and enforcement communities will be maintained.

Regulatory and Supervisory Developments

In terms of overall numbers of licence holders, 2011 saw a stabilisation following a pattern of decline post the 2008 financial crisis, with banking registrations once again reaching 40 in number, maintenance of the overall number of trust company registrations and a reasonable increase in the number of new funds launched using the Island as domicile over the past 12 months. Particularly notable amongst the latter were the 72 Jersey expert funds launched during the year, together with a number of other unclassified and private fund structures.

This is not to say that the overall climate for capital raising has dramatically improved and Jersey will need to continue to fight hard to retain, let alone grow, its current market share in the competitive funds universe. In this endeavour, the good relationship between the Jersey funds sector, its various representative bodies and the Commission will be helpful. As would be expected, interests are not wholly aligned between Industry and regulator, but nonetheless there is a community of interest which is readily apparent in terms of the regular review of the regulatory regime for funds and where, if appropriate, modification of it, seeking always to meet the twin objectives of compliance with international standards and maintaining competitiveness. There is a constant and evolving dialogue in this respect between various Island stakeholders.

At the end of 2011, while carrying out work in the Securities Division in relation to proposed changes to fund fees, it was discovered that amendments made to the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**) and to the Collective Investment Funds (Jersey) Law 1988 (the **"CIF Law"**) had resulted in a legal anomaly.

In January 2008, an amendment to the Commission Law came into force that, inter alia, provided authority for the Commission to set its own fees rather than require it to obtain a Fees Order signed by the Minister for Economic Development (the **"Minister"**) as had been the case previously. The amendment also made the necessary consequential changes to each of the other laws, as they were at the time.

In April 2008, as part of the package of changes to the regulation of collective investment funds other than recognized funds, an amendment to the CIF Law came into force that included the introduction of the concept of fund certificates. In making provision for fees to be charged in relation to this new type of certificate, the amendment maintained the old arrangements that involved the fees being prescribed by Order. However, having amended the Commission Law, such an Order was not made. Since that time, fees in respect of certificates have continued to be charged by the Commission and paid by Industry in accordance with the fee scales accepted by Industry through the consultation (in 2007), on the proposed new regulatory arrangements, and then subsequently published by the Commission.

Work has begun with the Law Draftsman to introduce legislation to correct the anomaly in the CIF Law: this will enable the fees to be charged on the same basis as for all other fees payable to the Commission. Pending that amendment coming into force, an Order has been made for fees to continue to be charged on the previously agreed basis. Meetings to explain the situation have been held with the Minister, and, separately, with representatives of the funds industry and Jersey Finance Limited, who have each indicated support for the action being taken by the Commission.

Despite the general pattern of stabilisation of licence numbers, a certain tension between maintenance of the Commission's supervisory work in respect of licensed entities and the need to concentrate resources on a number of problem firms did emerge during the year. A higher level of enforcement activity was observed than at any given time in the Commission's history, with a consequent demand on the specialist resources the Commission was able to mobilise to deal with the demands this created. At times, it has been necessary to draw from the Supervisory Divisions to achieve this and, in consequence, the Commission has struggled to maintain the overall number of supervisory visits at the same level as seen in 2009 and 2010. An exacerbating factor was also a certain increase in staff turnover as markets generally recovered and the Commission became once more an interesting environment from which the private sector at times has sought to recruit. To all of this can be added a rise in the overall complexity of activities on which supervision is focused and the way supervision is delivered in a fast changing financial services environment. Such "supply and demand" tensions are likely to be a continuing theme into 2012 to which the answer is unlikely to lie simply in a constant increase to supervisory manpower at the Commission funded ultimately by Industry fees. For these reasons, reviewing the best supervisory package for each Industry sector is becoming a necessity with attention being given to defining the Commission's optimum risk appetite for each sector, finding the right balance between on-site and off-site supervision, and between themed, discovery and focus type visits, as well as placing greater reliance on self-certification by firms, greater reliance on auditors' findings and considering changes in underlying methodology (for example concentrating more on specific client related issues as opposed to firm wide governance control reviews). There is a delicate balance to be struck in this task, as 2011 once again saw a number of relatively disappointing themes emerging in terms of some firms' ability to demonstrate good governance, proper oversight in accounting for their own activities as well as legal entities administered by them, management of conflicts of interest, and the proper identification of and responsibility for AML/CFT issues.

As promised at the end of 2010, the Commission was successful in publishing a Position Paper contemplating its own version of the FSA's Retail Distribution Review (RDR) - in Jersey called the Review of Financial Advice (**"RFA"**). This seeks a transition towards a new model of investment advice built around a move away from fees generated for advisors from commission based products towards more transparent, fee paying advice, itself backed also by a higher level of professional qualification for practitioners. The Commission intends to publish a consultation paper on its proposed next steps regarding the RFA in the early part of 2012.

Again as promised in 2010, the Commission was also successful in launching a new website containing guidance in respect of consumer education, comprising some "dos and don'ts" of investing and suggested best practice for consumers in buying investment services from providers. This initiative, known as Protect Your Money, can be found at the following website linked from the Commission's own main website at www.protectyourmoney.je It is intended as the Commission's first steps in contributing towards a wider effort on the Island to promote better buying by consumers of significant financial services and the need to take some responsibility for that buying process. The Commission notes with interest that the successor body to the FSA, the Financial Conduct Authority (**"FCA"**), is also suggesting the necessity for such consumer education and the taking of some individual responsibility by consumers for investment decisions. The reasons for such an initiative are rooted in the reality that before the financial crisis there had been a propensity on the part of some residents in Jersey and many elsewhere to invest in overly complex and poorly understood financial products, asset types and investment structures. Often these involved some consumers certifying themselves as sophisticated investors when their real risk profile and their understanding of certain products being offered to them would not in reality reflect such status - only to discover years later that the supposed safety of and returns from such investments did not materialise, with capital invested having been much diminished or lost altogether. Such cases in Jersey are relatively few in number but their high profile should not be underestimated when they do occur. In drawing attention to this, it is not the Commission's intention to suggest that the balance of responsibility for risk management lies wholly with consumers rather than with providers, or perhaps supervisors, in order to avoid such negative outcomes. However, some responsibility on the part of the consumer is being acknowledged as a worldwide trend for regulators and other commentators to highlight and to address through consumer education efforts and initiatives.

The trust company business sector in 2011 continued to be relatively stable overall, albeit without evidence of great growth, as wealth management customers continued to consolidate post the financial crisis. The annuity nature of such business is generally a relative protection in times of downturn in economic performance but it would be wrong for any complacency to be felt suggesting the sector is in the rudest of health. The themes seen in previous years continue to dominate in a minority of cases where certain firms evidenced material breaches of the regulatory regime, with failures in new business take-on and due diligence procedures, the management of conflict of interests and the identification of AML/CFT risks - a growing challenge with clients drawn from increasingly far flung jurisdictions - in a more global world. Many firms, however, have robust systems procedures and controls, allied to an understanding of the need for balance between revenue generation and good compliance and control, and the Commission will continue to work with the sector as a whole to ensure that overall standards remain high.

The Commission once again sought to develop its general international profile and relations during the past year.

For the banking sector, other than those issues already identified in terms of new international capital and liquidity standards, the overriding challenge identified in 2011 and, again likely to predominate in 2012 and beyond, is the significant challenge represented by the work of the UK's Independent Commission on Banking (**"ICB"**) led by Sir John Vickers. This proposes a UK version of the separation of retail and investment banking activity (also to an extent proposed in recent years in the USA under the so called Volcker rule). However, in the UK the reforms are intended to be more structural, more radical and more sweeping and indeed Her Majesty's Treasury (**"HMT"**) has largely accepted the overall design put forward by the ICB with publication of a Green Paper in the UK Parliament to plan for implementation of the actual reform measures scheduled by mid-2012. These measures may in turn have downstream consequences for Jersey banking operations and, indeed, the overall Jersey banking model. There is a great deal of technical detail around how the ICB reforms will ultimately impact and, to some extent, much is still unknown, but the Commission, working with Industry and Jersey Government, has sought to become involved in the process in dialogue with HMT and ICB representatives, and it is hoped that during 2012 a successful way forward can be identified to allow Jersey to both embrace and support the proposed reforms, whilst at the same time maintaining the overall substance and success of its own banking sector.

Finally in terms of Supervision, a mention must be made for the Commission's Anti-Money Laundering Unit (AML Unit) which has successfully continued its oversight activity of designated non-financial businesses and professions (**"DNFBPs"**) comprising sectors such as lawyers, accountants, estate agents and others. During 2011, a successful fee model was implemented to allow for a sharing of the costs of oversight of DNFBPs to maintain compliance with the relevant international standard in this respect. This fee model was ultimately agreed by a process of third party adjudication during 2011 and consensus reached on a way forward. The agreement allowed for costs to be shared between the Island's Government and practitioners in the individual DNFBP sectors, with a make-up contribution from the broader Jersey financial services sector.

Enforcement

As mentioned, the last twelve months have again seen a very high level of enforcement activity by the Commission with a record number of new cases tackled. Many of these were lengthy and complex, although a variety of types of case were seen with a substantial rise in the number of internet based scams or unauthorised business type problems being detected and deterred by the Enforcement Division. In many cases these resulted in the issuing of a Public Statement to warn unknowing investors of the dangers of transacting with firms purporting to be licensed in Jersey when this was not in fact the case. At the other end of the spectrum, a number of significant and very complex cases were dealt with and successfully concluded during the year involving a range of problems broadly falling into the three categories of failings in corporate governance, client management and conflicts of interest. Whilst settlement agreements continue to be used for the conclusion of some of these cases, this methodology cannot be deployed in every case and the Commission worked further on enhancing the transparency and clarity of its Decision-Making Process to deal with cases which are contested. Nonetheless, in whichever form, the position remains the same as previously advised in 2010, which is to say that the Commission is determined to deal with cases where standards have fallen below the level to which the Island aspires in terms of good conduct and the observance of regulatory obligations.

Other activities

During 2011, the Companies Registry continued a solid programme of work to develop its own technological and automation capability in delivering Registry services to Island users. In addition, agreement was reached with the Island's Government for the implementation during 2012 of a new Security Interests Register (**"SIR"**). This will, in due course, complement those new registers introduced during 2011 for new investment vehicles, including separate limited partnerships (SLPs) and incorporated limited partnerships (ILPs) in addition to the consolidation of existing registers. In this context, 2011 was the year in which the Registry began to embrace a mission as the Island utility best placed to deliver a greater variety of registry services of wider interest to the Jersey community built on its concentration of experience and expertise. In this respect the SIR can perhaps be seen as the first of a number of new registers to be developed by Jersey in future years and the Commission is certainly keen and willing to play its full role in this respect.

In the Human Resources and Information Technology fields, the Commission continued to invest in both new and continuing activity during 2011. For ICT, the main priority is to provide overall support the Commission's platform work in re-engineering its technological interface with Industry, both in the Supervisory and Registry areas.

A key priority project begun in 2011 in this area is the Personal Questionnaire (PQ) project, which seeks to automate the receipt of information needed by the Commission for the vetting and authorisation of Principal Persons and Key Persons acting for financial services firms. This, however, is only a part of a wider project of platform development supporting the Commission's supervisory functions, which seeks to create a fully automated environment receiving information electronically from Industry licence holders and disseminating it automatically across the Commission's various databases, thereby eradicating the need for manual rekeying, and to generate other productivity benefits. This is a three year project begun in 2011, which will continue with increasing intensity over the next two years.

For Human Resources, the Commission continues its endeavour to foster increased managerial learning and personal development of its staff alongside the traditional qualities of technical excellence demonstrated by Commission staff. To this effect, continuing learning and development initiatives were supported during the past twelve months, including the wider roll out of existing management development programmes and the commissioning (for delivery in early 2012) of a bespoke Change Management and Enhanced Team Work programme for the Commission's Directors and Deputy Directors, which aims to foster an ever improving environment of collective responsibility and effective cross-divisional working within the organisation.

Relations with Industry and Government

The Commission's relationship with individual Industry practitioners and their various representative bodies remained good throughout 2011 and considerable interaction and interface is enjoyed by all parties as would be expected in a small Island environment.
The Commission is particularly well served by its good relationship with Jersey Finance Limited, the Industry's umbrella representative body, without this excellent relationship at any time undermining the respective roles that each agency plays, i.e. regulator and Island promoter and developer of financial services. Regular dialogue is held at all levels between our respective agencies aimed at facilitating good knowledge sharing, an absence of surprises and, through the Commission's formal process of consultation and feedback, achieving the objective of ensuring that proposed changes to the regulatory regime are understood and, hopefully, broadly accepted by the practitioner community. The dialogue in this respect is understandably one in which complete agreement is rarely achieved, but one where nonetheless good understanding of respective positions does tend to generate acceptable and practical solutions again aimed at striking that delicate balance between achieving high standards of conduct and compliance on the one hand and maintaining a competitive finance Industry on the other.

This objective is also shared by the Island's Government. Again good relations are maintained at all levels between Commission and Government to ensure understanding on both sides is achieved. The Commission Board meet formally at least once a year with relevant Ministers in addition to a number and range of other contacts. The Commission's Executive has a good relationship with the relevant officers in various Government Departments, including those in the Law Officers' Department and the Law Draftsman's Office, which represent critical relationships for the Commission in ensuring its ability to discharge its regulatory function inclusive of the creation of legislation to develop the regulatory regime.

Priorities in 2012

Another year of significant development and fast moving events is anticipated. It is unlikely there will be any let-up internationally in terms of the initiation and implementation of new international standards and regulatory requirements. Whilst not an exhaustive list, the Commission will, as mentioned, be concentrating on the further development of the AIFM Directive and the conclusion of IOSCO work, together with other important EU related matters, such as the Single European Payments Area (SEPA) and the conclusion of the quest for equivalence recognition from the EU in respect of the oversight arrangements for Jersey auditors who act for companies admitted for trading on EU exchanges. It was hoped that this latter process could be completed during 2011 but, largely as a function of the EU's own process, it has been delayed, although it is hoped it may be concluded over the coming 12 months. Work in respect of the developing outcome of the work of the Vickers Commission and with the new regulatory authorities in the UK to succeed the FSA are obviously of significant importance.

A further external project to progress will be securing some form of participation by all three CDs in MONEYVAL (the Council of Europe's AML/CFT regional oversight body) where the CDs' interest lies in being able to demonstrate an adherence to the international requirement for regional body peer review of assessments in respect of compliance with international supervisory standards. As the three CDs are not nation states, and recognising the UK's ultimate responsibility for the international representation of their interests, the ability to secure such participatory status is necessarily an approach to be agreed with the HMT for which preparatory work done in 2011 should, it is hoped, pave the way towards a satisfactory conclusion in 2012.

Other ongoing work to be continued into 2012 will be the full consultation on the early stage implementation of a civil penalties regime, together with further consideration and development of the Companies (Jersey) Law 1991 and changes to the Control of Borrowing (Jersey) Order 1958. The Island will need the latter not only to assist in its embracing of the co-operation agreements within the AIFM Directive process, but also more generally in terms of modernising and updating this important legislation for users of Jersey private funds.

Further development of the Island's initiative in the area of the RFA will also be taken forward with the publication of a feedback paper in the early part of 2012.

The Commission will also work with other Island authorities in the further development of macro prudential regulation, another demand to have emerged from the financial crisis, whereby good contingency plans to address the potential for financial services entity failures, the maintenance of Island infrastructure during crisis periods and bank resolution plans will all need to be further developed. In addition, it is anticipated that a review of wider financial services infrastructure for Jersey in areas such as the Depositor Compensation Scheme and the possible implementation of a Financial Services Ombudsman Scheme will also require Commission involvement and input, which it is, of course, more than prepared to give.

It had been the intention during 2011 to conduct a further Industry opinion survey on the Commission's activities and general capabilities, which for a variety of operational reasons was not progressed. However, this was taken forward during the early part of 2012.

A main focus of attention for the Companies Registry over the next 12 months will be the actual implementation of the SIR once the Island's new Security Interests Law comes into force, which is anticipated by mid-year.

Conclusions

In summary, the overall regulatory environment both within Jersey and internationally continues to be one that demands a balance to be struck between the competing demands of: (i) resourcing policy development, particularly in terms of new, developing international norms; (ii) supervisory "business as usual" activity in order to ensure the maintenance of high standards of compliance across the Island; and (iii) internal reform within the Commission in order to equip itself to best effect for the challenges of the future. This is of no little complexity and difficulty but one which I am confident the Commission is well equipped to meet. In this endeavour it is greatly assisted by its Board of Commissioners whose energy, drive and interaction with the Executive greatly informs the Commission's internal activities, as well as its engagement and relationships with the outside world. The Commission's Executive Directors and Staff are also owed a large vote of thanks for their continuing and unstinting efforts to meet the range of commitments and obligations that the Commission must embrace and to continue to make the contribution that it does to the international profile of the Island and to its overall good standing in financial affairs. Having now been in the post for over five years as Director General, I count myself very fortunate to be supported by such dedicated and committed staff in this respect, and it is my belief that, despite the numerous and complex challenges with which we are faced, the Commission will continue to be successful in discharging its regulatory function and responsibilities.


Andrew Le Brun
Director, Office of the Director General
Barry Faudemer
Director Enforcement
Jamie Biddle
Deputy Director Enforcement
Gail Chadwick
(Until March 2012)
Deputy Director Internal Audit
Mark Sumner
Director Banking, Insurance and Investment Business
David Banks
Director Securities
Darren Boschat
Deputy Director Banking
David Hart
Deputy Director Insurance and Investment Business
Nick Troy
Deputy Director AML Unit
Roy Geddes
Deputy Director Securities
Michael Jones
Deputy Director Securities

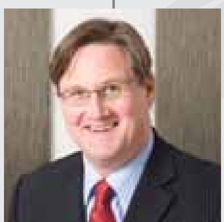
John Harris
Director General

Nigel Woodroffe
Chief Financial Officer

Annette Cullen
Director Human Resources and Facilities Management

Chris Renault
Commission Secretary

Debbie Sebire
Director Trust Company Business

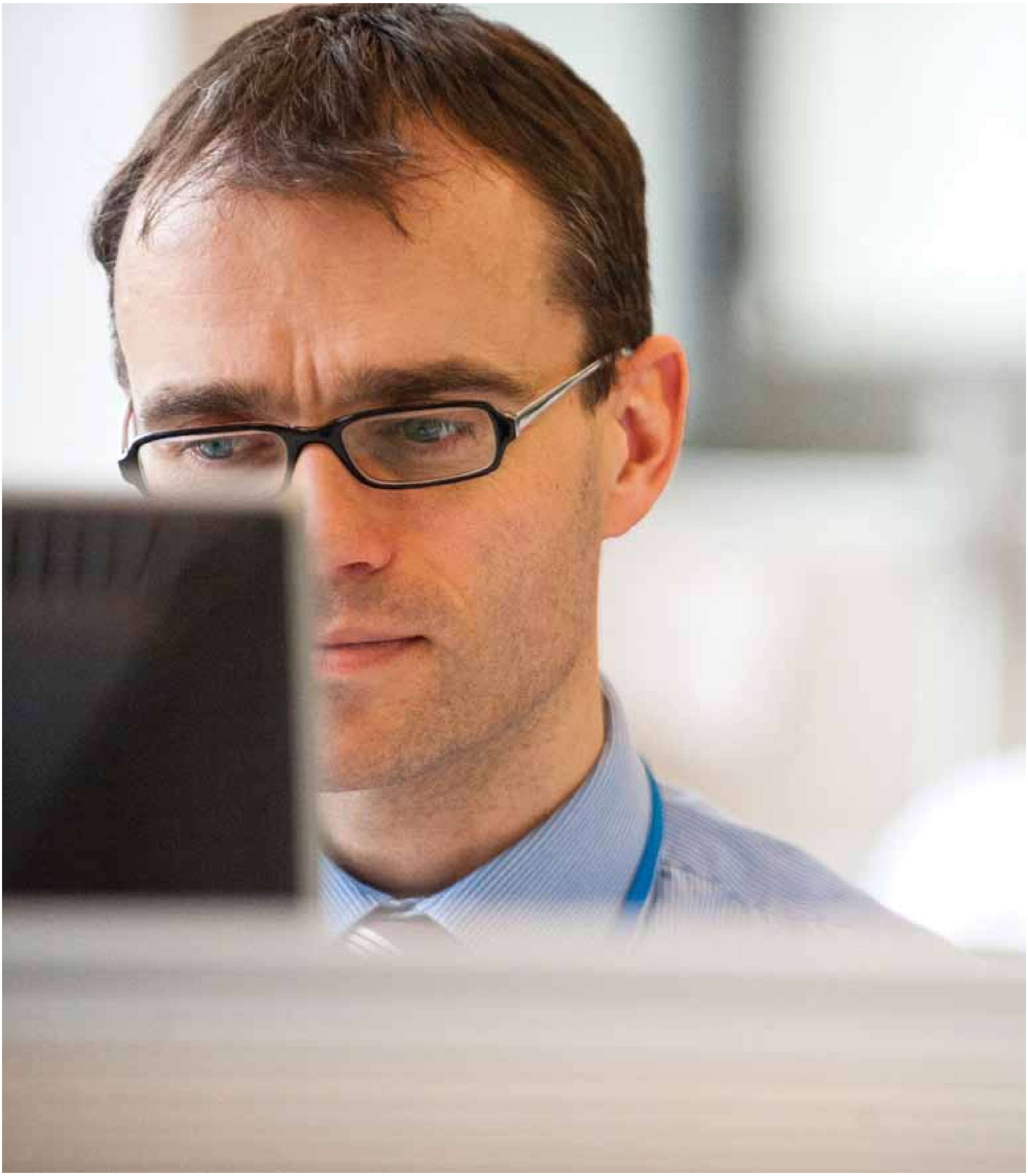


Julian Lamb
Director Registry

David Oliver
Deputy Director TCB

Eric Dolan
Deputy Director Supervisory Operations

Sarah Kittleson
Deputy Director Registry and Non-Supervisory Operations



The Division has continued to be active in countering money laundering and terrorist financing and promoting the understanding of sanctions legislation within the Island.

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

Review of 2011

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

Legislation

Law drafting on a number of "maintenance" amendments to the Collective Investment Funds (Jersey) Law 1988, the Banking Business (Jersey) Law 1991, the Insurance Business (Jersey) Law 1996, the Financial Services (Jersey) Law 1998, and secondary legislation made under these laws (collectively referred to here as the **"Regulatory Laws"**) and also the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 (the **"Supervisory Bodies Law"**), has now progressed well, and public consultation on those amendments will start in the second quarter of 2012.

The legislation changes proposed in this consultation comprise a miscellany of items that have emerged over the past two or three years. Whilst some amendments affect only one particular item of legislation, a secondary objective has been to enhance the level of consistency across the Regulatory Laws. Consequently, the opportunity has often been taken to consider and amend as appropriate the corresponding provisions in the relevant Regulatory Laws.

In line with Government policy, work is now in hand to draft legislation to implement relevant parts of the EU Payment Services Directive - in order to support a future application by Jersey's government for the Island to join the Single Euro Payments Area (the **"SEPA"**). The effect of this legislation would be to regulate payments made in euros using the SEPA's payment instruments.

Prompted in part by an International Monetary Fund (the **"IMF"**) recommendation, the States adopted an amendment to the Financial Services Commission (Jersey) Law 1998 in July 2011.

As a result of the amendment, if the Minister for Economic Development (the **"Minister"**) decides to terminate the appointment of a Commissioner, there must now be a degree of public disclosure of the reasons. In line with the practice of the Jersey Appointments Commission, the amendment also extends the maximum period for which a person may be appointed as a Commissioner, from three years to five years.

In 2010, work started on drafting amending legislation to provide for the Commission to be able to recover some or all of its costs and disbursements due to enforcement action and investigations leading to such action. Conclusion of this work was subsequently put on hold pending separate discussions on whether the Commission should have a power to impose civil penalties where a regulated business had failed to comply with a principle or rule that is set in the Codes of Practice (**"Codes"**) that are issued by the Commission. Those discussions supported the introduction of a power to impose penalties, and, accordingly, the Division has assisted the Enforcement Division with the development of such a penalties regime. The principles behind such a regime will be the subject of consultation in 2012.

The Division has continued to develop and contribute to the development of legislation that sets out how companies and other legal persons are to be constituted, administered and audited. The Companies (Jersey) Law 1991 (the **"Companies Law"**) was amended in 2010 to introduce a mechanism for registering and overseeing the work of auditors of market traded companies (referred to as **"Recognized Auditors"**). At the start of 2011, agreement was reached on the fees to be charged under the regulatory regime, and oversight of Recognized Auditors started in April 2011.

Meanwhile, Jersey (along with Guernsey and the Isle of Man) has been included in extended transitional provisions that will allow auditors of Jersey market traded companies to continue to perform audit activities in the EU, pending an assessment of the regime for Recognized Auditors by the European Commission (the **"EC"**). The intention of such an assessment is that it should be possible for a Member State in which a Jersey market traded company's securities are traded to place reliance on the regime that has been introduced in Jersey (without duplication of registration and oversight).

In support of this application, a detailed description of Jersey's regime for Recognized Auditors was provided to the EC in December 2011 and it is hoped that this submission will enable a formal "equivalence assessment" to be undertaken before the end of 2012.

The Division has also contributed to discussions on Government proposals to amend the Limited Liability Partnerships (Jersey) Law 1997 and also the Companies Law. In addition, the Division provided input to a Government policy group which is considering how Jersey might support international initiatives on debt relief for countries that are in receipt of international aid.

Policy statements and guidance notes

Work also continued on revising the Commission's sensitive activities policy for applications that are made under the Control of Borrowing (Jersey) Order 1958 (**"COBO"**). A draft of the policy is shortly to be discussed with the Companies Registry Users Group.

A significant amount of time has been spent in 2011 co-ordinating changes that are proposed to the Codes. Changes are proposed to bring the wording of the seven sets of Codes closer together and also to deal with matters that are specific to a particular set of Codes. Consultation on amendments to the Codes closed in August 2011 and it is intended to publish a feedback paper and seven sets of amended Codes during the second quarter of 2012.

Assistance was also provided to the Enforcement Division on redrafting the Guidance Note on the Decision-making Process. The Division also supported preparation by the Securities Division of a consultation paper on proposed changes to fees paid under the Collective Investment Funds (Jersey) Law 1988 and the Financial Services (Jersey) Law 1998.

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

The Division has continued to be active in countering money laundering and terrorist financing and promoting the understanding of sanctions legislation within the Island. Throughout the year, support was provided to the Anti-Money Laundering Unit (**"AML Unit"**) on the introduction of fees to be paid by persons carrying on business activities that are listed in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999. This included the preparation of material to be considered by a Panel of three Jurats appointed by the Bailiff to consider whether the fees proposed by the Commission were unreasonable, having regard to all the circumstances of the case. The Panel concluded that the fees proposed for 2011 were not unreasonable having regard to the relevant statutory criteria.

The Division devoted a substantial amount of time to assisting the Island's authorities with the development of two separate pieces of legislation which now allow the Chief Minister to:

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

This work culminated in the Terrorist Asset Freezing (Jersey) Law 2010 coming into force on 1 April 2011 and the Money Laundering and Weapons Development (Directions) (Jersey) Law 2012 on 13 January 2012.

Guidance for Industry on sanctions was published in January 2011 and on proliferation and proliferation financing in October 2011.

Ahead of a wider review of the application of simplified and enhanced customer due diligence measures (**"CDD measures"**) in Jersey, a consultation paper was published in November 2011 proposing a number of discrete (but important) amendments to CDD measures. The consultation period closed on 29 February 2012.

International focus

The Division has also continued to support the Commission in its representation at meetings of international standard setters. In particular, the Division has participated in the work of:

- The Implementation Task Force of the International Organisation of Securities Commissions (**"IOSCO"**).
- The Group of International Finance Centre Supervisors through attendance of a number of meetings of the Financial Action Task Force (the **"FATF"**).

IOSCO's Methodology was published in September 2011 and the revised FATF Recommendations were published in February 2012.

The Division has also worked with regulators in Guernsey and the Isle of Man in support of a proposed application by the UK for the Crown Dependencies to participate in the mutual evaluation processes and procedures of MONEYVAL (a body of the Council of Europe). The principal purpose of the application will be to make compliance with the FATF Recommendations subject to ongoing review by a FATF Style Regional Body (something that is now required by the FATF).

The Division is also responsible for co-ordinating and assisting with the agreement of memoranda of understanding (**"MoU"**) with domestic and overseas agencies and promoting cooperation more generally.

A MoU was signed with France's Autorité de Contrôle Prudentiel in July 2011. Discussions are ongoing with the German regulator - BaFin - on the content of a new MoU to replace the two currently in place with BaFin's predecessor organisations.

More generally, co-operation with Francophone regulators should be assisted by the publication in 2011 of a French language version of the Commission's Handbook on International Co-operation and Information Exchange.

Domestic focus

At home, support was provided to the Enforcement Division with the drafting of a MoU with the States of Jersey Police on information exchange and mutual assistance. The MoU was signed in October 2011.

The Division has also actively followed a number of developments in the domestic environment in which the Commission functions.

The Division closely followed various drafts of the Freedom of Information (Jersey) Law 200- (the **"FOI Law"**). Whilst adopted by the States, no date has been set for the FOI Law (which will not initially extend to the Commission) to come into force.

The Division discussed a number of practical concerns that it had surrounding a proposal for the Jersey Vetting Bureau to check the credentials of persons employed in the finance sector. As a result, it has been agreed that the proposed system should not be introduced and, instead, that enhancements should be made to the system that is currently used (through the States of Jersey Police).

The Division also provided assistance to the States of Jersey Economic Development Department with the development of proposals to introduce an Ombudsman scheme.

KEY TASKS FOR 2012

I&P has been folded into the Office of the Director General at the start of 2012 and it is intended that the Office of the Director General, incorporating the former I&P Division, will have a more tightly defined set of organisational responsibilities.

The focus of the Division will be on:

- Managing high level relations with other regulators and regulatory authorities, including cooperation through MoUs.
- Setting policy and requirements for countering illicit financing: i.e. money laundering, terrorist financing, and the financing of the proliferation of weapons; and guiding industry on the application of financial sanctions.
- Coordinating changes to the regulatory laws and other legislation that is administered by the Commission.
- Controlling the quality of content and presentation of the Commission's external output e.g. policy documents, Codes, and consultation papers.
- Introducing an effective records management system.

Under "transitional" arrangements, the Division will finish work that it has started to support Jersey's intention to apply for membership of the SEPA, and on the application for Jersey's regime for Recognized Auditors to be assessed as equivalent by the EC. The Division will also continue to support the Enforcement Division's proposals to introduce a regime for imposing civil penalties.

In addition, the Division will continue to follow and respond to developments in the domestic legislative environment in which the Commission functions.

Prompted in part by recommendations made by the IMF, the Division will prepare instructions to update and amalgamate the Drug Trafficking Offences (Jersey) Law 1988, the Proceeds of Crime (Jersey) Law 1999, and the Terrorism (Jersey) Law 2002. The Division will also review the application of simplified and enhanced CDD measures in Jersey, address other outstanding recommendations made by the IMF, and consider the changes that will be required to Jersey's framework for tackling illicit financing in order to accommodate proposed revisions to the FATF Recommendations.

In line with long-standing commitments, a funds sector specific section for the AML/CFT Handbook will be published along with updated versions of handbooks for the legal and accounting sectors.

The Division will continue to provide support for applications made by the UK for Jersey to be added to a list of "equivalent" third countries that is maintained under the EU Third Money Laundering Directive and to participate in the mutual evaluation processes and procedures of MONEYVAL.

As part of its function to coordinate changes to legislation, amongst other things, the Division will:

- Present to the Minister draft legislation to generally "maintain" the Regulatory Laws and the Supervisory Bodies Law.
- Review the adequacy of enforcement tools in the Companies Law.
- Promote amendments to accounting and record-keeping requirements in the Companies Law and similar legislation in order to address recommendations made by the Global Forum on Transparency and Exchange of Information for Tax Purposes.
- Consider how the current definition of "principal person" may be revised to reflect the introduction into Jersey legislation of new forms of legal person.
- Consult on proposals to introduce a consistent regime that will allow the Commission to object to the appointment (and continued appointment) of auditors of persons that are supervised under the regulatory laws, if it is not satisfied that the (proposed) auditor has the requisite qualifications, skill, resources or experience for a particular audit, or if it would not be in the best interests of clients/customers of a registered person.

Following on from consultation started in 2011 on proposals to revise the Codes, the Division will also publish a feedback paper and seven sets of amended Codes during the second quarter of 2012.

The Division will continue to support the Commission in its representation at meetings of international standard setters and consider the status of preparations for the next assessment of Jersey's compliance with international standards, including identification of standards against which the Island may be assessed.

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

Authorisations

Work continued with authorising new funds and fund services businesses, in addition to approving changes to existing fund arrangements. Over 100 new Jersey funds were authorised during 2011. Liaison was maintained with the Funds Authorisation User Group.

The number of licensed investment businesses has reduced by six following revocations arising mostly from further consolidation in the IFA sector.

2011 was another busy year for the Insurance Division, with 32 applications approved and 28 licences surrendered, which resulted in the overall total of regulated persons increasing by four.

The very modest levels of interest in opening new banking operations in the Island evidenced in recent years continued in 2011. One new registration was granted, taking the total number to 40.

There were 24 new trust company business applications successfully determined during 2011, comprising three affiliation leaders, seven individuals who were registered to provide directorship services and fourteen participating members. The three affiliation leaders represented two new start-up businesses and one existing fund service business that expanded into the provision of some trust company business services. The participating members were predominately additions to existing affiliations.

During 2011, the Anti-Money Laundering Unit (**"AML Unit"**) registered 28 persons who were carrying on a business specified in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999, where that person was not carrying on a business already regulated by the Commission under one or more of the Regulatory Laws[1].

Examinations

The Commission has continued its focus on risk-based supervision through on-site examinations and following up any necessary action arising out of those examinations. The themes arising from the examinations have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers (**"Dear CEO letters"**), the eNewsletter and the website. The Commission completed 208 examinations during 2011 against a target of 226. There were 248 examinations during 2010.

Total Examinations 2011

Division	Themed	Focused	Discovery	Other	Total
TCB	27	6	14	0	47
Funds	12	18	4	0	34
IB	6	1	16	0	23
Banking	14	3	5	0	22
Insurance	0	13	3	0	16
AML Unit	40	5	0	21	66
Total	**99**	**46**	**42**	**21**	**208**

Examination activity was a significant feature of 2011. The main issues that have arisen from the on-site examination programme during 2011 are summarised below by each Industry sector.

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

Banking

The on-site programme was completed in full, including overseas examinations in the Isle of Man and the Middle-East. Two new themed on-site programmes were run, focusing on prudential reporting and information security. Jersey banks benefit from being part of large international organisations that have well developed policies and procedures in the latter area, and risk management in this area was therefore found to be reasonably good. Shortcomings in prudential reporting were, though, higher than had been expected and that programme has to been extended into 2012 in order to cover every banking group operating in Jersey. Summary findings and observations from both exercises have been published in early 2012.

Insurance

The planned number of 16 on-site examinations was duly completed during 2011. A number of common findings arose within some of the companies assessed during the year. These included a failure to implement an adequate compliance monitoring plan and several instances where registered persons had failed to adequately manage the potential for conflicts of interests arising where the compliance officer retains a client-facing role. In addition, a number of registered persons had failed to adequately monitor relevant employees' continuing professional development. The Division has been working with entities to remedy identified shortcomings.

Investment Business

The Investment Business Team (**"IB Team"**) completed 23 on-site examinations of investment business firms in 2011, including a themed programme of examinations which focussed on Class E investment business licence holders. The key result was the determination that, in most cases, a Class E was no longer the most appropriate registration and three out of the four entities examined will be revoking their registrations in due course.

The IB Team also liaised closely with colleagues in the Commission's Enforcement Division in relation to a number of enforcement cases involving investment business licence holders.

A summary report was published sharing the conclusions of a second mystery shopping exercise, which targeted independent financial advisors (**"IFAs"**) and retail banks.

Two Dear CEO letters were issued, one highlighting key findings from examining investment businesses, the second explaining the Commission's view on providing advice on investments within pension schemes.

Funds

The Funds Supervision Unit undertook 34 on-site examinations during 2011. Common findings included a lack of appropriate due diligence on investor suitability and other parties in relation to new funds, a failure to demonstrate proper oversight by the board and a failure to comply with all the requirements of the Island's AML/CFT regime.

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

Trust Company Business

Good examination momentum was maintained during 2011 with 47 registered persons assessed across a broad spectrum of areas ranging from top level corporate governance through to reviewing underlying customer files. Whilst many businesses were found to be in good order, examiners identified a small but not insignificant number of businesses where weak corporate governance and an inadequate control environment had led to potentially serious issues. The Division reacted swiftly to these situations, with appropriate safeguarding directions put in place and in some cases requiring Reporting Professionals or an Inspector to be appointed to fully assess the extent of the issues. This coupled with the continued heightened supervision of registered persons already under remediation or, in a small number of cases those selling their business, took up most of the focus during 2011.

In order to share newly identified issues with Industry ahead of the annual examination feedback, two Dear CEO letters were issued during the year. One letter identified to Industry the concerns regarding applications to incorporate Jersey companies and an increasing trend towards an apparent insufficiency of due diligence and documentation of associated risks being undertaken by trust companies. The second letter shared with Industry some examples of issues identified concerning "COBO only" and private fund structures, namely conflict of interest issues, investor suitability and an absence of disclosures.

AML Unit

The AML Unit conducted 66 on-site examinations during the year. Once again, business risk assessments, sanctions and suspicious activity reporting issues continued to dominate the examination findings.

Regulatory Developments

2011 saw a period of reflection in relation to the changes made to the Island's regulatory framework during previous years. Against a backdrop of the international regulatory response to the recent financial crises, the Commission monitored and, where possible, participated in these discussions. The 2012 Business Plan anticipates a number of consultations with Industry, some of which reflect international developments.

Banking

The critical issues affecting the finance industry worldwide had considerable local impact. All emerging problems have been identified and appropriately addressed, with successful outcomes whilst maintaining working relationships. The consequent need for a heightened supervisory approach has absorbed a significantly greater part of the Division's efforts since the global financial crisis commenced in 2007, such required effort having increased year-on-year since then.

Supervising local entities to the required level has become significantly more complex and challenging in recent years and also involves looking beyond the immediate Jersey entity to a far greater extent than historically. The Division has responded and coped well with the greater demands now seen. These have included more regular and extensive dialogue and co-ordination with overseas regulators, another trend that will continue upwards, given developing international practice and needs in this respect.

A consultation was issued and largely finalised on the introduction of a "concession limit" approach towards large exposures to banks and sovereigns. This will require Jersey incorporated banks to fully consider and document what are typically their biggest credit risk counterparties and, in turn, enable the Commission to better understand these.

The Division has worked with Industry in considering and addressing emergent issues affecting it, most particularly UK adoption of the recommendations of the Independent Commission on Banking (**"ICB"**) - also known as the Vickers report - and the FSA's revised liquidity requirements. Both of these have or will require local banks to review their operating models. Consequent changes will be seen in risk profiles, which the Commission must understand and agree with individual banks.

Banks were also required to review and advise the Commission of their planning in respect of a Eurozone crisis and potential impacts here. The wider macro implications for the Island have been raised and discussed with Government.

A revision of the Bank Licensing Policy was completed and published. The additional flexibility of approach reflected therein may well be needed in addressing the changed banking models that may emerge in the future.

The Banking Business (General Provisions) (Jersey) Order 2002 was amended to establish a legal requirement for all banks advertising in the Island to disclose the applicability of depositor compensation schemes.

The Division was pleased to be able to extend bank registration fees at their present level for a further 12 months, given the headcount reduction made in light of the reduced bank registration numbers seen.

Securities

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

Funds Team

Work continued on the revised Certified Funds Prospectuses Order and the Codes of Practice for Certified Funds although completion has been delayed until 2012.

Close liaison is being maintained with Jersey Finance and the Jersey Funds Association on a number of initiatives, including the EU Directive on Alternative Investment Fund Managers (**"AIFM Directive"**). One of those initiatives resulted in the introduction of a new product called the "Private Placement Fund" in January 2012.

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

Investment Business Team

The key policy initiative for the IB Team in 2011 was the publication of a position paper on the Review of Financial Advice (**"RFA"**). This was launched in response to the FSA's Retail Distribution Review (**"RDR"**). The aim of the RFA is to raise the professional standards of investment advisors and eradicate possible conflicts of interest that can be caused by commission based remuneration arrangements. A number of presentations were given to local trade and professional bodies outlining the Commission's position. A large number of responses were received to the position paper and the Commission continues to work with Industry in order to achieve the desired aims of the RFA and make the necessary changes to the regulatory framework.

The Commission has continued its focus on risk-based supervision through on-site examinations and following up any necessary action arising out of those examinations.

The IB Team contributed to the Commission wide project to review and revise all Codes of Practice.

The IB Team also continued work on the investor education initiative, with the launch of the Protect Your Money website in Q1 of 2011, and provided input on the proposal to establish a Financial Services Ombudsman.

Insurance

Revisions to the Insurance Core Principles were adopted by the International Association of Insurance Supervisors (**"IAIS"**) in October and work has commenced locally on a self assessment against these in order to identify whether any amendments are required to the Island's regulatory regime to ensure compliance with international standards.

Developments in respect of Solvency II have been monitored closely and in 2011 the Insurance Division invited input from members of the Jersey insurance sector to assess the potential impact on the local market. A press release was issued in July 2011 to confirm that the dialogue with Industry had not identified any regulatory or other reason to adopt Solvency II and that focus will instead be given to adopting the revised IAIS standards, which include provisions for risk-based solvency.

AML Unit

The AML Unit has responsibility for the regulation and supervision of Money Service Business (**"MSB"**) in the Island. MSBs have become increasingly complex since relevant legislation under the Financial Services (Jersey) Law 1998 was first introduced in 2007, and the AML Unit, together with the Office of the Director General, has thus commenced an exercise to assess its current and future suitability.

2011 saw the culmination of the protracted first annual fees consultation process for Designated Non Financial Businesses and Professions (**"DNFBPs"**). In response to challenges from some of these DNFBPs, a Panel of Jurats was formed to consider the fee proposals. The Panel issued its conclusions on 31 May 2011, which supported the methodology applied by the Commission in allocating costs to the AML Unit (which then need to be recovered through levying annual fees). All registered DNFBPs have now paid their annual fees for 2011.

International Communication

The Commission continued its active involvement in international regulatory fora.

The Banking Division played a key part in supporting the hosting by Papua New Guinea, a member of the Commonwealth, of the annual plenary of SEANZA (South East Asia, New Zealand & Australia central banking forum), which focused on implications of Basel III for developing countries. It also continued to support the Offshore Group of Banking Supervisors (renamed during the year as Group of International Financial Centre Supervisors) activities.

Monitoring of the development of international regulatory standards continued throughout 2011, partly through the Insurance Division's active involvement in the Offshore Group of Insurance Supervisors (**"OGIS"**) and the International Association of Insurance Supervisors (**"IAIS"**). In addition, Jersey, as a signatory to the IAIS Multilateral Memorandum of Understanding, participates in meetings of the Signatories Working Group and Supervisory Co-operation Subcommittee of that organisation, thereby developing the Island's reputation within the international insurance industry.

In addition, the Commission signed Memoranda of Understanding with the French Autorité de Contrôle Prudentiel, the Central Bank of the United Arab Emirates and, locally, with the States of Jersey Police.

The FSA's RDR project and the development of the equivalent imitative RFA in Jersey has been the subject of discussions with the regulatory authorities in Guernsey and the Isle of Man.

The Securities Division maintained its international obligations by attending meetings of the International Organisation of Securities Commissions (**"IOSCO"**) in Mumbai, Singapore and Madrid, and dealing with inter-regulator enquiries. The Commission also hosted a meeting of securities regulators from across the globe.

The AML Unit has continued with its diverse "outreach activities", liaising with representative bodies and presenting at seminars and conferences. International fora attendance included the Wolfsberg Forum and the Interpol Working Group on Money-Laundering and Terrorist Financing.

KEY TASKS FOR 2012:

- The Commission will continue to spend a significant portion of time working with Industry on responding to the AIFM Directive.
- A consultation paper seeking an increase in fees from July 2012 for both CIF and FSB has been issued to Industry.
- Codes of Practice for Certified Funds to be launched during Q2 of 2012.
- Provide assistance in relation to a new Collective Investment Funds (Certified Funds Prospectuses) (Jersey) Order 201-.
- Completion of a self assessment against the revised Insurance Core Principles of the IAIS in order to identify any revisions required to the Island's related regulatory requirements necessary to continue to meet international standards.
- Monitoring developments in respect of the EU's Solvency II insurance regime.
- Monitoring the proposed revisions to the EU's Insurance Mediation Directive and assessing any possible impact on the Island's regulatory requirements for general insurance mediation business.
- Completion of the drafting of an Accounts Order for the Insurance Business (Jersey) Law 1996.
- The issuance of a guidance note on insurance business transfer schemes under Schedule 2 to the Insurance Business (Jersey) Law 1996.
- Continuing to support the efforts of the IAIS and the OGIS to promote and develop international regulatory standards.
- Maintain the Protect Your Money website and continue with the consumer education drive, in line with an IOSCO requirement for regulators to play an active role in the education of investors. In this respect, the Commission will also engage with the International Forum for Investor Education.
- Continue to support the RFA project throughout 2012 and 2013. Working party meetings will be held with Industry to review responses received to the related position paper, and consideration will be given to issuing a feedback paper. Once agreement is reached, Industry will be further consulted on related changes to the Investment Business Codes of Practice and relevant issued guidance.
- Continue to engage internally on operational process improvements, including the aim to enable quarterly statistics returns and bi-annual investment business employee information to be submitted electronically.
- Issue guidance on the Overseas Persons Exemption Order for non-Jersey investment businesses and publish on the Commission's website.
- Undertake research on paraplanning activity in the Island to determine whether it would be appropriate to widen the definition of an "investment employee" to include paraplanners.
- Continue heightened oversight of the banking sector, including the implications for Industry of international/overseas developments.
- Review of Basel III and consideration of local application issues, working in co-ordination with the two other Crown Dependencies.
- Completion and adoption of the planned revised Banking Codes of Practice.
- Completion and adoption of the proposed concession limit approach to large exposures.
- Support to Government in its review of financial system stability issues and oversight.
- Continued work with all stakeholders on addressing implications of UK adoption of the ICB recommendations.

The Commission will continue to spend a significant portion of time working with Industry on responding to the AIFM Directive.

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

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

2011 has been a challenging year for the Enforcement Division with a 28% increase in the volume of new cases. The complexity and demands of some cases has also increased, placing a significant strain on enforcement resources. Poor standards of corporate governance exercised at board level continued to be at the root cause of several complex enforcement cases. One such case resulted in the closure of a regulated service provider together with the issuing of directions to the directors preventing or restricting their future employment within the finance industry in Jersey. The Commission will continue to look to the board of regulated entities for any shortcomings in compliance with regulatory standards, particularly where such shortcomings place customers and the Island's international reputation in jeopardy.

The Enforcement Division completed 102 investigations that, inter alia, led to the issuing of 18 public statements. Seven individuals' conduct was of such concern that they were issued with directions preventing or restricting them from obtaining employment with a registered person in Jersey, without first obtaining the written consent of the Commission. No such consents were granted in 2011. Public statements continue to be an important and effective regulatory sanction. In addition, such statements are an effective means of alerting the public and serve to provide the regulated community with an opportunity to learn from the mistakes of others.

79 notices were issued to obtain information from individuals or businesses to progress enforcement investigations compared to 73 in the previous year. The volume of compulsory interviews declined from 25 in 2010 to only four in 2011 due, in part, to the increased use of settlement agreements negating the need to conduct such compulsory interviews. Eight settlement agreements were executed in 2011. Such agreements allow the Commission to increase the volume of cases it investigates and reduces the costs associated with contested enforcement action. The use of settlement agreements was incorporated into the Commission's Decision-making Process, which was updated in 2011 and published on the Commission's website.

16 requests for assistance from other regulatory authorities were received and serviced compared to 18 the previous year. The majority of the requests sought to recover evidence of insider trading where the trade had either been placed through Jersey or the funds from the insider trading were deposited in the Island.

A challenging economic climate has seen some practitioners willing to take the risk of conducting unauthorised financial services business and, in particular, providing registered office addresses or acting as a company secretary by way of business from their home address. Due to the risks associated with such individuals seeking to operate under the "regulatory radar" the Enforcement Division will give priority to investigating such cases. Ten such cases were subject to enforcement investigation during the year and, as part of a wider investigation in respect of which the Commission provided assistance, one individual was subsequently convicted of money laundering at Southwark Crown Court and is now serving a substantial term of imprisonment.

Members of the public both in Jersey and overseas continue to search for better returns on their savings and have been tempted to invest money in response to unsolicited telephone calls or emails. Unfortunately, this has frequently resulted in individuals falling victim to a scam. Once the victim makes an initial payment, the fraudster invariably seeks to obtain further money by providing bogus information and promises that are later broken. Payments to the fraudster are often routed via bank accounts in other jurisdictions. The Commission will report such matters to the Police but will also alert the regulator in the jurisdiction where the bank account is operated. The Commission always endeavours to issue a public statement as soon as possible where the fraudster claims to be a legitimate Jersey based financial services business. Such statements have proven effective in disrupting the fraud. 16 such cases were dealt with in 2011 and frequently result in considerable correspondence from investors around the world who, alerted by the public statement, contact the Commission to report that they have been victims of the scam.

The Commission's capability to collate and develop intelligence has been essential in ensuring that enforcement resources are focussed in the correct manner by adopting an intelligence led approach to regulation. Whilst the volume of intelligence received increased, the number of calls to the whistleblowing telephone line showed a decline, as many whistleblowers preferred to meet with officers of the Commission to explain their concerns.

The Commission's capability to collate and develop intelligence has been essential in ensuring that enforcement resources are focussed in the correct manner by adopting an intelligence led approach to regulation.

In December 2011, the Enforcement Division held a presentation for senior staff of regulated businesses. The aim of the presentation was to provide an overview of the trends and developments identified through dealing with enforcement cases. Following positive feedback from the attendees, the event will be repeated in Q4 of 2012.

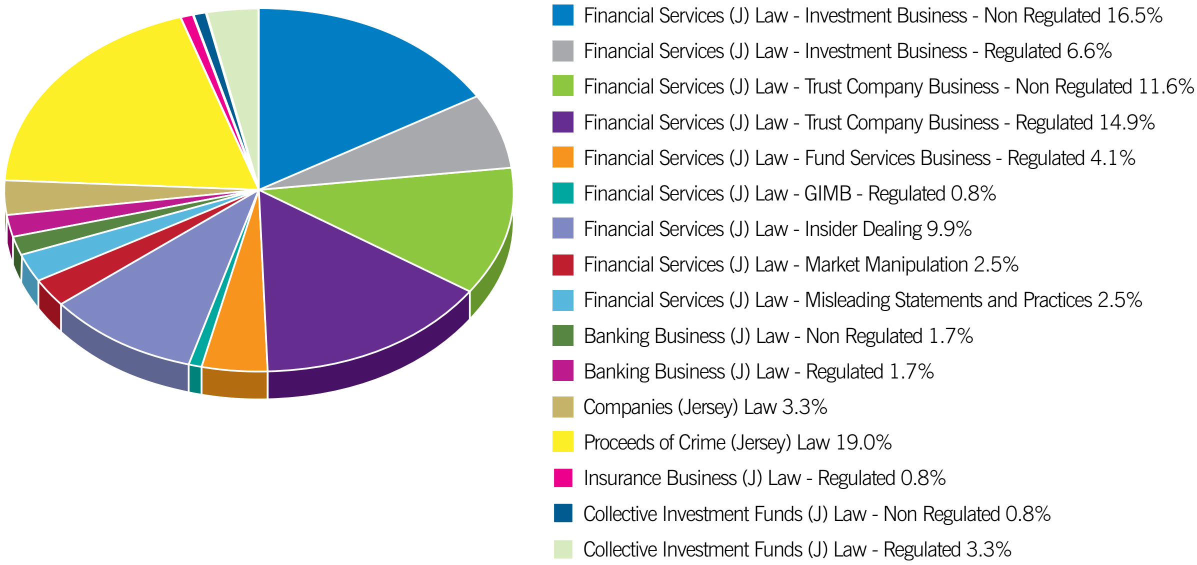
Following, inter alia, comments made in the International Monetary Fund report, the Commission researched and carefully considered the need to obtain powers to impose civil penalties for breaches of the Codes of Practice which set the regulatory standards for regulated businesses. This work culminated in the publication of a consultation paper in April 2012 seeking views on the introduction of a power for the Commission to impose civil penalties for serious, uncorrected or recurring breaches of the Codes of Practice.

KEY TASKS FOR 2012:

- Continue to progress towards obtaining an ability to impose civil penalties for breaches of the Codes of Practice.
- Rigorously investigate cases where individuals seek to avoid regulatory oversight by conducting unauthorised financial services business.
- Hold another seminar in Q4 of 2012 on the subject of the trends and developments arising from enforcement cases.

Enforcement case statistics

Percentage breakdown of Enforcement Division activity during the year ended 2011



Total Enforcement Cases during the period from 1 January to 31 December 2011

Law	Active 1 January 2011	New Cases in Year (to 31/12/2011)	Total during year (to 31/12/11)	Total shown as percentage	Balance 31 December 2011
Financial Services (J) Law - Investment Business - Non Regulated	2	18	20	16.5	4
Financial Services (J) Law - Investment Business - Regulated	2	6	8	6.6	8
Financial Services (J) Law - Trust Company Business - Non Regulated	5	9	14	11.6	3
Financial Services (J) Law - Trust Company Business - Regulated	4	14	18	14.9	3
Financial Services (J) Law - Fund Services Business - Regulated	1	4	5	4.1	4
Financial Services (J) Law - GIMB - Regulated		1	1	0.8	
Financial Services (J) Law - Insider Dealing	1	11	12	9.9	1
Financial Services (J) Law - Market Manipulation		3	3	2.5	
Financial Services (J) Law - Misleading Statements and Practices		3	3	2.5	1
Banking Business (J) Law - Non Regulated		2	2	1.7	
Banking Business (J) Law - Regulated		2	2	1.7	
Companies (Jersey) Law	2	2	4	3.3	1
Proceeds of Crime (Jersey) Law	1	22	23	19.0	1
Insurance Business (J) Law - Regulated	1		1	0.8	1
Collective Investment Funds (J) Law - Non Regulated		1	1	0.8	1
Collective Investment Funds (J) Law - Regulated		4	4	3.3	2
Total	19	102	121	100.0	30

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

Registry

The Registry incorporated 2,520 companies in 2011, an increase of 1.4% compared with the previous year. The increase shows the change in business activity as the global economy progresses slowly out of recession. The number of live companies registered as at the 31 December 2011 was 32,508.

Limited partnership formations during the year were 122 compared to 102 during 2010.

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

The Registry adheres to published response time-scales, all of which were met in 2011, as shown in the table on page 40.

In May 2011, the Registry User Group met and discussed a number of issues such as the quality of service provided by the Registry, online services, and business volumes flowing through the Registry, and new products and fees.

During 2011, there were changes to the Companies (Jersey) Law 1991, in particular an amendment to allow cross-border mergers. In addition, incorporated limited partnerships and separate limited partnerships were introduced through separate legislation. Work also progressed on the amendments to the security interests legislation.

Automation and e-commerce projects

During 2011, the online search facility, online monitoring and the online filing system were enhanced. All systems continued to be embedded in our online environment known as Easy Company Registry (**"ECR"**).

Work on developing an automated Security Interests Register was started with a number of progress demonstrations of the test system being given to Industry during its development.

International Development of the Registry

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

After entering into an information sharing agreement with the European Business Register (**"EBR"**) in 2006, basic Jersey company information was made available through the EBR network from May 2007. The EBR now has a membership of 26 European countries providing access to information on more than 24 million companies. The Director, Registry, attended and spoke at two EBR general meetings, and he is also responsible for presenting the annual budget and audited financial statements to the members. In May 2010, the Director, Registry, was elected for a two year period to the Board and holds the position of vice chair of the EBR.

In May 2011, the Director, Registry, attended and spoke at the International Association of Commercial Administrators (**"IACA"**). IACA represents the company registries of the United States (**"US"**) and Canada. The Director, Registry, was elected as vice chair of the international section of IACA.

During 2011, there were changes to the Companies (Jersey) Law 1991, in particular an amendment to allow cross-border mergers.

The US continues to review its disclosure requirements for the beneficial ownership of US companies and other global issues affecting registries. Canada and the US are regarded as the leading jurisdictions for the administration of secure transactions. With Jersey's new Security Interests Law being developed in 2011, access to expert support has been beneficial.

Jersey continues to promote greater communication between registries globally. Contributions to EBR and the European e-justice initiatives during 2011 have kept initiatives on cross-border migration to the fore, ensuring that the Registry continues to be active internationally.

KEY TASKS FOR 2012:

- Maintain an efficient service to users of the Registry.
- Continue to progress the implementation of the Registry's ECR online environment, and commence work on a "root and branch" review of legislation and systems related to the use of the Registry, which will include business-to-business (B2B) developments.
- Contribute to the development of Registry related legislation, such as amendments to the Security Interests Law and the introduction of Amendments No. 11 and 12 to the Companies (Jersey) Law 1991.
- Continue to monitor relevant European directives and global issues which may have an impact on Jersey and enhance the profile of the Registry internationally.

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

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

ICT

During 2011, the ICT Division continued to work closely on delivering high availability services to the organisation and to external users. ICT has continued to use Microsoft SharePoint to deliver flexible low cost systems for the Commission. Notable additions in 2011 included a new project management system for controlling major projects and a new AML Risk Monitoring System to replace a legacy application. ICT has also designed a new SharePoint based Supervision Platform which will be used to deliver a series of projects for the Supervisory Operations Team over the next two to three years.

Following changes in the Divisional structure, support and development resources have been recruited to underpin the new service focused approach as well as to increase the Commission's internal systems development capabilities. ICT concluded the year with an extensive network and governance audit carried out by a team of external auditors.

HR

The HR Division aims to provide excellence in human resource leadership in order to secure the Commission's aims and objectives. The Division's goal is to attract, retain, develop and nurture high calibre and diverse staff to ensure that the Commission is fully equipped to discharge its responsibilities. The Commission continued to develop its management capability through targeted programmes delivered during 2011. The Commission is seen as an employer of choice and one of the key challenges will be to maintain this position.

Learning and development has continued to be strengthened during 2011, resulting in the Commission being entered for the 2011 Jersey Enterprise awards, specifically for the Skills Jersey Development of People award category. The Commission was successful in its submission and was shortlisted for the award.
The HR Division is committed to helping ensure improvement in the quality of performance, management and development of all Commission staff.

The HR Division is committed to working innovatively and strategically with a strapline of continuous improvement and excellence in order to identify and respond to both the Commission's and the Island's changing needs.

KEY TASKS FOR 2012:

ICT

- Continue with service delivery improvements including a new consolidated helpdesk and change management system. The ICT Division will also complete a programme of changes related to the 2011 security and governance audit.
- Continue to work closely with the Commission's Operations Teams to deliver business led systems and services using the new Supervisory Platform which will be completed in the first half of 2012. The new platform represents a significant investment in the Commission's SharePoint systems and creates a workflow based facility to improve internal processes and provide Industry with a portal through which to interact with the Commission online.
- Support the Registry with the expansion of its "Easy Company Registry" online system as well as providing assistance with the review of all Registry systems due to commence in 2012.

HR

- Produce a Strategic Resource Plan.
- Undertake a Recruitment and Selection Strategic Review.
- Develop relationships with FSA and international bodies.
- Re-accreditation of the Investors in People award.
- Promote regulatory careers.

The Commission continued to develop its management capability through targeted programmes delivered during 2011.

Companies

Registry Processing - performance against target

	All Companies %	Partnerships %	Searches %	Certification %	Business names %
Achieved	98.2	96.6	100	100	99.9
Target	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	90 achieved within 2 days

Registry Processing - items processed

Year	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2009	48,464	8,313	775	94	1,922
2010	57,645	4,518	823	102	2,258
2011	60,801	3,230	837	122	2,286

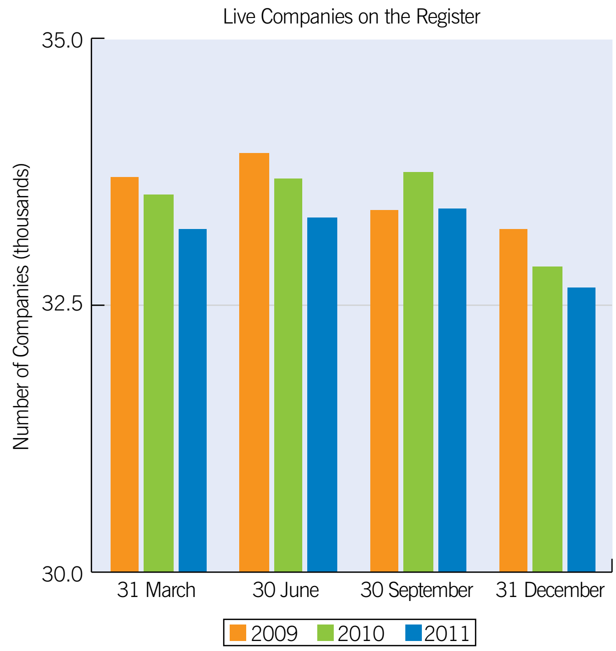
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2009	577	533	628	591	2,329
2010	709	586	605	584	2,484
2011	629	576	640	675	2,520

Live Companies on the Register

At 31 December 2011 (2010) there were 32,508 (32,722) live companies registered in Jersey.

Year	31 March	30 June	30 September	31 December
2009	33,579	33,811	33,187	33,074
2010	33,379	33,570	33,634	32,722
2011	32,998	33,116	33,194	32,508



Insurance Business

Total number of insurance licences = 189 of which:

Category A = 180
Category B = 9

At 31 December 2011 there were 125 registered general insurance mediation businesses.

Funds

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

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2011

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

Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2009	166.156	1,294	2,725
31 December 2010	184.703	1,324	2,522
31 December 2011	189.424	1,392	2,454

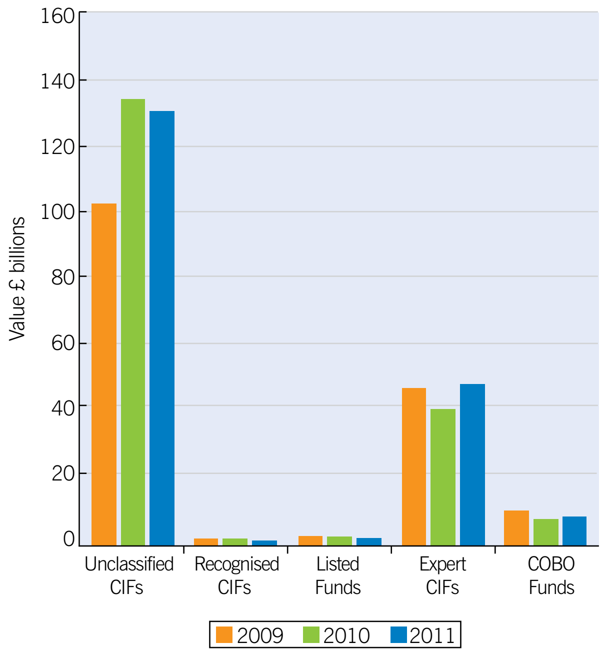
Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	107.738	500	549
CIFs	Open	73.540	708	1,719
	CIF Sub Total:	**181.278**	**1,208**	**2,268**
COBO Funds	Closed	7.231	159	159
COBO Funds	Open	0.915	25	27
	COBO Sub Total:	**8.146**	**184**	**186**
	Total:	**189.424**	**1,392**	**2,454**

Analysis by Class - 31 December 2011

Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	129.359	732	1,539
Recognised CIFs	2.234	10	44
Listed Funds	3.094	23	24
Expert CIFs	46.591	443	661
CIFs Sub Total	**181.278**	**1,208**	**2,268**
COBO Funds	8.146	184	186
Total	**189.424**	**1,392**	**2,454**

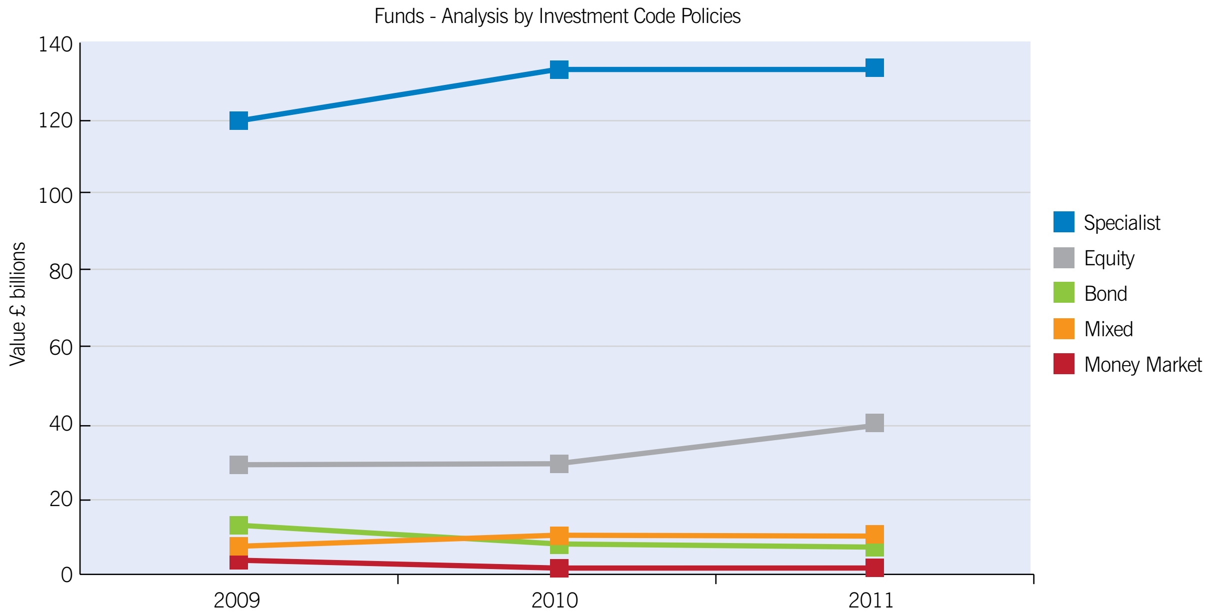
Analysis of funds by classification

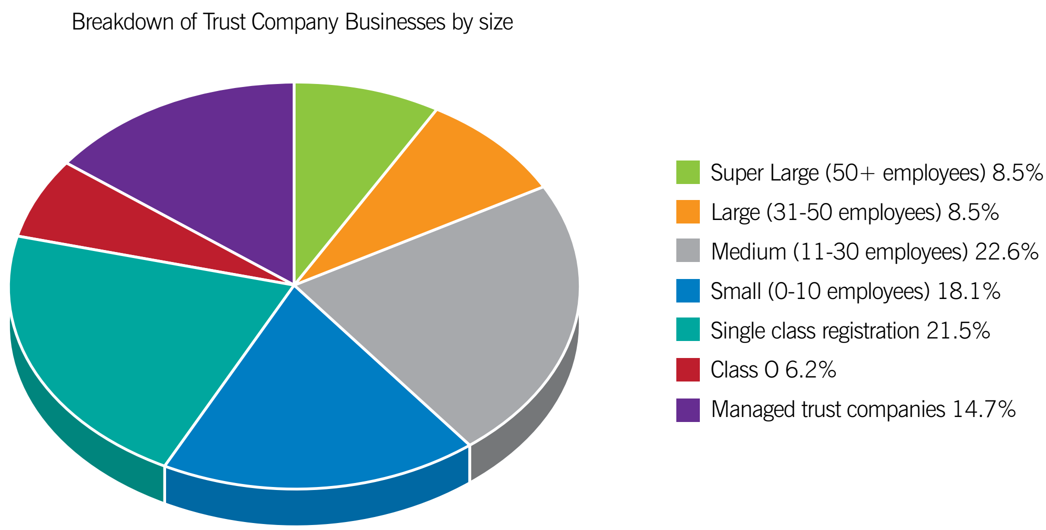


Funds

CIFs & COBO Funds - Analysis by Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	5	23	73	189	1,755
B02 - Bond-UK Debt	4	15	96	66	1,487
B03 - Bond-US Debt	1	6	26	39	837
B04 - Bond-Europe	1	8	18	29	462
B05 - Bond-Other	2	14	29	26	880
Sub Total Bond	**13**	**66**	**242**	**349**	**5,421**
E01 - Equity-UK	12	13	43	37	851
E02 - Equity-Europe (Including UK)	24	8	461	293	20,353
E03 - Equity-Europe (Excluding (UK)	12	2	116	28	1,461
E04 - Equity-US (North America)	8	10	74	33	1,541
E05 - Equity-Japan	2	0	1	15	8
E06 - Equity-Far East (Including Japan)	5	4	7	38	1,056
E07 - Equity-Far East (Excluding Japan)	2	3	1	2	30
E08 - Equity-Global Emerging Markets	7	11	157	10	974
E09 - Equity-Global Equity	22	109	447	829	8,867
E10 - Equity-Other	56	54	118	194	6,155
Sub Total Equity	**150**	**214**	**1,425**	**1,479**	**41,296**
X01 - Mixed-Mixed Equity and Bond	34	199	387	269	9,331
Sub Total Mixed	**34**	**199**	**387**	**269**	**9,331**
M01 - Money Market-Sterling	1	7	124	77	193
M02 - Money Market-US Dollar	0	10	12	80	161
M03 - Money Market-Euro	0	8	6	40	249
M04 - Money Market-Swiss	0	1	7	36	37
M05 - Money Market-Other	1	6	0	1	33
Sub Total Money Market	**2**	**32**	**149**	**234**	**673**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	47	0	665	535	5,268
S02 - Specialist-Venture Capital/Private Equity - Other	259	2	1,899	3,442	33,439
S03 - Specialist-Real Property	163	41	332	275	23,370
S04 - Specialist-Derivatives	6	8	7	41	108
S05 - Specialist-Traded Endowment Policies	12	23	209	193	1,495
S06 - Specialist-Hedge/Alternative Investment Funds	415	479	3,313	4,063	48,919
S07 - Specialist-Other	88	201	2,637	2,620	20,104
Sub Total Specialist	**990**	**754**	**9,062**	**11,169**	**132,703**
Grand Total	**1,189**	**1,265**	**11,265**	**13,500**	**189,425**


Funds - Analysis by Investment Code Policies
Value £ billions
140
120
100
80
60
40
20
0
2009
2010
2011
Specialist
Equity
Bond
Mixed
Money Market

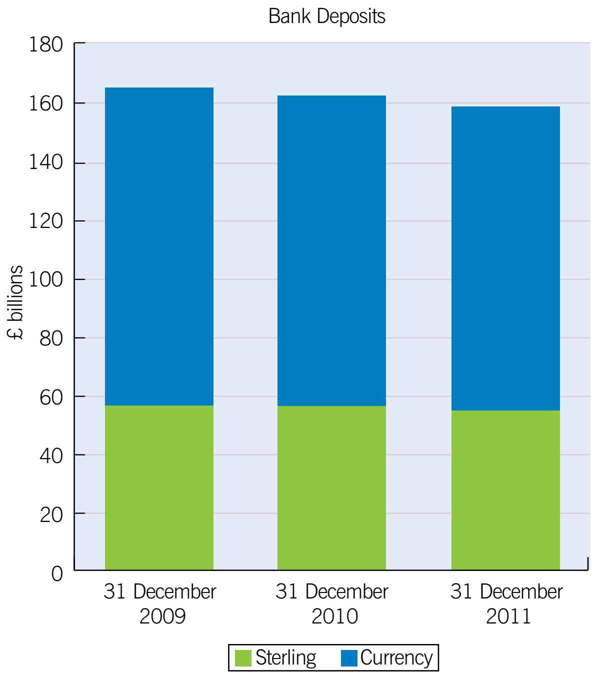

Breakdown of Trust Company Businesses by size
Super Large (50+ employees) 8.5%
Large (31-50 employees) 8.5%
Medium (11-30 employees) 22.6%
Small (0-10 employees) 18.1%
Single class registration 21.5%
Class O 6.2%
Managed trust companies 14.7%

Banking

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

Banks and Bank Deposits - £ billions

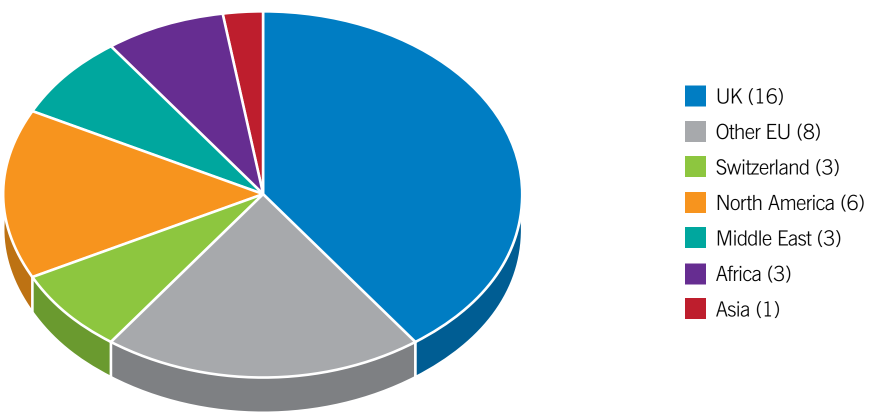
Date	Number of banks	Sterling	Currency	Total
31 March 2009	46	63.025	132.885	195.910
30 June 2009	45	59.520	114.692	174.212
30 September 2009	47	57.379	113.219	170.599
31 December 2009	47	57.471	107.749	165.220
31 March 2010	46	58.955	118.648	177.603
30 June 2010	46	57.474	109.411	166.885
30 September 2010	45	57.089	110.066	167.155
31 December 2010	45	56.376	105.217	161.593
31 March 2011	39	55.979	110.511	166.490
30 June 2011	39	54.468	110.551	165.019
30 September 2011	39	55.909	111.386	167.295
31 December 2011	**40**	**54.276**	**103.812**	**158.088**



Analysis of Bank Deposits - 31 December 2011 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	9.684	6.411	16.095
Jersey Financial Intermediaries etc	4.737	6.024	10.761
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	23.438	21.167	44.605
Subtotal	**37.859**	**33.602**	**71.461**
Other EU Members	2.656	11.122	13.778
European Non EU Members	3.369	25.888	29.257
Middle East	1.599	18.909	20.508
Far East	2.147	4.255	6.401
North America	2.135	4.348	6.483
Others, Unallocated non Jersey, UK etc	4.511	5.688	10.200
Subtotal	**16.417**	**70.210**	**86.627**
Overall total of deposits	**54.276**	**103.812**	**158.088**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	6.1%	4.1%	10.2%
Jersey Financial Intermediaries etc	3.0%	3.8%	6.8%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	14.8%	13.4%	28.2%
Subtotal	**23.9%**	**21.3%**	**45.2%**
Other EU Members	1.7%	7.0%	8.7%
European Non EU Members	2.1%	16.4%	18.5%
Middle East	1.0%	12.0%	13.0%
Far East	1.4%	2.7%	4.0%
North America	2.9%	2.8%	4.1%
Others, Unallocated non Jersey, UK etc	2.9%	3.6%	6.5%
Subtotal	**10.4%**	**44.4%**	**54.8%**
Overall total of deposits	**34.3%**	**65.7%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2011



Assets of Banks

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

Activity	2006	2007	2008	2009	2010	2011
All Loans	**231,476**	**276,509**	**301,013**	**221,370**	**197,664**	**193,381**
Jersey Banks	74,066	87,726	93,264	79,155	82,402	82,877
Jersey Branches	157,410	188,783	207,749	142,215	115,262	110,504
of which:						
1.1 Funding of group companies	204,868	241,472	260,767	188,368	164,613	159,180
Jersey Banks	53,779	60,518	63,662	53,185	56,166	55,859
Jersey Branches	151,089	180,954	197,105	135,183	108,447	103,321
of which intra-Jersey is:	2,538	3,626	3,712	3,790	5,178	5,386
1.2 Other Loans	26,608	35,037	40,246	33,002	33,051	34,201
Jersey Banks	20,287	27,208	29,602	25,970	26,236	27,018
Jersey Branches	6,321	7,829	10,644	7,032	6,815	7,183
of which:						
1.2.1 Interbank loans			5,666	3,545	3,116	4,321
Jersey Banks			2,794	3,473	2,974	4,199
Jersey Branches			2,872	72	142	122
1.2.2 Customer Loans			34,581	29,457	29,936	29,879
Jersey Banks			26,808	22,497	23,263	22,819
Jersey Branches			7,773	6,960	6,673	7,060
of which:						
1.2.2.1 Retail Loans			7,624	5,737	4,409	4,474
Jersey Banks			4,600	3,478	2,442	2,350
Jersey Branches			3,024	2,259	1,967	2,124
1.2.2.2 Residential Mortgages			6,538	6,575	6,448	6,881
Jersey Banks			4,057	4,174	3,879	4,062
Jersey Branches			2,481	2,401	2,569	2,819
1.2.2.3 Commercial loans			20,419	17,145	19,079	18,524
Jersey Banks			18,151	14,845	16,942	16,407
Jersey Branches			2,268	2,300	2,137	2,117
All investments	**19,050**	**14,074**	**12,115**	**9,562**	**11,871**	**11,594**
Jersey Banks	4,448	4,571	7,095	7,523	8,209	9,682
Jersey Branches	14,602	9,503	5,020	2,039	3,662	1,912
All other assets	**26,278**	**27,254**	**5,961**	**19,979**	**31,558**	**28,134**
Jersey Banks	2,661	4,608	3,250	2,912	3,119	3,695
Jersey Branches	23,617	22,646	2,711	17,067	28,439	24,439
Balance Sheet Total	**276,804**	**317,837**	**319,089**	**250,911**	**241,093**	**233,109**
Jersey Banks	81,175	96,905	103,609	89,590	93,730	96,254
Jersey Branches	195,629	220,932	215,480	161,321	147,363	136,855
Risk Weighted Assets (Jersey Banks only)	**29,100**	**35,907**	**47,910**	**41,626**	**43,222**	**49,974**

2011 Commentary

The balance sheet total declined by 3.3% (£8.0 billion), with the largest movement being a £5.4billion decrease in funding of group companies, driven by reduced surplus deposits. Other assets decreased by £3.4 billion, principally as a result of falling levels of hedging transactions, much of which related to issued debt. Partly offsetting these movements, non-group interbank loans increased by £1.2 billion, reflecting increases in short term cash placements. Customer lending decreased marginally, within which a small shift was seen from commercial loans (down £0.6 billion) to residential mortgages (up £0.4billion).

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

Funding of Banks

Totals and sub-totals for registered deposit takers, split between those that are incorporated in Jersey (**"Jersey Banks"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Jersey Branches"**). All values are in £ millions.

Activity	2006	2007	2008	2009	2010	2011
All Deposits	**192,235**	**215,946**	**209,792**	**169,010**	**166,771**	**163,474**
Jersey Banks	73,370	87,884	87,998	78,114	80,665	82,256
Jersey Branches	118,865	128,062	121,794	90,896	86,106	81,218
of which:						
1.1 Customer Deposits			120,603	106,801	109,816	111,980
Jersey Banks			83,007	73,607	74,978	77,106
Jersey Branches			37,596	33,194	34,838	34,874
1.2 Bank Deposits			89,189	62,209	56,955	51,494
Jersey Banks			4,991	4,507	5,688	5,150
Jersey Branches			84,198	57,702	51,267	46,344
of which intra-Jersey is:	2,538	3,626	3,712	3,790	5,178	5,386
All senior debt issued	**77,382**	**93,027**	**87,072**	**63,528**	**54,089**	**50,815**
Jersey Banks	1,474	1,624	5,084	2,270	2,779	2,839
Jersey Branches	75,908	91,403	81,988	61,258	51,310	47,976
All other liabilities and equity	**7,187**	**8,864**	**22,226**	**18,374**	**20,234**	**18,820**
Jersey Banks	6,331	7,396	10,526	9,207	10,287	11,159
Jersey Branches	856	1,468	11,700	9,167	9,947	7,661
Balance Sheet Total	**276,804**	**317,837**	**319,089**	**250,911**	**241,093**	**233,109**
Jersey Banks	81,175	96,905	103,609	89,590	93,730	96,254
Jersey Branches	195,629	220,932	215,480	161,321	147,363	136,855
Regulatory Capital (Jersey Banks only)	**4,689**	**5,244**	**6,634**	**6,325**	**6,617**	**7,280**
Capital and Reserves (Jersey Banks only)	**3,918**	**4,526**	**5,561**	**5,373**	**5,569**	**6,222**

2011 Commentary

The balance sheet total declined by 3.3% (£8.0 billion), with the largest movement being a reduction in deposits from banks (£5.5 billion), partly offset by an increase in customer deposits (£2.2 billion). Issued debt declined by £3.3 billion and other liabilities and equity declined by £1.4 billion. However, within the latter, regulatory capital increased by £0.4 billion, due to a mixture of retained profits and share issues.

Key trends and profitability of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010	2011
Trend in Balance Sheet Total		+19.4%	+6.9%	-13.5%	+4.6%	+2.7%
Trend in Customer Loans				-16.1%	+3.4%	-1.9%
Trend in Customer Deposits				-11.3%	+1.9%	+2.8%
Trend in Regulatory Capital		+11.8%	+26.5%	-4.7%	+4.6%	+10.0%
Net Interest Income ("NII")	1,019	1,253	1,653	1,338	1,183	1,229
		+23.0%	+31.9%	-19.1%	-11.6%	+3.9%
Total Income	1,591	1,938	2,630	2,294	2,084	2,222
		+21.8%	+35.7%	-12.8%	-9.2%	+6.6%
Operating Expenses	789	903	1,183	1,088	1,118	1,126
		+14.4%	+31.0%	-8.0%	+2.8%	+0.7%
Bad Debt Provisions	33	51	194	793	355	202
		+54.5%	+280.4%	+308.8%	-55.2%	-43.1%
Profit Before Tax	769	984	1,253	413	611	894
		+28.0%	+27.3%	-67.0%	+47.9%	+46.3%

2011 Commentary

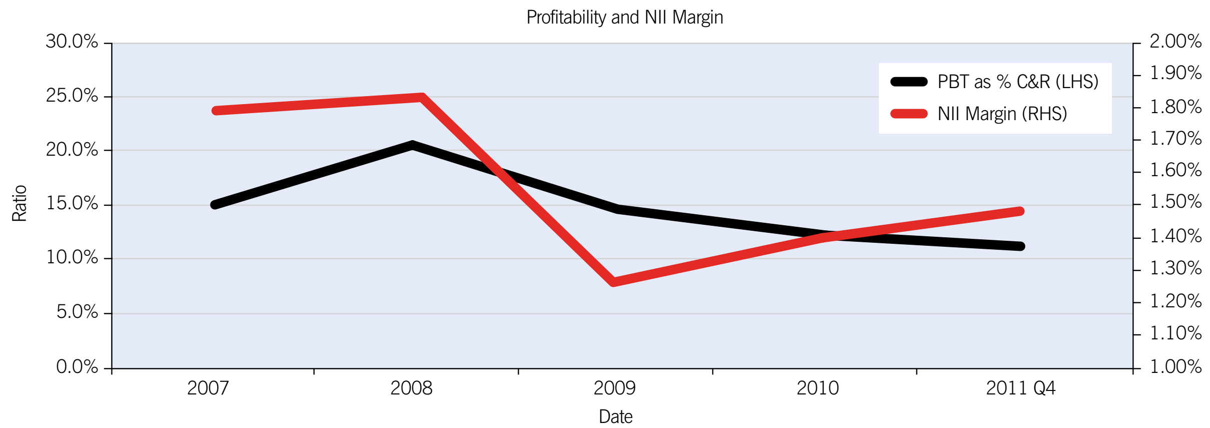
2011 saw modest growth continue, although customer lending declined. Net interest income has stabilised, with a small increase in volumes offsetting the continued decline in margins, which remain impacted by the low interest rate environment. Profitability has continued to improve due to a reduction in the rate of new provisions for bad debt.

Key performance indicators of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010	2011
Profit before tax ("PBT" as percentage of total assets		1.11%	1.25%	0.43%	0.67%	0.93%
PBT as percentage of capital and reserves ("C&R")		23.3%	24.8%	7.6%	11.2%	14.4%
PBT as percentage of regulatory capital		19.8%	21.1%	6.4%	9.4%	12.3%
NII margin (i.e. as a percentage of total assets)		1.41%	1.65%	1.39%	1.29%	1.27%
Cost/Income ratio (Operating Expenses as a percentage of Total Income)	49.6%	46.6%	45.0%	47.4%	53.6%	50.7%

2011 Commentary

Profitability rebounded in 2011, although profitability ratios remain below pre-crisis levels. Despite a further small drop in the NII margin, an increase in other income, coupled with stable operating expenses, have led to a decrease in the Cost/Income ratio.

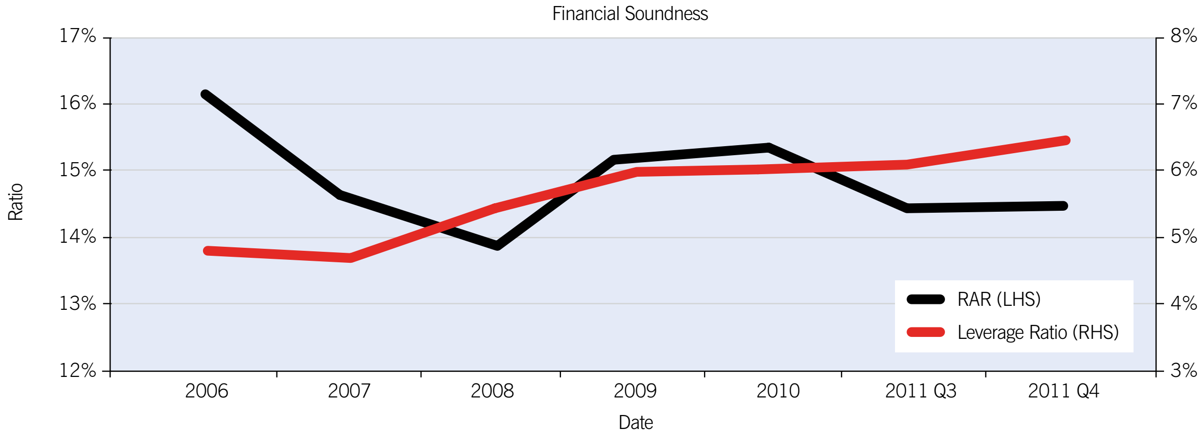


Key risk ratios of Banks that are incorporated in Jersey

	2006	2007	2008	2009	2010	2011
Regulatory capital as percentage of risk weighted assets ("RAR")	16.1%	14.6%	13.8%	15.2%	15.3%	14.6%
Capital and Reserves as percentage of total assets ("leverage ratio")	4.8%	4.7%	5.4%	6.0%	5.9%	6.5%
Non-performing loans ("NPLs", i.e. all loans considered to be impaired, to any extent)			258	869	1,517	1,581
NPLs as % of Customer Loans			1.0%	3.9%	6.5%	6.9%
Provisions			245	797	982	1,053
Provisions as % of NPLs			95.0%	91.7%	64.7%	66.6%
Interest rate risk ("IRR", impact of 200 bp adverse move)				199	257	235
IRR as % of regulatory capital				3.1%	3.9%	3.2%
FX Risk (Aggregate net open Foreign Exchange position)				502	716	1,004
FX Risk as % of regulatory capital				7.9%	10.8%	13.8%

2011 Commentary

Non performing loans and provisions increased and now exceed end 2010 numbers. The leverage ratio increased due to a combination of a shrinking balance sheet and capital and reserves increases. The improvement in the RAR was smaller, as risk weighted assets increased, despite the decline in the balance sheet total, due mainly to risk weights being increased to reflect credit rating downgrades impacting exposures arising from upstreaming.



Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998) = £20.8 billion.

The total number of clients of investment managers = 14,381

Date	Funds under management (£ billions)	Number of clients
31 December 2009	19.686	14,765
31 December 2010	21.394	14,736
31 December 2011	20.802	14,381

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

FINANCIAL STATEMENTS

Fee income in 2011 was £12.45 million compared to £12.33 million in 2010. Partly as a result of the international economic conditions, levels of income from banking and funds declined during 2011, but this reduction was offset by the first receipt of a full year's fees from designated non financial businesses and professions.

Bank deposit interest received in 2011 was £63,000, which was £26,000 higher than in the previous year. This was due to the conversion of some deposits to longer fixed terms, attracting higher interest rates.

Other income received in 2010 came from the seminars for the finance industry that were held during the year. The cost of these seminars was included in other operating expenses. No such seminars were held in 2011.

The Commission's major item of expenditure is staff costs. As in previous years the Commission has been increasing staff numbers only when absolutely necessary. During 2011 the average number of staff employed increased from 114 to 115. An analysis of this expenditure is contained in note 5 to the financial statements.

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

The net amount spent on investigations and litigation during the year decreased to £398,000 from £522,000 a year earlier. The decrease arose mainly because the Commission was able to recover a proportion of costs from the regulated businesses that had been under investigation, something that was not achievable in 2010. The Commission has continued its efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Expenditure on business travel remained constant during 2011. Visits were made regularly to overseas regulatory authorities and to international standard-setting organisations because it is important to maintain regular liaison and information exchange with these international bodies. This will continue in the coming years.

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

Overall, the level of operating expenses increased by only £18,000, from £11.86 million in 2010 to £11.88 million in 2011. The net result for the year was an operational surplus of £637,000 and a consequent rise in reserves to £7.1 million. The Commission has continued its policy in respect of its accumulated reserve in order to build up such a reserve to an amount equal to six months' operating expenditure plus the average of the last five years' cost of investigations and litigation. This is in order to meet contingencies, particularly the sizeable sums of money that may be required to fund investigations and litigation.

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

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

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

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

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

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

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

For and on behalf of the Board of Commissioners
C F Renault
Commission Secretary
1 June 2012

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

We have audited the financial statements of the Jersey Financial Services Commission (the **"Commission"**) for the year ended 31 December 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Commissioners and Auditors

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Annual Report to identify any material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Commission's affairs as at 31 December 2011 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Norwich,
United Kingdom

1 June 2012

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Regulatory Income:					
Regulatory fees	4 (a)		9,953		9,844
Registry fees	4 (b)		2,497		2,487
Total regulatory income			12,450		12,331
Other income:					
Bank deposit interest received		63		37	
Other income		-		100	
			63		137
Total income			12,513		12,468
Operating expenses:					
Salaries, fees, social security and pension contributions	5	8,612		8,273	
Operating lease expenditure		469		466	
Other premises costs		300		293	
Computer systems costs		623		544	
Legal and professional services		174		244	
Investigations and litigation	6	398		522	
Public relations costs		12		19	
Travel costs		223		223	
Staff training		199		228	
Recruitment costs		79		79	
Other operating expenses		292		330	
Auditors' remuneration		15		15	
Depreciation of tangible fixed assets	7	472		617	
Loss on disposal of tangible fixed assets	7	8		5	
Total operating expenses			11,876		11,858
Excess of income over expenditure			637		610
Accumulated reserve brought forward			6,496		5,886
Accumulated reserve carried forward			7,133		6,496

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

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

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

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

	Note	£000	2011 £000	£000	2010 £000
Fixed Assets:					
Tangible assets	7		542		785
Current Assets:					
Fee income receivable		23		12	
Sundry debtors		91		63	
Prepayments		317		438	
Cash at bank and in hand	8	10,897		9,752	
		11,328		10,265	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	3,825		3,951	
Sundry creditors	9	912		603	
		4,737		4,554	
Net Current Assets			6,591		5,711
Total Assets less Current Liabilities			7,133		6,496
Represented by:					
Accumulated reserve			7,133		6,496

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

The financial statements on pages 55 to 63 were approved by the Board of Commissioners, and signed on their behalf on 1 June 2012 by:

C S Jones
Chairman

J R Harris
Director General

		2011		2010
	£000	£000	£000	£000
Reconciliation of net income to net cash inflow from operating activities				
Net income for the year		637		610
Interest received		(63)		(37)
Depreciation charges		472		617
Loss on sale of tangible fixed assets		8		5
Decrease/(Increase) in debtors and prepayments		82		(202)
Increase in creditors		183		83
Net cash inflow from operating activities		1,319		1,076
Cash Flow Statement				
Net cash inflow from operating activities		1,319		1,076
Returns on investments and servicing of finance				
Interest received		63		37
Capital expenditure				
Payments to acquire tangible fixed assets		(237)		(286)
Increase in cash		1,145		827
Reconciliation of net cash flow to movement in net funds				
Increase in cash in the year		1,145		827
Net funds at 1 January		9,752		8,925
Net funds at 31 December		10,897		9,752

1. Accounting policies

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

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

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

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

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

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

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

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

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

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

2. Related party transactions

Whilst there are transactions on an arm's length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions.

3. Taxation

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

4. Income

a) Regulatory fees

	2011 £000	2010 £000
Banking	1,303	1,351
Funds	3,428	3,511
Insurance companies	784	744
General insurance mediation	95	106
Investment business	1,288	1,301
Trust companies	2,528	2,552
Designated not for profit businesses	497	249
Recognised auditors	20	19
Money services business	10	11
	9,953	9,844

b) Registry fees

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

Registry fees include annual return fees.
The amount of the annual return fee payable to the Registry comprises two elements - an amount (£35) payable to the Registry to cover its administration costs and an additional amount (£115) set by, collected on behalf of, and payable to, the States of Jersey. The number of annual returns received during the year was 31,919 (2010 - 32,149).

	2011 £000	2010 £000
Total annual return fee income	4,788	4,822
Less collected on behalf of, and payable to, the States of Jersey	3,671	3,697
Retained by the Registry	1,117	1,125
Other Registry income	1,380	1,362
Total Registry income	2,497	2,487

c) Regulatory fees received in advance

	2011 £000	2010 £000
Banking	1,354	1,418
Funds	1,483	1,548
Insurance companies	554	529
General insurance mediation	10	4
Investment business	420	424
Trust companies	-	28
Designated not for profit businesses	2	-
Money services business	2	-
	3,825	3,951

5. Salaries, fees, social security and pension contributions

	2011	2010
	£000	£000
Staff salaries	**7,116**	6,962
Commissioners' fees (note 13)	**245**	218
Social security payments	**298**	290
Pension contributions	**610**	586
Permanent health and medical insurance	**167**	157
Other staff-related costs*	**176**	60
	8,612	8,273

* During 2011 the Commission made an additional payment of £95,000 to the JFSC Staff Pension Scheme in respect of dealing and administrative costs.

The average number of staff employed during the year was 115 (2010 - 114).

6. Investigation and litigation costs

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

In a few cases, some or all of the Commission's costs may be recoverable although not necessarily in the same financial year as the expenditure. In such cases the recovery is recognised when received. Costs incurred in 2011 amounted to £477,000 (2010 - £522,000), against which there were recoveries of £79,000 (2010 - £nil). Net costs incurred during 2011 therefore amounted to £398,000 (2010 - £522,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	**Computer Equipment**	**Computer Systems under construction**	**Total**
	£000	**£000**	**£000**	**£000**
Cost of assets at 1 January 2011	**590**	**2,454**	**25**	**3,069**
Additions during year	**5**	**46**	**186**	**237**
Systems completed during year	**-**	**133**	**(133)**	**-**
Disposals during year	**-**	**(171)**	**-**	**(171)**
Cost at 31 December 2011	**595**	**2,462**	**78**	**3,135**
Depreciation at 1 January 2011	**377**	**1,907**	**-**	**2,284**
Charged during year	**116**	**356**	**-**	**472**
Eliminated on disposals	**-**	**(163)**	**-**	**(163)**
Depreciation at 31 December 2011	**493**	**2,100**	**-**	**2,593**
Net book value at 31 December 2011	**102**	**362**	**78**	**542**
Net book value at 31 December 2010	**213**	**547**	**25**	**785**

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

8. Financial instruments

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

9. Sundry creditors

	2011	2010
	£000	£000
General expense creditors	**522**	311
Accruals	**390**	292
	912	603

General expense creditors include pension contributions of £82,000 (2010 - £80,000) still to be remitted to the schemes at the balance sheet date.

Accruals contain an amount of £152,000 (2010 - £167,000) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

10. Contingent liabilities

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

11. Financial commitments

The Commission has entered into an agreement through JFSC Property Holdings No.1 Limited (note 12) to lease premises for the Commission's occupation.

	2011	2010
	£000	£000
The annual rentals payable under this operating lease are:		
For a period of more than five years	**490**	490

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

12. Interest in wholly-owned companies

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

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

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

13. Commissioners' remuneration

		2011 £	2010 £
Fees paid to Commissioners were as follows:			
Clive Jones	(Chairman)	**48,000**	47,000
John Averty	(Deputy Chairman - appointed 1 June 2010)	**27,000**	22,500
Jacqueline Richomme	(retired as Deputy Chairman 31 May 2010)	**n/a**	10,417
Lord Eatwell of Stratton St. Margaret	(appointed 22 April 2010)	**30,000**	20,139
John Harris		**nil**	nil
John Mills		**20,000**	19,000
Frederik Musch	(retired 31 May 2010)	**n/a**	12,083
Deborah Prosser		**20,000**	19,000
Markus Ruetimann	(appointed 14 September 2010)	**30,000**	8,680
Philip Taylor		**20,000**	19,000
Cyril Whelan	(appointed 1 June 2010)	**20,000**	11,083
Sir Nigel Wicks		**30,000**	29,000

John Harris is the Director General of the Commission. During the year he was paid no fees as a Commissioner, but received total remuneration of £274,000 for the year (2010 - £272,000) in his capacity as Director General.

14. Pension costs

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

Salaries and emoluments include pension contributions for staff to this scheme amounting to £67,000 (2010 - £80,000). The decrease is due to staff retirement. The Commission has adopted Financial Reporting Standard 17 "Retirement Benefits" (**"FRS17"**). Because the Commission is unable to readily identify its share of the underlying assets and liabilities of PECRS under FRS 17, contributions to the scheme have been accounted for as if they are contributions to a defined contribution scheme.

The contribution rate paid by the Commission during the year was 13.6% of salary, and this rate is expected to continue to be payable during 2012.

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

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

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

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

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

Salaries and emoluments include pension contributions for staff to this scheme amounting to £543,000 (2010 - £506,000). The increase is due to rising membership numbers.

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

Introduction

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

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

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

Constitution of the Commission

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

Functions of the Commission

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

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

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

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

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

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

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

Constitution of the Board

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

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

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

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

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

(c) individuals representing the public interest.

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

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

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

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

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

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

Operation of the Board

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

During 2011 the Board of Commissioners met ten times. Attendance was as follows:

Clive Jones	10/10
John Averty	10/10
John Harris	10/10
Lord Eatwell	7/10
John Mills, CBE	10/10
Advocate Debbie Prosser	9/10
Markus Ruetimann	10/10
Philip Taylor	10/10
Crown Advocate Cyril Whelan	10/10
Sir Nigel Wicks	10/10

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

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

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

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

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

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

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

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

The Board monitored key risks during 2011 in compliance with the guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Board maintains a Risk Schedule that identifies the risks faced by the Commission and the controls that are in place to keep each risk within an acceptable level. The Board reviews this Schedule at least once a year to ensure that it continues to reflect the perceived risks. Regular reports are submitted to the Board on any change to risk that is captured in the Risk Schedule, to enable it to ensure that appropriate controls remain in place.

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

There were no Board appointments or retirements during 2011. However, on 5 February 2012, Philip Taylor resigned as a Commissioner. Ian Wright was appointed by the States on 17 April 2012 to fill the vacancy created by the resignation of Philip Taylor.

The Institute of Directors led the second independent evaluation of the performance of the Board, its Committees, and individual Commissioners, the results of which were presented at the annual Away Day held in September 2011.

Committees of the Board

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

Audit Committee

The key duties of the Audit Committee are:

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

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

The members of the Audit Committee during 2011 were John Averty (Chairman), Sir Nigel Wicks, and Philip Taylor. The Audit Committee met three times during 2011.

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

Nomination Committee

The key duties of the Nomination Committee are:

- to review the structure, size and composition (including the skills, knowledge and experience) required of the Board[1] and give full consideration to succession planning for Commissioners and the Director General in the course of its work, taking into account the challenges and opportunities facing the Commission, and what skills and expertise are therefore needed on the Board in the future; and
- to be responsible for identifying, and recommending to the Board, candidates to fill Board vacancies as and when they arise.

All members of the Board of Commissioners are members of the Nomination Committee. Whilst the Nomination Committee did not formally meet during 2011, all of its duties were effectively carried out by the Board.

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

Remuneration Committee

The key duties of the Remuneration Committee are to keep under review and, if appropriate, review all aspects of the Commission's pay and reward strategy and arrangements (including those in respect of performance management, recruitment and retention), and procedures and practice pertaining thereto. In particular, the Remuneration Committee shall:

- propose the remuneration of the Director General to the Board;
- review and approve annually the basis of the Commission's remuneration approach, having regard to any independent analysis of remuneration in relevant markets in Jersey that may be available and to other information and factors including, but not limited to, the Commission's overall financial position and the employment and remuneration position in Jersey generally;
- agree, having received the recommendations of the Director General, Directors' remuneration and monitor the level and structure of remuneration for Deputy Directors and make any recommendations accordingly;
- consider and agree any variations to the structure of the remuneration package that may be proposed from time to time;

[1] Including the requirements of the Commission Law relating to the composition of the Board.

- consider and/or commission any relevant reports in relation to its remit and report on or advise on such reports as may be required or commission, such reports. For the purpose of this provision a "relevant report" shall not be restricted to remuneration but may involve consideration of recruitment and retention of staff or other human resources issues generally; and
- Monitor that the arrangements for the annual remuneration review of the non-executive Commissioners, for which the Director General has administrative responsibility are effective.

The members of the Remuneration Committee during 2011 were Debbie Prosser (Chairman), Clive Jones, and John Mills. The Remuneration Committee met five times during 2011. The Remuneration Committee's full Terms of Reference can be obtained from the Commission's website.

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

Accountability Arrangements

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

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

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

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

Whilst the Commission does not have any shareholders, the Board has taken steps to understand the views of the Commission's major stakeholders by holding annual meetings with senior Government Ministers and bi-annual meetings with Jersey Finance Limited and representatives of other Industry bodies. The Executive also meets with Government Ministers and Officers, and representatives of Jersey Finance Limited and other Industry bodies, on a regular basis. The Commission held a second Industry Survey in March 2012, which will be reported upon in early course, together with a programme of improvements arising from that process.

NOTES

Jersey Financial Services Commission

www.jerseyfsc.org