Annual Report | 2007

Jersey Financial Services Commission

CONTENTS

‘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 over 89,000 and enjoys a reputation as a well-regulated international finance centre.

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

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

Jersey has a ministerial system of government comprising a Council of Ministers led by a Chief Minister. Each Minister oversees the work of a Government Department. 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 Island's reputation and integrity in commercial and financial matters;
- safeguarding the Island's best economic interests; 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, insurance regulation, 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 accountable to the Minister for Economic Development as prescribed in the Commission Law.

Non-Executive Commissioners

Colin Powell, CBE - Chairman

Colin Powell became Chairman of the Jersey Financial Services Commission in October 1999.

He has been Chairman of the Offshore Group of Banking Supervisors (**"OGBS"**) since 1981 and represents the OGBS at meetings of the Financial Action Task Force.

He is currently co-chair of the Basel Committee Cross-Border Banking Working Group and an advisor on international affairs to the States of Jersey's Policy and Resources Committee.

Before taking up his present position, he had posts as Economic Adviser and Chief Adviser to the States of Jersey between 1969 and 1999 and was responsible for advising on Jersey's economic development strategy, including its development as an international finance centre.

Richard Pirouet - Deputy Chairman (until May 2007)

Richard Pirouet was born in Jersey and was educated at Victoria College. He was a Commissioner from the inception of the Jersey Financial Services Commission in July 1998 and was Deputy Chairman until his retirement.

He qualified as a chartered accountant in 1969 and was appointed a partner of one of the predecessor firms of Ernst & Young in 1974. He became Managing Partner of Ernst & Young in 1991 and Senior Partner from 1994 until his retirement from the firm on 31 March 1998.

Richard retired from the Board of Commissioners in May 2007, having served three terms, and was replaced as Deputy Chairman by Jacqueline Richomme.

Jacqueline Richomme - Deputy Chairman (from June 2007)

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

She studied law at the University of Durham and then at the College of Law, Chester and qualified as an English Solicitor in 1982. She joined the Jersey law firm, Mourant du Feu & Jeune, in 1985 and subsequently qualified as a solicitor of the Royal Court of Jersey in 1988, becoming a partner of Mourant du Feu & Jeune shortly thereafter.

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

John Averty

John Averty joined the Board of Commissioners in December 2005.

He was born in Jersey and educated at Victoria College.

John is the Chairman and Chief Executive of the Guiton Group Ltd. The group publishes daily and weekly newspapers in the Channel Islands. It also has divisions with technology, and retail/wholesale interests.

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

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

John Boothman

John Boothman joined the Board of Commissioners in June 2006.

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

John retired from the bank in 2002 and is now the non-executive chairman of a private equity fund administration company; he also holds various other non-executive directorships.

Michael Clapham

Michael Clapham was educated at Victoria College, Jersey and Wadham College Oxford. He has an M.A. in English.

He qualified as an Advocate of the Royal Court of Jersey in 1966.

He was Senior Partner of a long-established Jersey law firm for many years, which merged with another firm in 1995 to become the legal, fiduciary and corporate services group of Ogier & Le Masurier. He retired from the partnership in 2001 but remains with the firm as a consultant.

Michael was President of the Law Society of Jersey from 1997 to 2001 and was first appointed as a Commissioner on 1 December 2002.

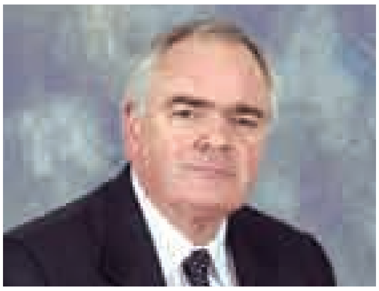
Non-Executive Commissioners

Scott Dobbie, CBE

Scott Dobbie has over thirty years' experience in stockbroking and investment banking and remains a senior advisor to Deutsche Bank. He was appointed as a Commissioner on 1 December 1999.

He was a Director of the United Kingdom's Securities and Futures Authority from 1993 to 2001, and served as a member of the Regulatory Decisions Committee of the UK Financial Services Authority from 2001 to 2005.

He is also Chairman of the Securities & Investment Institute, The Edinburgh Investment Trust plc and Standard Life European Private Equity Trust plc and a Director of Premier Oil plc and other companies.



Clive Jones

Clive Jones joined the Board of Commissioners on 23 October 2007. Clive is currently a company director, having retired in June 2007 from a career in international banking spanning 36 years.

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

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

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

Frederik Musch

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

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

He is currently Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers and was appointed as a Commissioner on 18 July 2001.

Sir Nigel Wicks

Sir Nigel Wicks is currently the Chairman of Euroclear, having previously been the non-executive Deputy Chairman. He was a member of the British Civil Service for 32 years. He held the position of Second Permanent Secretary and Director of International Finance at HM Treasury from 1989 to 2000. He has held senior positions in the offices of British Prime Ministers, Harold Wilson, James Callaghan and Margaret Thatcher. He was a member of the EU Committee of 'Wise Men' on European Securities Regulation (The Lamfalussy Group). He served as Chair of the Committee on Standards in Public Life between 2001 and 2004.

He joined the Board of Commissioners in July 2007.

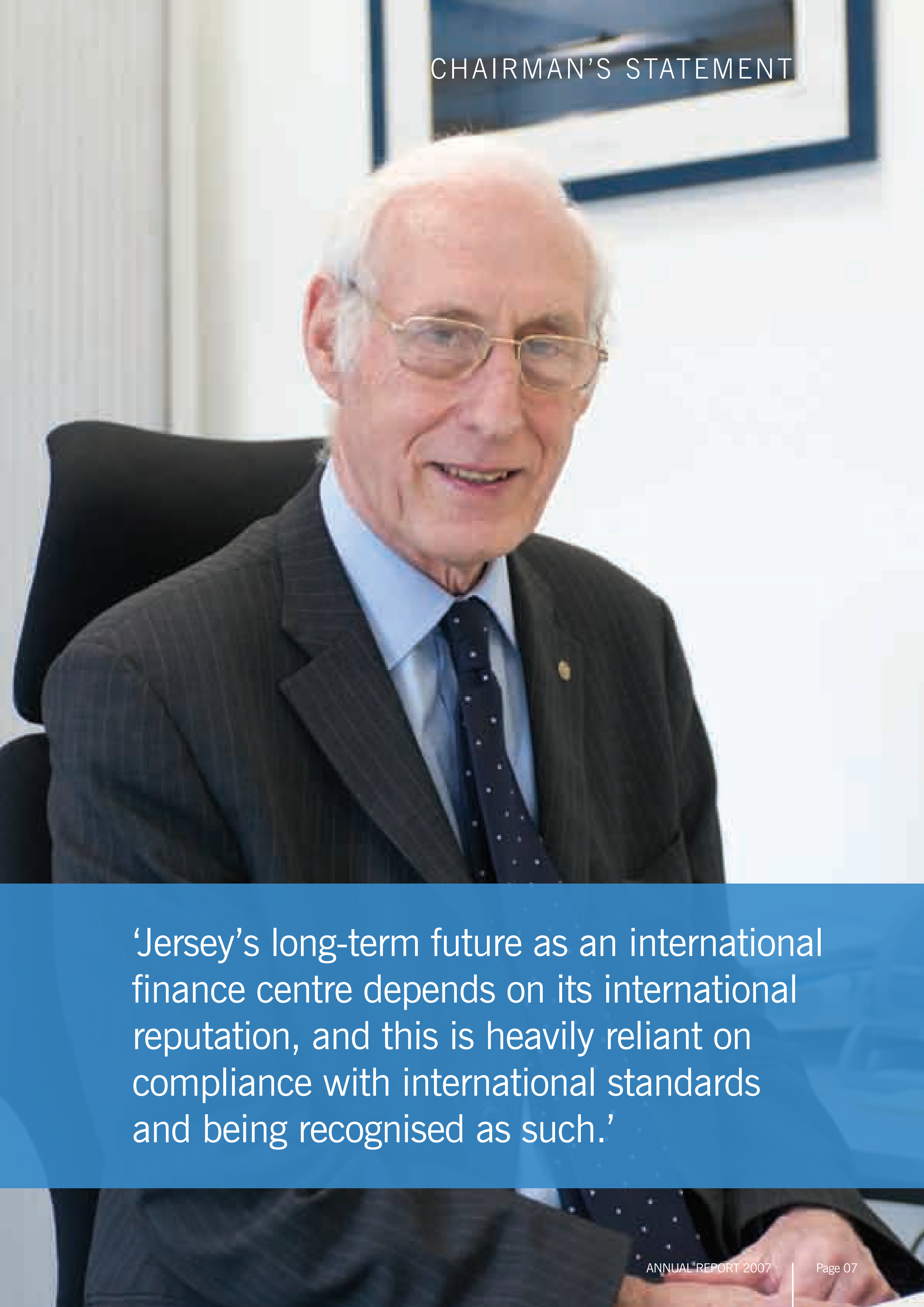
Executive Commissioner

John Harris - Director General

John was appointed 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.

He previously 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.



'Jersey's long-term future as an international finance centre depends on its international reputation, and this is heavily reliant on compliance with international standards and being recognised as such.'

For the Jersey Financial Services Commission (the **"Commission"**) and other regulatory authorities 2007 was a year when the saying "no man is an island" was never truer. Globalisation and the interlinking of economies and financial markets, and the consequential increase in international capital flows, has meant that disturbances in one market such as United States (**"US"**) sub-prime mortgages are quickly transmitted to, and impact on, other markets around the world.

In response to competitive pressures, those in the market place are also continually introducing new and often increasingly complex financial products, about which there is often an insufficient understanding by investors due to a lack of transparency. This lack of transparency has made it more difficult for regulators and market participants to engage in crisis prevention, and more likely that they will be faced with the need to engage in after-the-event crisis management.

This increasingly complex global market place is placing greater pressures on the resources of financial institutions and the regulatory community. One result of this has been the growing recognition of the need for a risk-based approach to financial regulation. However, while placing business and institutions into risk categories is an attractive concept, it is not an easy course to adopt, as recent events arguably demonstrate. To be effective this approach requires accurate, adequate, timely and accessible information.

The importance of information and transparency has been given further impetus by the turmoil in the financial markets in the second half of 2007. A plethora of opaque institutions and vehicles have sprung up - what has been called the "shadow" banking system - and they have come to play an important role in providing credit across the financial system. Until recently, structured investment vehicles and collateralised debt obligations attracted little attention outside specialist financial circles. Though often affiliated to major banks they were not always fully recognised on balance sheets.

In responding to the credit crisis in the second half of 2007, the European Union (**"EU"**) called for enhanced transparency for investors, markets and regulators. The desirable characteristics of transparency have been listed as access, timeliness, relevance and quality. To achieve this effective transparency it is necessary -

- for up-to-date quality information to be obtained and held by those practising in the market place;
- for that information to be accessible in a timely manner for those who need it for the effective operation and regulation of the financial market place; and
- for the information to be able to be shared between all relevant parties.

The Commission remains committed to playing a full and active part in this process.

International Standards and Initiatives

One particularly interesting aspect of the market turmoil in 2007 was the fact that, whereas in the past it had often been argued by the G7 countries that the Offshore Financial Centres (**"OFCs"**) presented a threat to the stability of financial markets, with the risk of the failing of a banking subsidiary in an OFC weakening or pulling down their parent bank, in many cases the roles have now been reversed. The subsidiaries in Jersey and other OFCs generally have remained strong, being largely engaged in deposit gathering and up-streaming funds to their parents, while it has been the failings of the parent banks through their market exposure that has put the stability of financial markets generally under threat. This has presented difficulties for regulators like the Commission responsible for supervising subsidiaries.

Centres such as Jersey for this and other reasons therefore have an equal if not greater need to see a global commitment to international standards. The Commission believes there is much to be gained from dropping the OFC/non-OFC distinction and focussing on financial centres according to the level and scope of their financial activity and their compliance/non-compliance with international standards. The international standard setters appear to be already aware of this point and it is considered that it will be further promoted if Jersey and other OFCs no longer form part of a separate International Monetary Fund (**"IMF"**)/OFC assessment programme but are embraced by the Financial Sector Assessment Programme undertaken by the IMF in respect of member countries generally.

There are differences in the standards met between OFCs in the same way that there are differences in the standards met between non-OFCs. These differences should be recognised and responded to. Otherwise there is a real danger that those who have taken great steps to comply with international standards, as Jersey has done, will find that they have obtained no real benefit from this because they remain included on a general list of OFCs all of which are treated the same by the G7 countries.

There are some areas where Jersey and other OFCs are clearly working to higher standards than many non-OFCs. A good example of this is in respect of information on beneficial ownership, and the supervision of trust and company service providers (**"TCSPs"**). Some G7 countries have expressed the view that Jersey and other OFCs have only been persuaded to comply with international standards because they have been subject to special attention. The question has to be asked of those countries why it is that some OFCs have adopted higher standards than many non-OFCs. The answer lies in the importance that centres such as Jersey attach to a good international reputation, the consequence of which should be fewer barriers being erected by other countries to market access, and greater business interest on the part of those financial institutions that are equally concerned for their own reputation.

Jersey's long-term future as an international finance centre depends on its international reputation, and this is heavily reliant on compliance with international standards and being recognised as such. Two of the Commission's key aims are protecting the Island's reputation and safeguarding the Island's best economic interests. In the view of the Commission these are inextricably linked.

The Commission finds that there is a continued lack of understanding as to why centres such as Jersey are successful, with some G7 countries still inclined to take the view that success must be due to lower standards of financial regulation and Anti-Money Laundering and the Countering of the Financing of Terrorism (**"AML/CFT"**). The message that the G7 countries need to receive and understand is that centres such as Jersey are successful because they are good niche market operators, both in the way certain products are marketed and in the quality of service provided, and not because of regulatory arbitrage. There are many quality services that well regulated centres such as Jersey are as well if not better able to supply. Also, international clients wishing to spread their risks may find it helpful to spread their assets between different jurisdictions and in particular into jurisdictions that have a good record of financial regulation and stability such as Jersey.

Centres such as Jersey are also better able than the larger centres to accommodate innovative financial products such as new investment vehicles, and can respond more flexibly and quickly to the changing needs of international customers and markets. The Commission sees no conflict between this innovation and flexibility and compliance with international standards. However, the Commission recognises the importance of a proper degree of transparency to ensure that what is being done in Jersey is sufficiently well understood by investors and by other regulatory authorities.

The Commission attaches particular importance to assessments of its compliance with the international standards set by the Financial Action Task Force (**"FATF"**), the International Organisation of Securities Commissions (**"IOSCO"**), the International Association of Insurance Supervisors (**"IAIS"**) and the Basel Committee on Banking Supervision (**"BCBS"**). The Commission has long been a firm supporter of compliance with international standards and of the process of assessing the degree of compliance undertaken by an independent and internationally recognised third party such as the IMF. This assessment process in 2003 gave Jersey a virtually clean bill of health. Since then there have been significant changes in the international standards to be met, most particularly in respect of those set by the FATF and the BCBS, and more emphasis on the effectiveness with which those standards are being met.

The next assessment is to be undertaken in October 2008. The enactment of legislation at the end of 2007 and at the beginning of 2008, and the planning undertaken for the IMF visit generally, is expected to put Jersey in a good position to achieve standards of compliance that compare favourably with those of other countries, including many EU Member States and G7 countries. It is to be noted that many of the countries that have been assessed so far against the FATF Recommendations on AML/CFT have had a striking number of non-compliant (**"NC"**) or only partially compliant (**"PC"**) ratings. Particularly worthy of note is that of the 10 EU Member States, whose assessment reports have been published at the time of writing this report, all but one had an NC/PC rating for the Key Recommendation (Recommendation 5) on Customer Due Diligence.

This situation gives rise to a question from some in the finance industry, concerned at the loss of business to competitors both threatened and real, as to whether Jersey is being over zealous in complying with the international standards. However, the Commission is of the view that the long-term success of Jersey as an international finance centre depends on Jersey being recognised internationally as a compliant and cooperative jurisdiction. This is particularly so for the Island's relationship with the EU Member States where it is important, for a number of reasons, that the standards applied can be seen to be equivalent to those in the EU. There may be some 'cost' in the short term from the pursuit of this course but this should be more than offset by the long-term gains. However, what is also important is that there is international recognition of the need for action to be taken against jurisdictions that promote themselves as being more lightly regulated and less transparent, to ensure that those jurisdictions such as Jersey that are implementing the international standards are not disadvantaged and thereby discouraged from maintaining that position.

The Commission focuses on financial regulation and AML/CFT, in accordance with its statutory obligations. However, what is clear is that many G7/EU jurisdictions will not afford Jersey general acceptance as a compliant/cooperative jurisdiction so long as the Island is not seen to be participating actively and positively in the field of tax information exchange. This is a good example of where, although the Commission is independent and free of political interference in its regulatory policies, the Commission and Government can serve a common objective in seeking to safeguard the Island's future as an international finance centre.

Through 2007 the Commission, in addition to actively planning for the IMF visit, has been called upon to take more immediate action in dealing with several matters arising from the proximity of Jersey to the EU while being outside the EU single market. The Commission has sought to satisfy the EU Member States that Jersey has equivalent legislation both generally in respect of AML/CFT and more specifically in respect of the FATF Special Recommendation VII on Wire Transfers and the associated EU Regulation.

In the application of international standards the Commission also has had regard for the development on a global basis of the risk-based approach to financial regulation and AML/CFT. In June 2007 the FATF published guidance on the risk based approach to combating money laundering and terrorist financing (high level principles and procedures) as applied to financial institutions, and the FATF is now taking steps to extend this risk based approach to designated non-financial business and professions such as TCSPs, lawyers and accountants. The Commission has contributed, and is continuing to contribute to this work through the Chairman's role as Chairman of the Offshore Group of Banking Supervisors (**"OGBS"**) which body has observer status at FATF meetings.

The Commission has been at the leading edge in the regulation of TCSPs, and supports the work of the OGBS, of which it is a member, in seeking to promote as an international standard a Statement of Best Practice for TCSPs. To date this has not received the attention that it deserves internationally, largely because the international standard setters traditionally have been a collection of regulatory authorities and TCSPs generally are not regulated in non-OFC jurisdictions. Because TCSPs and other non-financial businesses and professions active in financial markets have not been regulated there has been less focus on the issues in this area. The result has been a "black hole" reflected in the results of the AML/CFT assessments undertaken by the FATF and the IMF where many countries have shown that they lack information on beneficial ownership, or do not have access to that information.

For many aspects of the international standards set, beneficial ownership information is of key importance, but there remains a reluctance on the part of many jurisdictions to grasp the nettle of what needs to be done to ensure that adequate, accurate and current information on beneficial ownership is obtained and is accessible in a timely fashion.

The events of the past year have also emphasised further the importance of international cooperation. The Commission is playing its part in this and together with the Attorney General has undertaken visits to the US and Italy to enhance relationships with regulatory and law enforcement authorities. The Commission continues to extend the number of memoranda of understanding (**"MOU"**) entered into with other supervisory authorities. In 2007, MOUs were signed with the Cyprus Securities and Exchange Commission, the Office of the Superintendent of Financial Institutions Canada, the Irish Financial Services Regulatory Authority, the Central Bank of Cyprus, and the British Virgin Islands Financial Services Commission. The Commission recognises the importance of not only entering into these arrangements but also of maintaining good ongoing communications with the countries concerned. Such cooperation is extremely well received by the overseas regulatory authorities and helps to improve the overall attitude toward the Island as an international finance centre.

The Commission has also participated in international fora both directly and through membership of the Offshore Group of Banking Supervisors and the Offshore Group of Insurance Supervisors. Thereby the Commission has been an active participant in the work of the FATF, IOSCO, the IAIS and the BCBS. Through the Registry, the Commission is also playing a leading role in the European Commerce Registries Forum, the European Business Register and other related international initiatives.

An aspect of the experience of the past year that has a significance worldwide is the apparent lack of understanding by many in the market place of the relative riskiness of different investments. A number of countries have seen the need to enhance financial education, particularly amongst those at school who will be tomorrow's market participants. The European Commission for example will be publishing an online reference database of financial education programmes and research and will enhance an online education tool to help teachers to incorporate financial matters into the school curriculum. In Jersey, it is hoped that the Minister of Education, Sport and Culture will also be prepared to take steps to ensure that all those attending the Island's secondary schools receive some financial education, adopting the principle 'taught young, well prepared'.

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‘The response to international standards and developments calls for an effective partnership between the Commission, the finance industry and Government.’

Partnership with Government and Industry

The response to international standards and developments calls for an effective partnership between the Commission, the finance industry (the **"Industry"**) and Government. The Commissioners met the Board of Jersey Finance Limited on two occasions in 2007, and also met with the Minister for Economic Development and other relevant Ministers.

The Commission also meets with the regulatory authorities in Guernsey and the Isle of Man with whom they have much in common.

The Commission sees a need to improve communications with Industry and Government and is considering how best to achieve this. Areas being explored include engaging in an "educational" campaign explaining what opportunities exist for individuals and representative bodies to approach the Commission at Executive and Chairman/ Board level; enhancing the present consultative process so that the Commission gets closer to individual respondents; being more proactive in meeting with individual financial institutions/professional firms; and through the formation of additional user groups.

There are a number of matters where a partnership between the Commission and Government is proving to be of particular importance. The FATF Recommendations on AML/CFT call for action to be taken in the areas of non-profit organisations, estate agents, purveyors of high value goods, and presently unregulated non-financial businesses and professions including lawyers and accountants. Many of these areas are outside the remit of the Commission as it was conceived by the States when the Financial Services Commission (Jersey) Law 1998 was enacted. At the same time the Commission understands that Government is reluctant to establish new organisations to oversee AML/CFT compliance, and accepts that the Commission has established experience and expertise that can be made available. Government has sought the assistance of the Commission, which the Commission has been happy to provide, but leaving with Government the decisions on the scope and resourcing of what is required.

There are other matters where a partnership between the Commission and Government may well be called for in the future. These include possible compensation schemes, the possible introduction of an ombudsman, and the possible requirement for regulation of pension schemes and consumer credit.

The Commission also recognises the importance of its relationship with Industry in balancing the needs of those in the market place with continued compliance with international standards. The Industry is in competition with other finance centres such as Luxembourg and Dublin for funds, Hong Kong, China, Singapore and Switzerland for private client business, and a number of centres such as Delaware for company incorporations. In the area of funds, for example, the Commission has sought to be flexible in its regulatory approach for example, through the expert funds and unregulated funds products while preserving standards through the regulation of fund functionaries. The Commission recognises that, in the less benign economic climate in prospect, businesses will be more sensitive to competitive pressures. This can be expected to be reflected in calls for a lighter regulatory touch, but at the same time will present the regulator with a greater need to monitor risk management and stress testing practices.

Resourcing the Commission

In the development of regulatory policy, and in establishing an international reputation for complying with international standards, the Commission has always considered it important that the Board of Commissioners should include both local and non-local persons. At the beginning of 2007 the Commission sadly lost the excellent experience and expertise of one of its non-local Commissioners, Andrew Winckler, through his untimely death. The Commission however has been extremely fortunate to have obtained in his place the services of Sir Nigel Wicks. Among the local Commissioners the Commission lost the highly valued services of Richard Pirouet, who was Deputy Chairman, because the Commission complies with the Jersey Appointments Commission's Code of Good Practice which limits Commissioners to three terms of three years. His place as a Commissioner was taken by Clive Jones, recently retired from his position as Managing Director of Citibank (Channel Islands) Limited in Jersey.

As Chairman I value greatly the tremendous support I receive from an extremely strong team of very capable Commissioners with both local and non-local experience. It is also a team that satisfies the requirement of the Financial Services Commission (Jersey) Law 1998 that the Commission should be made up of a balance of Commissioners covering providers of financial services, users of financial services and the public interest.

The Board of Commissioners is supported by a first-class Executive team ably led by the Director General, John Harris. In his first year with the Commission he has more than amply met the expectations the Board had of him at the time of his appointment. He has strengthened the management of the Commission and, with his team of Directors and supporting staff, the Commission has grown from strength to strength. The adequate resourcing of the Commission, to which subsequent sections of this Annual Report will refer, is a key to effective compliance with international standards of financial regulation and AML/CFT, to ensuring that regulatory skills keep pace with financial innovation and to achieving a successful report from the IMF when they visit in October 2008. Some G7 countries which make up the Financial Stability Forum question whether centres such as Jersey have sufficient resources to cope with the business levels that they enjoy and to comply with international standards. The Commission is determined to continue to show that they do.

In May 2007 the Commission moved to new offices in Castle Street. This move was completed seamlessly and without any disruption of service. The Executive, and the ICT team in particular, did a fantastic job.

The Year Ahead

The Commission will continue to carry out its remit, through authorisation, supervision and enforcement, of protecting investors, protecting the reputation of the Island and the Island's economic interests, and fighting financial crime. This will continue to involve the Commission in an extensive programme of on-site examinations, and strengthening relationships with regulatory and enforcement authorities in other countries. At the same time the Commission, in partnership with Industry and Government, will seek to act in a way that both meets international standards and accommodates the scale and range of business activities, new and old, upon which the future of Jersey as an international finance centre depends.

All this has to be achieved in what can be expected to be a continuing challenging climate in global financial markets. The Commission will need to remain vigilant in assessing the impact of these market conditions on Industry in Jersey. At the end of 2007 the effects of the credit crisis had been felt by some individual banks, special investment vehicles and collective investment funds, but there was little or no evidence that it was systemic. However, it was too early for a clear picture to have emerged. Traditionally there has been a lag in the impact of international crises on Jersey and it is to be expected that more special investment vehicles and funds will be affected adversely in due course.

The Commission will continue to strive to meet these challenges, as it did through 2007, and I and the Board together with the Executive are determined to meet our statutory remit and responsibilities in an effective and efficient manner.

'I expected 2007 to be in all probability the busiest and potentially most challenging in the Commission's history.'

At the time of the last Annual Report I wrote that I expected 2007 to be in all probability the busiest and potentially most challenging in the Commission's history. This took into account four overlapping objectives which needed to be met for the Commission to remain positioned to carry out its core remit and remain a key part of the Island's financial services infrastructure. These were the priority focus on preparations for the projected 2008 International Monetary Fund (**"IMF"**) visit, including the self-assessment exercise to determine necessary changes in advance of that visit; the upgrade of the Commission's various supervisory processes in parallel with a more ambitious and demanding examination programme to consolidate supervisory effectiveness; various initiatives in the funds field both to streamline the Commission's supervisory approach and to respond to competitive pressures from other centres; and finally the physical relocation of the Commission from its offices in David Place to its new modern environment in Castle Street.

In the event, all of these objectives were met in full and the Commission can look back on a year of satisfactory progress. As is already documented elsewhere, concerns arose from external events, notably the sub-prime debt crisis originating in the United States, which represented the dominant feature of the second half of the year. Although no immediate impact has been felt in Jersey, lessons from the experience in other countries, the nature of risk and the lack of transparent valuations of certain market instruments must clearly influence the Commission's own supervisory approach in the future. Furthermore, there will be a need for a close level of monitoring of those financial instruments that have gained heightened profile during the financial markets crisis. Some of these are to be found in Jersey and will require ongoing attention well into 2008.

Main Achievements

During 2007, the Commission saw a continuation of the move away from what may be termed desk-based regulation to more active supervision. This translated into a continuing high number of supervisory examinations in all areas of the Commission's activity and an ever-closer focus on conduct of business. The need to ensure that all previous examinations were correctly followed up and remedial actions identified taken forward by licence holders was as apparent as ever. As has happened in the past, the end of a sustained bull market and consequent financial pressures that emerge during a down-turn are likely to yield a number of problem cases requiring close management, particularly where falling valuations may cause investors to look more closely at the way in which certain market instruments were sold to them.

The Commission does not expect to be embroiled in many such cases in Jersey but it does not discount the possibility that some such instances will arise in the significant international finance centre that the Island has now unquestionably become.

Although unrelated to recent market turmoil, the Commission also undertook one particularly high profile action in 2007 before the Royal Court of Jersey to wind up a number of funds, and these proceedings are continuing. Generally during 2007 the Commission further demonstrated that it is prepared to take firm action where necessary, particularly in the pursuit of two of its key aims being the protection of investors and the preservation of the reputation of the Island in commercial and financial matters.

Another significant feature of 2007 was the ongoing extremely busy environment in the funds sector. In addition to the Commission completing its project to transfer fund functionaries from the Collective Investment Fund (Jersey) Law 1988 (**"CIF Law"**) to the Financial Services (Jersey) Law 1998 (**"FS(J)L"**), thereby firmly reinforcing the trend from an authorisation regime towards the more classic supervision regime, the year also saw a repeat performance of authorisations at very high levels for new funds, both Jersey expert funds and non-domiciled funds. The transfer of functionaries to the FS(J)L was ultimately achieved with Industry support, albeit only after close consultation in order to narrow some divergence of view over the required scope of the new supervisory regime, most particularly in the form of new Codes of Practice for fund services business. Whilst this need for enhanced consultation perhaps mirrored past experience of a certain discomfort amongst practitioners when previously unregulated or lightly regulated activities come into the scope of a heightened supervisory regime for the first time, the Commission does feel that the outcome has achieved an appropriate balance between the effective supervision of a key market sector with a continuing sensitivity to the underlying commercial proposition.

An impact of the ongoing high level of fund authorisations during 2007 was again on the Commission's income levels which, as well as with income arising from another set of record company registrations, were once again higher than budgeted. With core operating costs running at forecast levels the higher than target income resulted in an overall surplus for the year as opposed to the small deficit projected in the original budget. However, this apparently satisfactory situation does not fully take into account the impact of persistent high level of litigation costs for actions which the Commission deems it necessary to pursue, some of which were rolled over into the 2008 budget, as they were known but not fully expensed at the end of 2007.

In addition to the above developments, recruitment within the Commission gathered pace in 2007. This was aimed both at bringing resources up to the levels required by the greater supervisory efforts being made in compliance with international standards as well as replenishing any staff losses experienced as a result of moves to the private sector, retirement or in a minority of cases departures initiated by the Commission itself. This meant a busy year in recruitment terms but establishment has been maintained at the required level and it is recognised that this pattern is likely to remain the experience in the future. This recognises that the Commission battles to compete with the private sector in Jersey for key staff commensurate with its goal of maintaining stability and the levels of expertise and experience required in the demanding environment that financial services supervision represent.

General Policy and Legal Framework

A very significant body of work was undertaken in 2007 in these areas. In terms of primary legislation the States of Jersey approved amendments to each of the four regulatory laws administered by the Commission in November 2007. Amongst the changes was the clarification of certain powers and measures to enhance the Commission's overall ability to supervise to the levels required by international standards, which will be the focus of the IMF visit in late 2008. The opportunity was also taken to bring these pieces of legislation into line with the provisions laid down by the European Convention on Human Rights.

A number of changes to secondary legislation also took place, most particularly in the area of trust company and investment business audit and accounts.

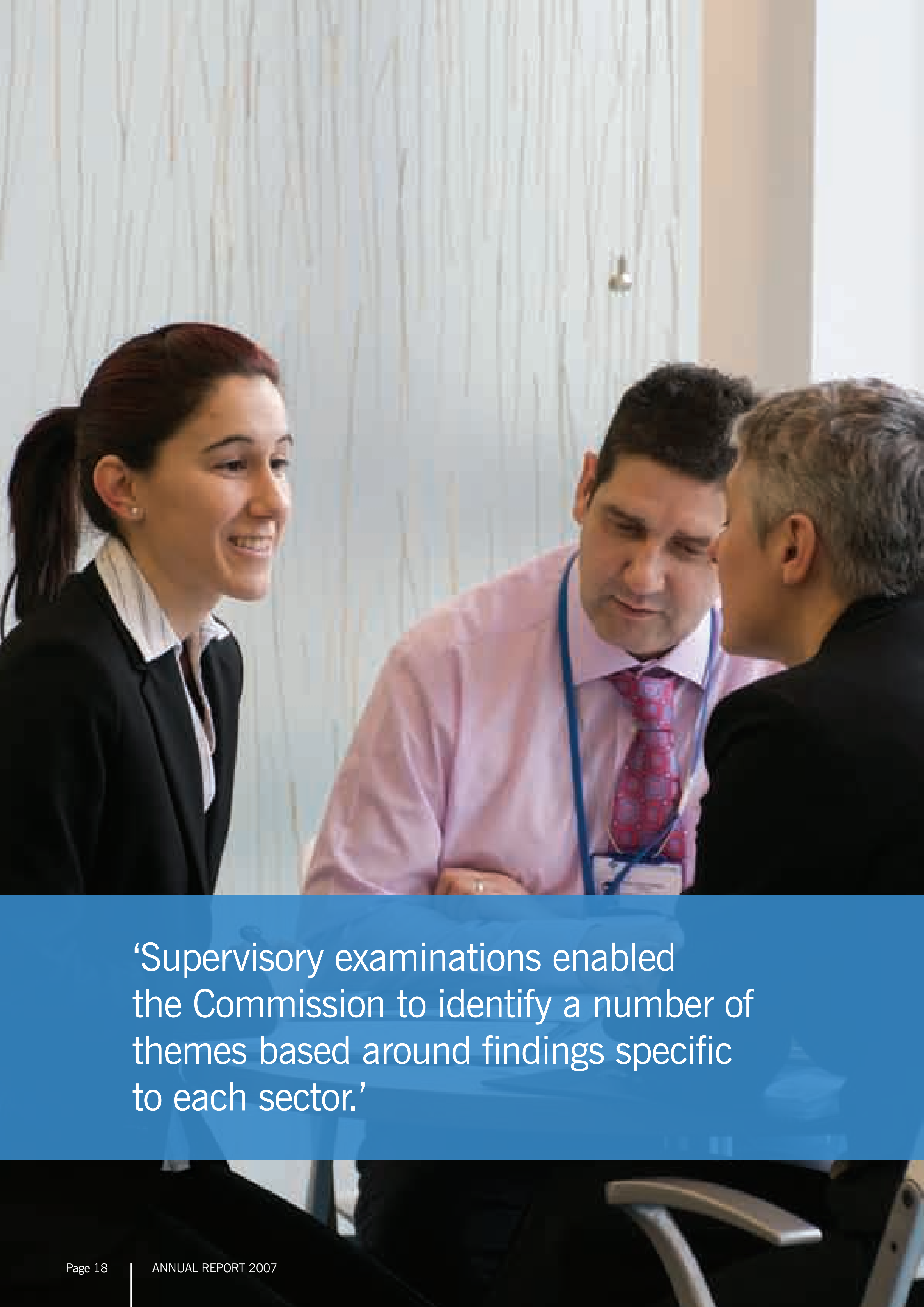
In the policy area a great deal was achieved, most notably in the area of revisions to the various Codes of Practice encompassing Trust Company Business, Banking, completion of the General Insurance Mediation Business Codes and in the area of fund functionaries where, consequent upon the transfer of such functionaries from the CIF law to the FS(J)L, Codes were issued for the first time.

The year also saw significant development of the Investment Business Codes, which required a fundamental overhaul as they had not been amended since their original introduction in 2001. The consultation exercise was as a result somewhat longer than had originally been envisaged but they will be completed and issued in early 2008.

Given further evidence of the trend towards increasing use of Jersey companies, the Registry had another very busy year in 2007 with new incorporations totalling 4,050, an increase of 16.4% over the preceding year. In addition, work on the Companies (Amendment No.9) (Jersey) Law 200- was brought to fruition late in the year and lodged for approval by the States of Jersey, consolidating the ongoing modernisation of this key law in the Island's financial services infrastructure over recent years. The Registry also maintained its representation of Jersey on the international stage in a number of fora and it was a matter of some satisfaction that the Deputy Registrar was elected by the International Association of Commercial Administrators (**"IACA"**), the Association of United States and Canadian Registries to chair its international committee.

Significant progress was made in preparing for the adoption of Basel II in the first quarter of 2008. This represents the culmination of several years of development effort in integrating this new international capital accord for banks into Jersey's prudential regime for deposit takers.

However, perhaps the most significant policy initiative in 2007 was in the development of an unregulated fund product, aimed exclusivley at the institutional and ultra high net worth section of the market place, representing a significant collaborative effort between Industry and the Commission. This was without doubt a challenging project to create a competitive product capable of maintaining the appropriate balance between regulation and risk. The requisite Order giving effect to an unregulated fund project in Jersey was made at the beginning of 2008 and the take-up and performance of the unregulated fund product thereafter will be monitored closely by all concerned.



‘Supervisory examinations enabled the Commission to identify a number of themes based around findings specific to each sector.’

Countering Money Laundering and the Financing of Terrorism

As in 2007, developments in this field meant another very busy year for the Commission. The Hand Book for the Prevention of Money Laundering and Protection of Financing of Terrorism was issued in soft launch form in July 2007 and came into full force in early 2008. This was accompanied by changes to the Money Laundering Order and each of these developments is in line with the Island's strategy to remain fully aligned with changing international standards in the AML/CFT field. Furthermore, the need was recognised for all relevant Island authorities to be involved in this quest, and thus the year saw the formation of the Island's Anti-Money Laundering and Financing of Terrorism Strategy Group (**"AML/CFT Group"**) in which the Commission played a significant role. The AML/CFT Group has promoted a number of changes to legislation and also agreed to extend requirements to prevent and detect money laundering to a number of businesses that have previously been considered to be outside the traditional "financial sector", including lawyers, accountants, estate agents and high value goods dealers. It was also instrumental in producing draft legislation to provide for the oversight of non-profit organisations (**"NPOs"**) where terrorist financing is perceived internationally to be a potential threat.

These two pieces of legislation foresee that the relevant States of Jersey Minister will have the power to designate an oversight body in respect of the requirements in these new sectors. At the time of writing it is expected that the Commission will become this oversight body on the grounds that it has the requisite level of experience and expertise in the AML/CFT field to discharge the responsibility. This strategy is also in line with the States of Jersey's wish not to create a number of new oversight bodies for each of the above named sectors. These changes, together with other AML/CFT initiatives, are also expected to put the Commission and the Island in the best possible position for the forthcoming IMF evaluation now programmed for October 2008.

Supervision and Enforcement

During 2007, a total of 155 examinations were completed by the Commission against a target of 131. This represented an achievement of target or over-achievement of target in all areas bar the insurance sector where resource constraints held back the programmed examination schedule.

As in previous years, supervisory examinations enabled the Commission to identify a number of themes based around findings specific to each sector and these have been reported back once again to the respective Industry sectors both through formal reports and letters to Industry executives providing a guide to shortcomings and ways in which they can be addressed.

The experience of 2007 has shown that standards continue to be somewhat variable between firms and this was a pattern perhaps most marked in the funds arena where volumes of business and market pressure have undoubtedly been contributory factors to certain deficiencies in meeting the requirements of the Jersey expert funds regime. In all areas the Commission's continuing aim is to work with management to agree remedial actions and to achieve targeted outcomes, but in certain cases, as demonstrated, the Commission will take further enforcement action if deemed necessary.

In the enforcement area generally, 2007 saw a continuation of the pattern of an ongoing high level of unauthorised business in the form of fraudulent activity, particularly through the medium of the Internet, by various enterprises based outside the Island posing as Jersey registered businesses. The Commission has worked hard to identify such "scams" and to seek to inhibit them, principally through the issue of public statements to warn potential victims. In terms of more domestic enforcement action, a number of other cases were progressed that have also resulted in public statements during the year, including the instance of the banning of an individual from future employment within the Jersey financial services industry.

During 2007, a significant level of assistance afforded to regulatory authorities from other jurisdictions was taken forward, most particularly linked to insider dealing and market manipulation cases. Liaison visits to such authorities, particularly to those in Italy and the United States, were also a feature of the year.

Priorities for 2008

The next year will undoubtedly continue to be challenging for the Commission as it seeks to consolidate the progress made over the past 12 months.

Preparations will continue for the impending IMF evaluation visit, focusing especially on the demonstration of supervisory effectiveness in both prudentially supervised businesses and in those areas where the Commission has been asked to extend its remit to AML/CFT oversight. These objectives will become the priority now that the programme of primary and secondary legislation changes has largely been achieved.

Consistent with this, the Commission has once again scheduled a wide ranging and comprehensive examination programme for the next 12 months based on themes which have in large measure already been shared with Industry, and will seek to combine this with the needs of following up those findings from 2007 examinations. In addition, for those sectors coming within oversight for AML/CFT purposes for the first time, the Commission is committed to an effective "outreach programme" seeking to educate and inform on relevant requirements, coupled with the production of specific guidance notes to assist the new sectors in achieving effective compliance. The Commission's designation as the likely oversight authority has not been universally welcomed by all and this is perhaps to be expected given that its traditional remit as a prudential supervisor demands a somewhat different approach in terms of scope and degree of supervision than is required in the new areas, where the oversight is limited to AML/CFT. The challenge for the Commission, therefore, is to demonstrate a differentiated, proportionate and measured approach, based on the most effective consultation possible to provide for the right balance between the need to meet the international standards in question whilst minimising disruption to commercial operations. The Commission has formed a dedicated AML Unit to progress this work and is committed to success in this endeavour and looks forward to working with the respective commercial sectors to achieve a good result all round.

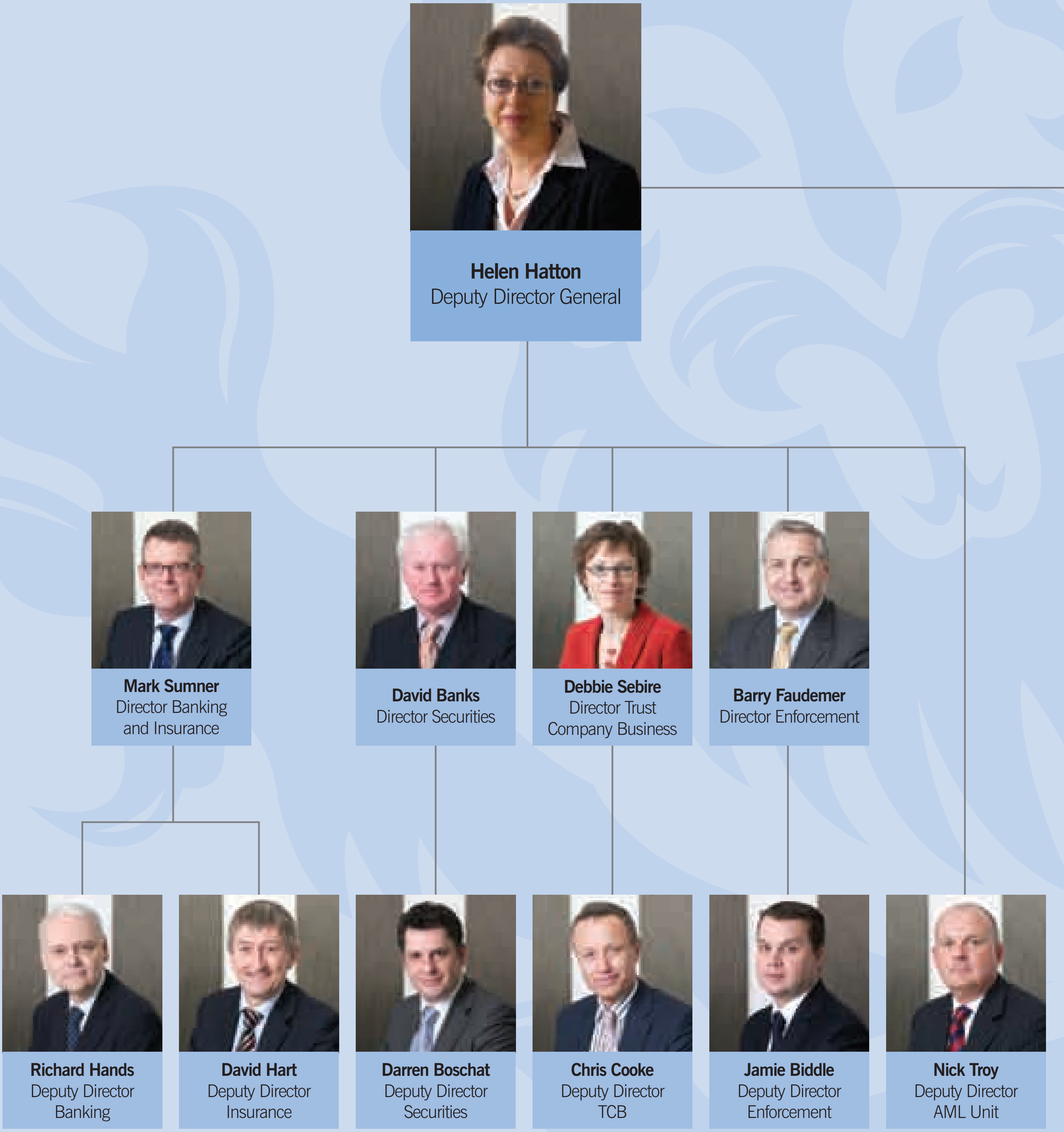
The introduction of the unregulated fund product in early 2008 will be another key development marking the coming year and the Commission will work together with Industry to review the effectiveness of the new product and play its part in considering any changes needed as a result of actual market experience in due course.

The Commission expects to be in a position to publish the Investment Business Codes during the first quarter of the year and furthermore to complete the programme of revision to all industry sector Codes of Practice with the publication of the new Codes for funds vehicles themselves to complement those already issued covering fund services business.

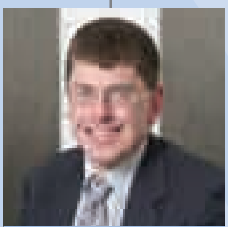
Significant activity will continue in the international arena and in the field of collaboration between the Commission, Government and Industry. At the same time the supervisory mandate will mean the Commission keeping a very close eye on market developments in general following the financial system dislocation experienced during the latter part of 2007.

Finally, to end on a more personal note, this is the second Annual Report to which I have contributed, having now served as Director General of the Commission since November 2006. During that time I have consistently been encouraged and delighted by the dedication and continuing efforts of the Commission staff towards the achievement of excellence to which we aspire in the field of financial services supervision. This impression was reinforced by the professional manner in which the move to the new offices at Castle Street was carried out with minimum disruption to the service provided by the Commission. As the events of the past twelve months have demonstrated, this has become an ever more complex and demanding environment but equally a crucial one, as much so in Jersey as in any other financial centre of stature and integrity. I am fortunate indeed to have the support of the Commission staff in this respect and believe that the Island may continue to depend on their focus, expertise and dedication in the pursuit of this most important task.

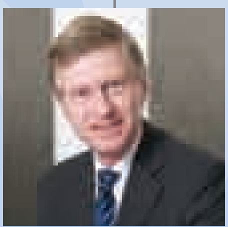
‘The supervisory mandate will mean the Commission keeping a very close eye on market developments.’


Helen Hatton
Deputy Director General
Mark Sumner
Director Banking and Insurance
David Banks
Director Securities
Debbie Sebire
Director Trust Company Business
Barry Faudemer
Director Enforcement
Richard Hands
Deputy Director Banking
David Hart
Deputy Director Insurance
Darren Boschat
Deputy Director Securities
Chris Cooke
Deputy Director TCB
Jamie Biddle
Deputy Director Enforcement
Nick Troy
Deputy Director AML Unit

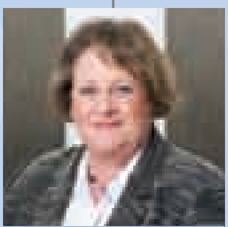
John Harris
Director General



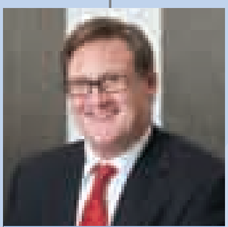
Gary Godel
Chief Operations Officer



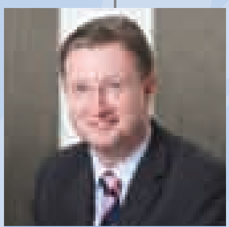
Nigel Woodroffe
Chief Financial Officer



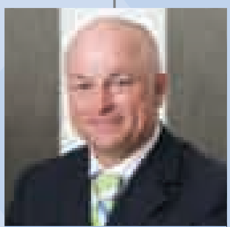
Annette Cullen
Director Human Resources



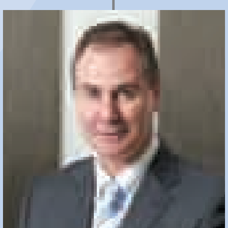
Julian Lamb
Director Registry



Andrew Le Brun
Director International & Policy



Shaun Roberts
Director I.C.T.



Chris Renault
Commission Secretary

‘The Commission completed 155 examinations during 2007 against a target of 131 (including some examinations that were outsourced).’

The supervisory divisions* of the Commission are responsible for two of our five aims. These are *"to ensure that all entities we authorise meet fit and proper criteria"* and *"to ensure that all entities we regulate are operating within accepted standards of good regulatory practice"*.

Authorisations

One of the key objectives for 2007 was to transfer the regulation of fund functionaries from the Collective Investment Funds (Jersey) Law 1988 (**"CIF Law"**) to the Financial Services (Jersey) Law 1998 (**"FS(J)L"**) and to create a new class of business under the FS(J)L, namely fund services business. The first phase of this exercise was successfully completed in November 2007 bringing the new regime into full effect save in the main in respect of changing the terminology from permits for unclassified funds to certificates. Funds constituted as limited partnerships and unit trusts are now regulated in their own right for the first time and non-domiciled funds no longer need to seek authorisation under the CIF Law. The second phase of this objective will continue in 2008, at which time the requirement for consent under the Control of Borrowing (Jersey) Order 1958 (**"COBO"**) for those collective investment funds still requiring a permit under the CIF Law will be removed.

For insurance business, ten new Category A Insurance Business permits were issued whilst six were surrendered, leaving an increased total of 169 Category A permit holders. Two new Category B Insurance Business permits were issued whilst one was surrendered, leaving an increased total of 13 Category B permit holders. In addition 18 General Insurance Mediation Businesses were approved, bringing the total to 118. As in previous years, mergers and acquisitions in the Industry have led to the need for the submission of insurance transfer schemes. The Commission received three during the year for review and subsequent approval by the Royal Court.

The trend of smaller sized firms merging to increase their critical mass or being acquired by a number of organisations whose strategy is to grow by acquisition continued from 2006. During 2007, three trust businesses were acquired by existing licence holders, ten trust companies requested to have their registration revoked, and four individuals registered to undertake a single class of business had their registrations similarly revoked. 188 affiliation leaders were registered to undertake trust company business at the year-end.

The Commission authorised two new deposit takers to operate during 2007, taking the total number of banking registrations in the Island to 48.

* The supervisory divisions consist of Banking, Securities, Trust Company Business and Insurance.

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 examination results have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers (**"CEOs"**), the Quarterly Newsletter and the website. The Commission completed 155 examinations during 2007 against a target of 131 (including some examinations that were outsourced). There were 113 examinations during 2006.

The Commission conducts various types of examination. Focused examinations take place where the Commission wishes to examine specific aspects of a business; discovery examinations are to obtain information to improve the Commission's understanding of a business; and themed examinations are undertaken where the Commission has identified an aspect it wishes to examine in a particular industry sector across a number of different institutions.

Total Examinations 2007

Division	Themed	Focused	Discovery	Total
TCB	35	4	33	72
Funds	6	7	14	27
IB	10	4	9	23
Banking	19	5	3	27
Insurance	0	0	6	6
Total	**70**	**20**	**65**	**155**

Examination activity was a significant feature of 2007 with the majority of the Supervision Divisions exceeding their proposed number of examinations. The main issues that have arisen from the on-site examination programme during 2007 are summarised by sector.

Banking

The Banking Division's examination programme was largely comprised of themed assessments in respect of adherence to the Codes of Practice for Deposit-taking Business, which became a formal requirement in February 2007. In that respect, most focus was on Section 3 of the Codes, which spans corporate governance and risk management. The summary of these findings will be published in 2008 but the key areas of findings were in relation to: the quality of the review processes in respect of politically exposed persons; the existence and adequacy of reviews of approved intermediaries; the existence and adequacy of terms of reference for key committees; the appointment of non-executive directors; and the existence and adequacy of job descriptions.

The Banking Division also conducted a number of focused examinations to address specific concerns plus visits to banks in Guernsey and the Middle East for which the Commission has home regulator responsibility.

Insurance

The Insurance Division conducted six on-site examinations against a target for the year of 20. This shortfall against target was mainly due to the limited size of the team and the allocation of resources for a self-assessment against the Core Principles of Insurance Supervision issued by the International Association of Insurance Supervisors. Those examinations conducted were discovery examinations, used to enable the Insurance Division to obtain a better understanding of the risks faced by the businesses assessed and how they mitigate these. This information is then available for the completion of entity risk models, which are used to facilitate the Commission's risk-based supervision.

In January 2007, the Commission published a Guidance Note on its website regarding solvency calculations for General Insurance Mediation Businesses. This was designed to address issues surrounding the completion of solvency calculations that were identified in the themed examination programme undertaken in 2006.

Investment Business

The theme of the Investment Business Team's examinations was threefold: due diligence on new products and services; suitability of advice; and human resource issues. One of the key findings was that some investment businesses appeared to be undertaking unauthorised General Insurance Mediation Business, following the recent introduction of that regime, and those businesses have since made the necessary applications to extend their classes of business. Other findings included new employees being taken on without the registered person having first carried out sufficient checks with previous employers or referees and new products being added to the list of products recommended to clients without documenting the due diligence undertaken on those products.

Funds

The Funds Team's examination theme for the first half of the year was information provided to investors, and corporate governance for the second half of the year. In some cases, local fund functionaries were not performing the necessary due diligence checks on promoters and other parties in relation to new funds. Thereafter, issues arose due to a lack of knowledge of the structure of the funds and the attendant responsibilities being taken on. Corporate governance issues in some funds typically related to a failure to demonstrate proper oversight of outsourced or delegated functions. Other issues found related to internal control systems (the lack of specific fund procedures, no documented business continuity plan and no policy regarding conflicts of interest, especially for managed entities) and the compliance function (compliance not reporting to the board, no designated compliance officer or not sufficiently independent, and a failure to monitor and report on permit breaches).

‘Corporate governance issues in some funds typically related to a failure to demonstrate proper oversight of outsourced or delegated functions.’

Trust Company Business

The Trust Company Business Division performed 16 on-site examinations that focussed solely on anti-money laundering (**"AML"**) risk management. AML examinations will continue into 2008. The scope of the AML examinations sought to focus on customer take on procedures, monitoring of outstanding customer due diligence, transaction monitoring, suspicious activity reporting and AML reporting. Whilst a full summary of the findings from this programme can be viewed on the Commission's website, in headline terms, common findings were the lack of prospective transaction monitoring; lack of ageing or risk weighting of outstanding customer due diligence material (though in nearly all cases this information was being monitored); and to a lesser extent the timing of customer payments versus the completion of due diligence.

Common findings in respect of the other examinations undertaken were deficiencies in corporate governance (particularly where businesses had established a committee structure but failed to establish terms of reference or reporting back to the main board), inadequate procedures and customer due diligence deficiencies. A continuing trend from previous years was that businesses were still struggling with backlogs in periodic reviews, risk reviews and financial statement preparation for entities under administration. A number of businesses operating under a registration for a single class of business were found to be acting in a wider capacity in breach of Article 7 of the FS(J)L. The Commission also continued to work closely with businesses in upgrading and enhancing their customer risk rating systems, which is essential to facilitate compliance with the new risk-based AML regime being implemented during 2008. With regard to managed trust companies, there were a number of corporate governance deficiencies both on the part of the manager, in considering its role and responsibilities, and the managed entity itself.

Regulatory Developments

One of the main activities in the Supervision Divisions during 2007 was the development and amendment of Codes of Practice relating to all sectors of the Industry. This included the introduction of Codes of Practice for money service business and fund services business.

Money Service Business

Following a request from Government, the Commission has agreed to undertake non-regulatory functions on behalf of Government. The Commission's remit is therefore being extended to include the Anti-Money Laundering and the Countering of the Financing of Terrorism (**"AML/CFT"**) oversight of money service businesses. A registration and notification regime is currently being introduced and new Codes of Practice were issued in July 2007. In response to the extension of the Commission's oversight role for AML/CFT, a separate AML Unit was formed in the latter part of 2007 to take on that responsibility.

Banking

The revised Codes of Practice for Deposit-taking Business became a formal requirement in February 2007, following a six-month introductory period post finalisation of these in 2006. They generated a fair amount of enquiries from Industry but have largely not proved to be a challenge for banks.

Similarly, liquidity management requirements were consulted on in 2006 and established in the early part of 2007. Revised liquidity reporting by banks commences in the first quarter of 2008 and, in the preceding period, the Commission has received and considered a number of requests for banks to apply behavioural adjustments in their management of liquidity risk, reflecting market practice evolving from the Basel II regime.

The start of 2008 will see the combination of several years' developmental efforts on translating the new international capital accord for banks, Basel II, into the Commission's prudential regime for Jersey deposit takers. This was achieved in line with the timescales for adoption of most developed countries, including the members of the EU, and reflected a collaborative approach with our Guernsey and Isle of Man counterparts. First quarter prudential reports submitted by Jersey banks in April 2008 will reflect the new format, whilst individual bank assessments in respect of Pillar 2 considerations are likely to continue in full flow until that time.

The absence of regulatory requirements for deposit takers to hold capital against market risk was the one aspect that Jersey's banking regulatory regime was found to be "materially non-compliant" by the IMF in its 2003 report on Jersey. Whilst there is not a material degree of exposure to market risk not already addressed by previous prudential requirements, a requirement to hold capital against all market risks has been incorporated in the Commission's revised requirements under Basel II, which will fully satisfy the IMF finding.

The Banking Division has provided organisational and secretarial support over a two-year period for a group of Island stakeholders that has developed a voluntary Code of Practice for businesses involved in lending activities. It is hoped that this work will help reduce the hardship caused by consumers being granted inappropriately high levels of personal indebtedness and improve the information available to them when seeking credit facilities. The drafting stage was completed in late 2007 and the response of individual firms is now being explored by relevant members of the steering group.

Funds

The major project during 2007 was the migration of fund functionaries to regulation as fund services business under the FS(J)L. Codes of Practice for Fund Services Business were introduced in November 2007 to coincide with the migration. The Funds Team has continued work on the introduction of an unregulated fund product in liaison with Industry. This is nearly complete and will be introduced by amending the CIF Law. An Order in this respect is in an advanced state of preparation and should be in force in the first quarter of 2008.

Investment Business

The amended Codes of Practice for Investment Business were issued for consultation in July 2007 and it is intended to issue the new Codes in March 2008. Once issued, the Codes will have a three-month transitional period.

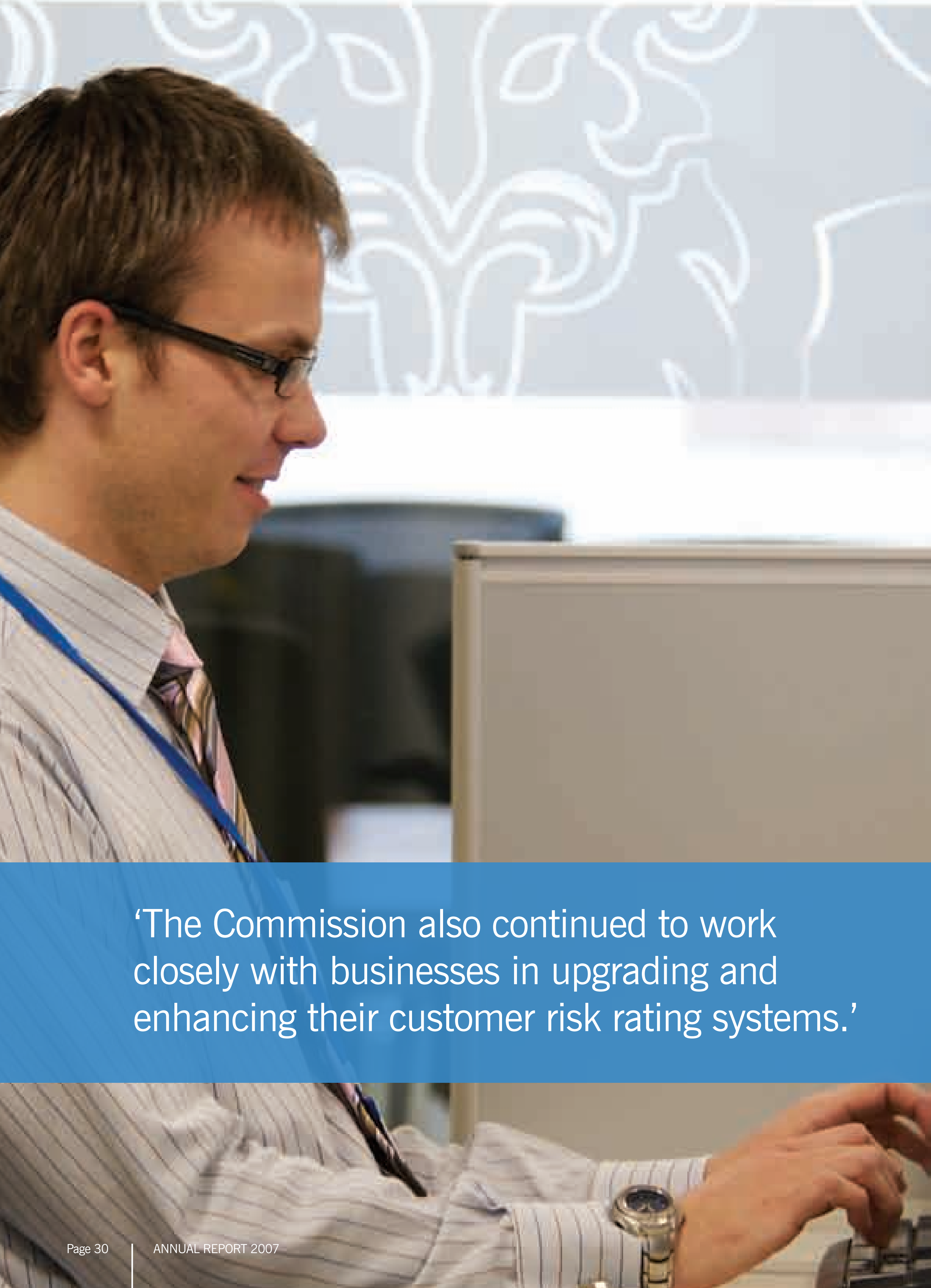
For both Funds and Investment Business there has been a significant amount of work undertaken in preparation for the IMF assessment resulting in four sets of law drafting instructions, three consultation papers and two position papers, in addition to a review of the Commission's procedures in these areas.

Trust Company Business

In preparing for the IMF visit, an end-to-end review of the trust company regulatory regime was undertaken. This review was carried out against the statements of best practice laid down by the Offshore Group of Banking Supervisors and pertinent international standards as well as experience gained during the last seven years of regulation. This resulted in revisions to the Codes of Practices for Trust Company Business and amendments to both the Accounts Order and the Assets Order as well as amendments to the FS(J)L.

Insurance

Consultations on the introduction of Codes of Practice for General Insurance Mediation Business and amendments to the Codes of Practice for Insurance Business were concluded in 2007 with the final Codes being published in December 2007. Most of the responses from Industry related to the Codes of Practice for General Insurance Mediation Business and, although these did not highlight any major barriers for compliance by the Industry, the Commission granted a three-month transitional period for the implementation of these Codes.



‘The Commission also continued to work closely with businesses in upgrading and enhancing their customer risk rating systems.’

Communication with Industry

The Commission has continued the process of communicating its strategic aims and objectives to Industry, and providing feedback on best industry practice and the results of its examination programme. A series of workshop events were also held for Industry, relating primarily to the proposed legislative changes arising from the forthcoming IMF visit and also the introduction of the AML/CFT Handbook. In September 2007, communication and strategy were combined, at the start of the Commission's business planning cycle, with input from Industry on its priorities via the Chief Executive Officer Forum. The Commission also continued to publish its Quarterly Newsletter.

International Communication

The Commission continued its active involvement in international regulatory fora.

The Banking Division maintained its support for, and involvement with, the Offshore Group of Banking Supervisors.

The Insurance Division was active in both the Offshore Group of Insurance Supervisors and the International Association of Insurance Supervisors (the **"IAIS"**). The Commission will consider becoming a signatory to the IAIS Multilateral Memorandum of Understanding on Cooperation and Information Exchange during 2008.

The Securities Division maintained its international obligations by attending International Organisation of Securities Commissions (**"IOSCO"**) meetings in Tokyo, Madrid and Amsterdam, and dealing with inter-regulator enquiries. Other regulatory visits were made to Guernsey, the Isle of Man and Cape Town.

KEY TASKS FOR 2008:

- The continued preparation for the IMF assessment will be a critical and major project for 2008. This work will be completed using current assessment methodologies published by the Basel Committee, the IAIS, IOSCO and the Financial Action Task Force.
- The on-site examination programme will be maintained across all the Supervision Divisions to ensure the effectiveness of the implementation of the legal and regulatory frameworks, including the revised AML/CFT Handbook.
- Reviews will be undertaken of the Outsourcing Guide and the rules relating to recognized funds. Further amendments will be made to the Non-Domiciled Fund Guide.
- Codes of Practice for the fund vehicles themselves will be introduced together with an amalgamated Prospectus Order giving equal treatment to funds constituted as open-ended or closed-ended companies, limited partnerships and unit trusts.
- The changes made in 2007 to the regulatory regime for fund services business will be consolidated in 2008.

‘The Commission also played a significant role during the year in the Island’s Anti-Money Laundering/Countering the Financing of Terrorism Strategy Group’

INTERNATIONAL STANDARDS AND POLICY DEVELOPMENT

One of the Commission's aims is to *"match international standards in respect of banking, securities, trust company business, insurance regulation, 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.

The International Monetary Fund (**'IMF'**) will consider how effectively Jersey has implemented international standards of regulation and supervision. In particular, the assessment will consider the legislation that the Island has in place, the regulatory requirements that are set by the Commission, and how that legislation and those requirements have been implemented.

In line with the 2007 Business Plan, a comprehensive self assessment exercise was undertaken early in the year, which demonstrated that legislation and regulatory requirements were broadly in line with international standards. Nevertheless, a number of areas were highlighted where legislation and requirements could be improved - in particular where international standards have recently been updated, or where changes were considered necessary to bring legislation into line with the provisions set by the European Convention on Human Rights.

Much time and effort was spent in 2007 addressing these areas. This involved the publication of a number of position and consultation papers, and a series of Industry briefing sessions.

As a result of this work, amendments to each of the four regulatory laws (the CIF Law, the Banking Business (Jersey) Law 1991, the Insurance Business (Jersey) Law 1996, and the FS(J)L), were approved by the States in November 2007, and are currently awaiting approval by the Privy Council. In particular, changes to the four regulatory laws will:

- explicitly recognise an existing power to prevent an individual from working in the finance sector in Jersey;
- provide for greater control of the individuals that hold senior compliance and anti-money laundering (**"AML"**) functions (referred to as "key persons") at a registered person;
- permit the Commission to publish conditions that it attaches to a registration that is issued under one of the four regulatory laws; and
- provide for greater consistency of powers and sanctions across the four regulatory laws and in the safeguards associated with the use of them.

In addition, each of the amendments will provide that a decision that is taken by the Commission to issue a public statement can be appealed to the Royal Court. It is hoped that these amendments will come into force in March or April 2008.

A number of changes to secondary legislation were also progressed through the year. By the year-end, updated provisions relating to the audit and accounts of trust company and investment businesses had come into force, and work continues on legislation to deal with advertising and the protection of trust company business assets.

The Commission also played a significant role during the year in the Island's Anti-Money Laundering/ Countering the Financing of Terrorism Strategy Group (**"AML/CFT Group"**), which met for the first time in January 2007 to discuss improvements to legislation to prevent and detect money laundering. The AML/CFT Group has promoted a number of changes to legislation through the year, including approval by the States in November 2007 to the introduction of standardised reporting obligations under the Drug Trafficking Offences (Jersey) Law 1988, the Proceeds of Crime (Jersey) Law 1999, and the Terrorism (Jersey) Law 2002 - where there is knowledge, suspicion, or reasonable grounds for knowing or suspecting that another person is involved in money laundering. In February 2008, the States also agreed to extend requirements to prevent and detect money laundering, including the application of customer due diligence procedures, to a number of businesses that, until now, have been considered to be outside of the "traditional" financial sector, including lawyers, accountants, estate agents and high value goods dealers. Legislation to provide for oversight of these and other businesses with requirements to prevent and detect money laundering will be introduced.

The scope of regulatory legislation to cover money service business (bureau de change and money transmission services) and requirements have been introduced to provide certain information about the originator of a transaction - where funds are transferred electronically. In July 2007, the Commission published a final draft of the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism (the **"AML/CFT Handbook"**) - which sets regulatory requirements for, and provides guidance to, businesses that are regulated under one or more of the four regulatory laws. The AML/CFT Handbook was published on 4 February 2008, at the same time that the Money Laundering (Jersey) Order 2008 came into force. It is this instrument that sets legal requirements to prevent and detect money laundering.

The Commission has closely followed the introduction of a Single Euro Payments Area (**"SEPA"**) in the European Economic Area, and has led Industry and Government discussion on whether Jersey should apply to join SEPA. The discussion has focussed on whether Jersey's competitive advantage as a financial centre could be affected if it is not able to make low cost transfers in euros.

The Commission has also played a central role in discussions with the UK's Professional Oversight Board on how Jersey might introduce an auditor oversight regime that is in line with the European Union's (**"EU"**) Statutory Audit Directive. Without such a regime in place, it will be necessary for some auditors (those that audit companies that have securities that are admitted to trade on regulated markets in the EU) to be registered with, and overseen by, regulators in each of the Member States of the EU where those securities are admitted to trade.

The Commission has also continued to work very closely with Her Majesty's Treasury in the United Kingdom (**"UK"**), to support the UK's application to the European Commission to be able to continue to use existing UK domestic payment systems to make transfers to, and accept transfers from, Jersey banks. As in 2006, this application and associated work has involved much time and effort, but it is important work since Jersey businesses and individuals might otherwise be deprived of a cheap and efficient way of making payments to, and receiving payments from, the UK. The application is dependent upon the UK being able to demonstrate that Jersey has in place requirements to prevent and detect money laundering that are equivalent to requirements in place in the EU.

During the year, the Commission's international contact programme was further developed, with five new memoranda of understanding signed with the British Virgin Islands Financial Services Commission, the Office of the Superintendent of Financial Institutions in Canada, the Central Bank of Cyprus, the Cyprus Securities and Exchange Commission, and the Irish Financial Services Regulatory Authority.

So, whilst much of the Commission's focus in 2007 was on preparing for the IMF assessment in 2008, the Commission also continued to work actively, mostly behind the scenes, to facilitate Industry's access to European markets.

KEY TASKS FOR 2008:

- The increased communication with Government will continue, as the Government has ownership of a number of AML/CFT issues, so that the Island as a whole is fully prepared for the IMF assessment.
- Provision of support to, and participation in, the AML/CFT Group.
- Maintenance of the AML/CFT Handbook.
- Continuation of the regular liaison meetings with the commission's in Guernsey and the Isle of Man on matters of mutual interest.

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

Increase in caseload

2007 has proved to be a challenging and demanding year for the Enforcement Division with new staff taking up post and a record number of new cases requiring investigation. In all, 72 new cases were commenced and subjected to investigation compared to 58 in 2006 and 48 in 2005. 63 cases were finalised by the end of the year. Combining the cases that flowed from 2006 into 2007, the total number of cases worked on in 2007 amounted to 93.

New staff

Staffing levels in Enforcement were brought up to strength with the arrival of three new members of staff in June, with the staffing level at the end of 2007 being five.

Enforcement discharging the Commission's international obligations

Regulatory authorities from other jurisdictions can formally request assistance from the Commission to further their own investigations. Provided the request meets with all legal requirements, the Commission is able to serve notices requiring the production of evidence on behalf of the regulatory authority making the request. 18 such requests were processed in 2007, mainly for investigations linked to insider dealing, market manipulation or providing false and misleading information. During the year, the Commission provided affidavit evidence to the Australian Securities and Investments Commission and also received formal letters thanking staff for the prompt and diligent co-operation from both the United States and Greece.

In order to further domestic investigations, the Enforcement Division has proactively sought evidence from seven overseas regulatory authorities. These investigations currently remain ongoing.

Enforcement using the Internet against criminals

Criminals can target members of the public using scam websites. To add a degree of respectability and credibility to the scam, the criminal often uses the identity of a legitimate company or simply invents the company, but using a legitimate address, or address that appears to be genuine, from a highly regarded jurisdiction. 2007 saw several such cases where criminals purported to operate a local financial services company or created a false Jersey address. The aim is always to defraud and deceive. Enforcement gives priority to investigating such cases and promptly engages the criminal or issues a public statement to warn the public. In 2007, the Commission issued nine warnings via the Internet. The feedback via the Internet from members of the public worldwide was particularly encouraging. In many cases the member of the public was saved from making a purported investment through the scam website/scam entity and thanked the Commission for issuing a public statement. Extracts from such letters of thanks include the following comments:

www.arran-funding.com

"I was about to go into a very large transaction with this so called company and fortunately I exercised due diligence and upon further investigation I came across this notification and even though it has destroyed my faith in human kind in a big way I am grateful that I had the insight to continue to search and lucky to find the information posted. Once again thank you".

- Member of the public in the US.

Bank National TSB Offshore Limited

"Your email is very much appreciated. I will take your advice. You saved me from becoming a victim of a scam. You have made a positive difference. Keep up the good work".

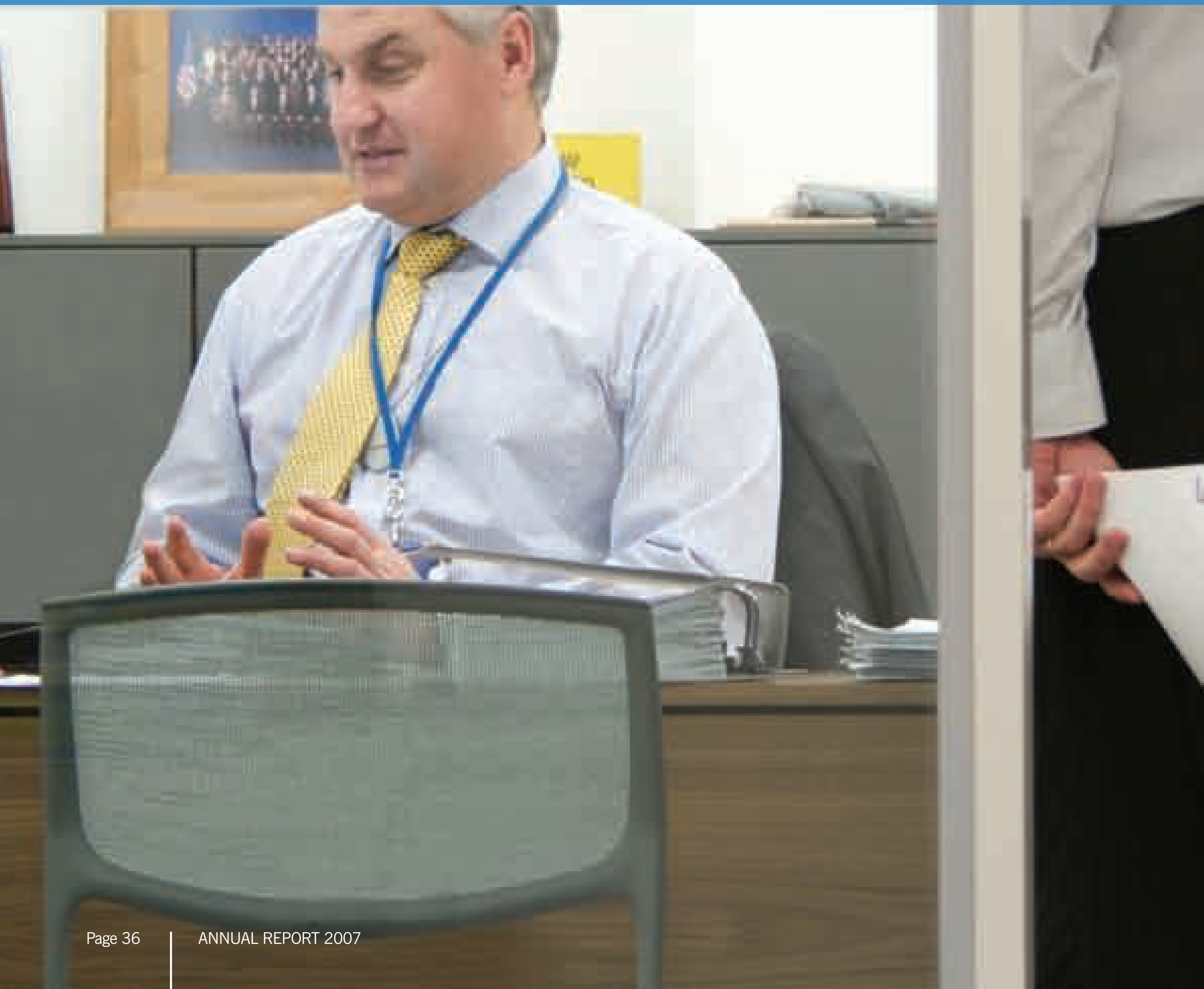
- Member of the public in the Philippines.

Leeds Bank

"Thank you very much for the valuable information … I have not remitted any money whatsoever because I went through the Commission report on the website, so I am saved. Thanks once again…"

- Member of the public in Malaysia.

‘Criminals can target members of the public using scam websites. The aim is always to defraud and deceive. Enforcement gives priority to investigating such cases.’



Enforcement Actions

During the year the Commission continued an action against an independent financial advisor (**"IFA"**) to recover monies that had been lost due to misleading investment advice having been given to clients. In February 2007, judgment was given in favour of the Commission and action was begun in the UK High Court against the IFA's professional indemnity insurer. The Commission also made a representation to the Royal Court under the Collective Investment Fund (Jersey) Law 1988 to wind up a number of funds and replace the fund functionaries, and these proceedings will continue into 2008.

Use of directions to protect the Industry and members of the public

The Commission issued directions on two occasions during 2007 to individuals effectively requiring them to obtain the approval of the Commission before re-entering employment within the Industry. The first case involved an incident of dishonesty connected to the payment of commission payments from investment advice. The second case arose from the use of bogus educational qualifications to obtain employment by false pretences. Details of the second case can be found on the Commission's website.

Interaction with the Industry

On the basis that prevention is better than cure, the Enforcement Division has participated in 18 presentations to the Industry in 2007 on topics ranging from the work of the Enforcement Division to anti-money laundering issues and ways to prevent fraud.

KEY TASKS FOR 2008:

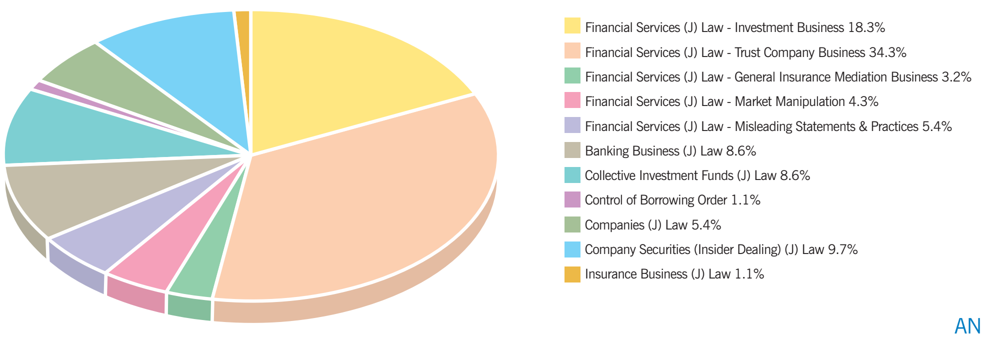
- The Development of the Commission's intelligence system in accordance with the National Intelligence Model.
- Engaging the public and industry with a publicity campaign to promote the prevention of financial crime.
- Consultation on the recovery of investigation costs through statutory provision.
- Consultation on an enabling power for fining.

Enforcement Case Statistics

Total Enforcement Cases during the period from 1 January to 31 December 2007

	Financial Services (J) Law - Investment Business	Financial Services (J) Law - Trust Company Business	Financial Services (J) Law - General Insurance Mediation Business	Financial Services (J) Law - Market Manipulation	Financial Services (J) Law - Misleading Statements & Practices	Banking Business (J) Law	Collective Investment Funds (J) Law	Control of Borrowing Order	Companies (Jersey) Law	Company Securities (Insider Dealing) (J) Law	Insurance Business (J) Law	Total
Active 1 January 2007	3	11	1	0	0	2	2	0	0	1	1	21
New cases in year (to 31/12/07)	14	21	2	4	5	6	6	1	5	8	0	72
Total during year (to 31/12/07)	17	32	3	4	5	8	8	1	5	9	1	93
Total shown as percentage	18.3	34.3	3.2	4.3	5.4	8.6	8.6	1.1	5.4	9.7	1.1	100
Balance 31 December 2007	5	12	1	2	0	2	3	0	1	4	0	30

Percentage breakdown of Enforcement activity during the year ended 31 December 2007



‘The Director, Registry, has continued to promote the Jersey Registry internationally.’

The Commission operates Jersey's Registry for companies, limited liability partnerships, limited partnerships and business names. The main ongoing work of the Registry is the incorporation of new entities and responding to enquiries concerning entities on its Registers. The Registry's work complements the Commission's aim to *"ensure that all entities we authorise meet fit and proper criteria"*.

The Registry incorporated 4,050 companies in 2007, another record year, beating the previous record holding year of 2006 by 16.4%. The increase shows the level of business activity in the Island during 2007.

Limited partnership formations during the year were 120 compared to 160 during 2006.

Nearly all other Registry registrations and processing, such as special resolutions and searches, have significantly increased.

The Registry adheres to published response time-scales, as shown in the table on page 44.

In November 2007, the Registry User Group met and discussed a number of issues such as the quality of service provided by the Registry, online services, business volumes flowing through the Registry, new products and fees. Sub-groups were set up to review fees, pilot the online registry environment and continue to monitor the new draft Registration of Business Names (Jersey) Law 200- (the **"Business Names Law"**).

During 2007, the progression of the Business Names Law was put on hold due to the large number of legislative developments required by the Commission in order to reflect changing international standards. This, though, did not stop the development of the automated disputes resolution system, which is a fundamental part of the new Business Names Law. A benefit from the delay has been to allow changes in the Companies (Jersey) Law 1991, the Limited Partnerships (Jersey) Law 1994 and the development of a Foundations Law to be taken into account. Revised Jersey intellectual property rights laws, which are being developed in 2008, will need to be reviewed along side the Business Names Law.

Automation and e-commerce projects

During 2007, the online search facility, online monitoring and the upgraded online filing system were progressed to final test systems. All systems have been embedded in a new website format to be known as Easy Company Registry (**"ECR"**). Using the feedback from the users of the online filing system during 2006 and 2007 our web designers have been tasked with making the look and feel user-friendly. The online environment is due to be released in the early part of the second quarter of 2008, after extensive testing by a pilot group made up of registry users.

International Promotion of the Jersey Registry

The Director, Registry, has continued to promote the Jersey Registry internationally, speaking at events such as the Corporate Registries Forum in Singapore and the European Commerce Registries' Forum (**"ECRF"**) in Latvia. Jersey is also responsible for the management and enhancement of the ECRF website. A local website design firm has secured the contract to create the new ECRF website.

After entering into an information sharing agreement with the European Business Register (**"EBR"**) in 2006, basic Jersey company information was available through the EBR network from May 2007. The EBR now has a membership of more than 21 European countries providing access to details on more than 20 million companies. The Director, Registry, attended and spoke at two EBR general meetings, and he also chaired the Corporate Governance Committee during the year.

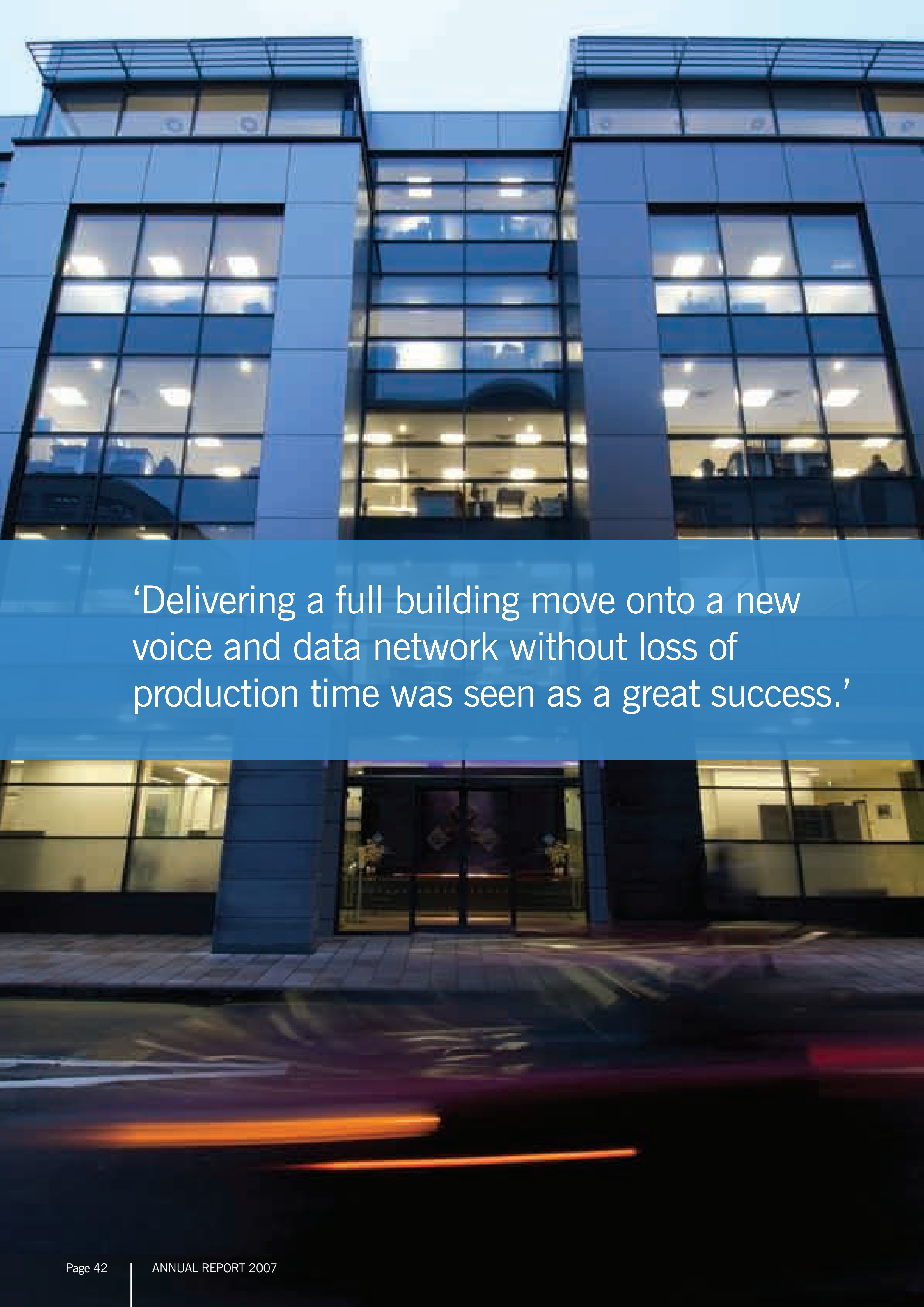
In May 2007, the Director, Registry, attended and spoke at the International Association of Commercial Administrators (**"IACA"**). IACA represents the company registries of the United States (**"US"**) and Canada. The Director, Registry, was elected to be the chair of the international section of IACA and a director of the board. The US is currently reviewing its disclosure requirements for the beneficial ownership of US companies and other global issues effecting registries.

Jersey continues to promote greater communication between registries globally. Contributions to Business Registries Interoperability Through Europe (**"BRITE"**) during 2007 have kept initiatives on cross border migration to the fore, ensuring that the Jersey Companies' Registry continues to be active internationally.

KEY TASKS FOR 2008:

- Maintenanace of an efficient service to users of the Registry.
- Implemention of the Registry's new online environment and commence work on business to business (**"B2B"**) developments for Registry users.
- Delivery of the revised Business Names Law and promotion of, and guidance to, the introduction of Amendment Nos. 9, 10 and 11 of the Companies (Jersey) Law 1991.
- Promotion of the Jersey Companies' Registry internationally.

‘The Registry incorporated 4,050 companies in 2007, another record year, beating the previous record holding year of 2006 by 16.4%. The increase shows the level of business activity in the Island during 2007.’



‘Delivering a full building move onto a new voice and data network without loss of production time was seen as a great success.’

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, Communications and Technology and Human Resources

The Commission's lease on Nelson House, David Place expired on 23 June 2007. The Commission successfully moved into its new offices at 14-18 Castle Street at the beginning of May 2007. This was achieved with minimal disruption to the Commission's programme of work and the provision of key services to Industry. The Commission is now situated at the heart of the growing financial district and the inclusion of larger meeting rooms has enabled the Commission to hold more events for Industry at its new premises.

Information, Communications and Technology (**"ICT"**)

2007 proved to be another busy year for ICT. Delivering a full building move onto a new voice and data network without loss of production time was seen as a great success.

ICT has continued to deliver a number of capital projects, including the first phase of the new Basel II project, new funds module, and an in-house developed risk model. Key projects for the Registry include access to the European Business Register and a new monitoring solution for Jersey companies to monitor all their electronic filings, which will act as an aid to prevent corporate fraud.

The Division has expanded by one member who will concentrate on Internet services. This extension will assist all future software developments, as each new system will have the capability to allow Industry to communicate more easily with the Commission and securely supply data using this effective business channel.

Human Resources (**"HR"**)

The Commission expects all employees to act in a manner consistent with its values, these being excellence, professionalism, integrity, teamwork, and respect for both colleagues and external clients.

With pressure to meet changing external requirements of regulation, the Commission's approach needs to be reflected in day-to-day practices and culture within the organisation. At the forefront of this change, the HR function provides continued and growing support to establishing an environment in which personal and professional learning and growth will meet these demands.

The Commission has been recognised for the Investors in People (**"IiP"**) Recruitment and Selection Award, reflecting the progress that has been achieved in recruitment and selection strategies. The Commission first achieved the IiP standard in 2001 and this award came as part of the successful completion of the ongoing assessment programme. In addition, the Commission received an award from the Jersey Child Care Trust in 2007 for being a family friendly employer.

KEY TASKS FOR 2008:

ICT

- Continuation of the Registry automation and web-enablement projects.
- Continued integration of the Commission software and databases to improve access and management of information.
- Creation of workflow processes to improve operational efficiency.

HR

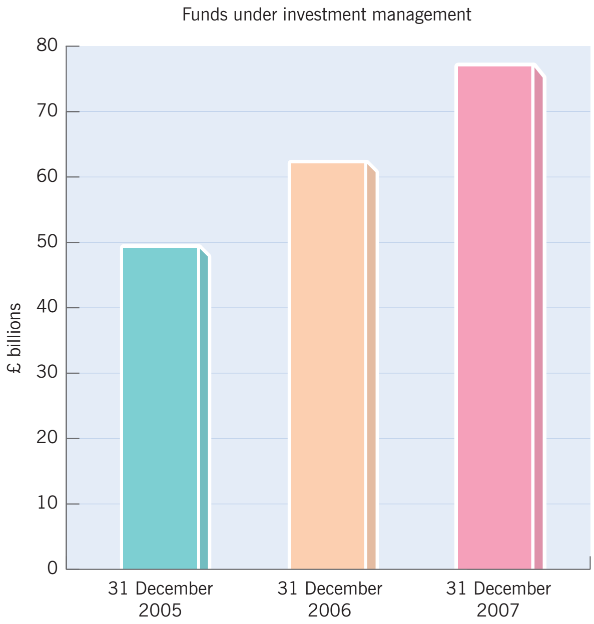
- Enhancement of key policies to ensure compliance with the next phase of the Employment (Jersey) Law 2003.
- Introduction of new processes to support work with existing employees to fairly reward excellent and outstanding performance.
- Continued support of career development by offering a range of structured and focussed programmes.

Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998 = £78.8 billion.

The total number of clients of investment managers = 17,629

Date	Funds under management (£ billions)	Number of clients
31 December 2005	49.2	19,570
31 December 2006	62.1	18,619
31 December 2007	78.8	17,629



Insurance Business

Total number of insurance licences = 182 of which:

Category A = 169
Category B = 13

At 31 December 2007 there were 117 registered general insurance mediation businesses.

Companies

Registry Processing - performance against target

	All Companies %	Partnerships %	Searches %	Certification %	Business names %
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
Achieved	98.3	99.1	100	100	98.7

Registry Processing - items processed

Date	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2005	12,413	103,992	775	113	2,108
2006	14,700	129,369	810	160	2,008
2007	14,900	178,125	713	120	1,999

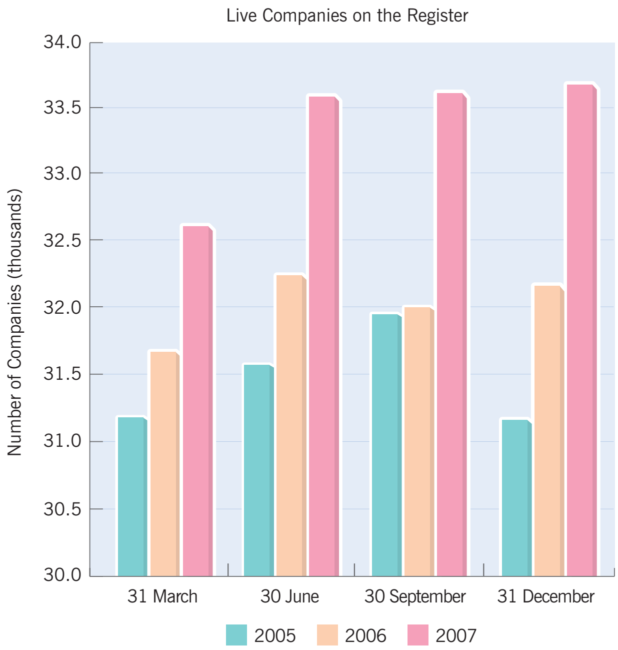
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2005	608	697	714	855	2,874
2006	921	875	774	909	3,479
2007	830	1,549	873	798	4,050

Live Companies on the Register

At 31 December 2007 (2006) there were 33,683 (32,155) live companies registered in Jersey.

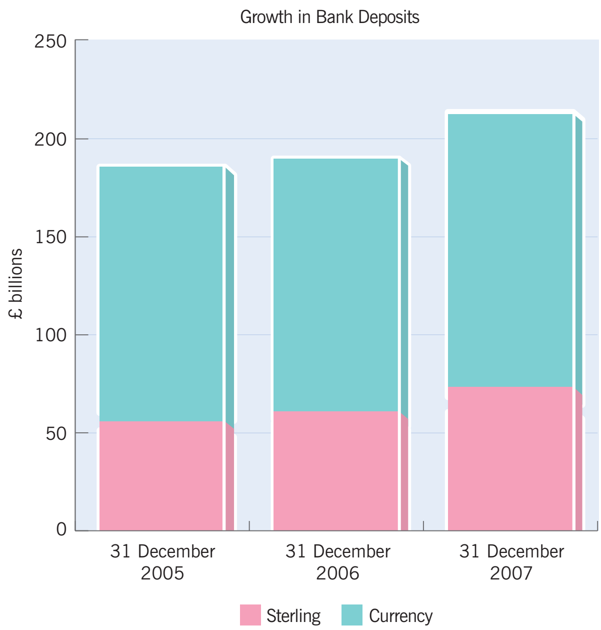
Date	31 March	30 June	30 September	31 December
2005	31,177	31,568	31,943	31,162
2006	31,664	32,234	31,996	32,155
2007	32,617	33,587	33,624	33,683



Banking

Banks and Bank Deposits - £ billions

Date	Number of banks	Sterling	Currency	Total
31 March 2005	48	52.621	109.580	162.201
30 June 2005	50	54.003	119.015	173.018
30 September 2005	49	55.189	124.467	179.656
31 December 2005	47	55.280	129.361	184.641
31 March 2006	46	56.991	131.003	187.995
30 June 2006	46	57.694	126.003	183.698
30 September 2006	45	59.275	128.282	187.557
31 December 2006	46	60.609	129.088	189.697
31 March 2007	46	63.481	135.104	198.585
30 June 2007	47	66.476	145.270	211.746
30 September 2007	48	69.614	149.912	219.526
31 December 2007	**48**	**69.401**	**142.918**	**212.320**

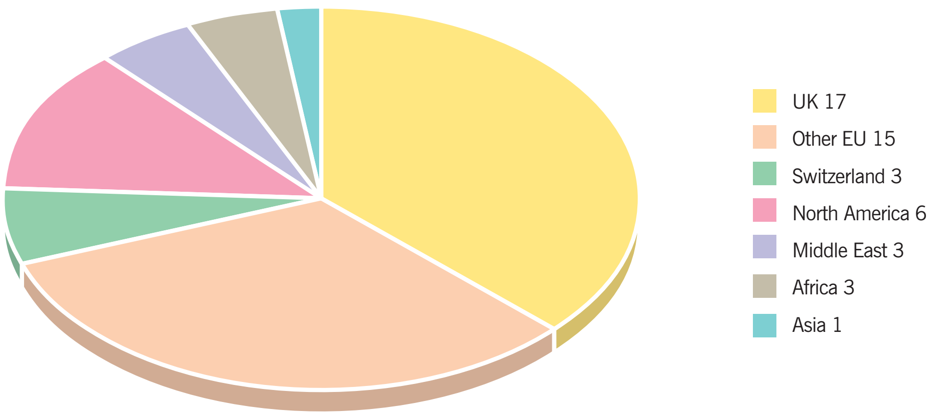


Banking

Analysis of Deposits - 31 December 2007 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	9.921	5.819	15.740
Jersey Financial Intermediaries etc	7.040	8.285	15.325
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	29.479	24.259	53.738
Subtotal	**46.440**	**38.363**	**84.803**
Other EU Members	3.620	13.480	17.100
European Non EU Members	7.536	57.194	64.730
Middle East	1.422	10.904	12.326
Far East	2.777	5.818	8.595
North America	2.777	12.408	15.185
Others, Unallocated non Jersey, UK etc	4.828	4.751	9.579
Subtotal	**22.961**	**104.556**	**127.517**
Overall total of deposits	**69.402**	**142.918**	**212.320**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	4.7%	2.7%	7.4%
Jersey Financial Intermediaries etc	3.3%	3.9%	7.2%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	13.9%	11.4%	25.3%
Subtotal	21.9%	18.1%	39.9%
Other EU Members	1.7%	6.3%	8.1%
European Non EU Members	3.5%	26.9%	30.5%
Middle East	0.7%	5.1%	5.8%
Far East	1.3%	2.7%	4.0%
North America	1.3%	5.8%	7.2%
Others, Unallocated non Jersey, UK etc	2.3%	2.2%	4.5%
Subtotal	**10.8%**	**49.2%**	**60.1%**
Overall total of deposits	**32.7%**	**67.3%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2007.



Funds

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

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2007

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

Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2005	137.430	965	2,437
31 December 2006	179.111	1,157	2,658
31 December 2007	246.150	1,311	2,934

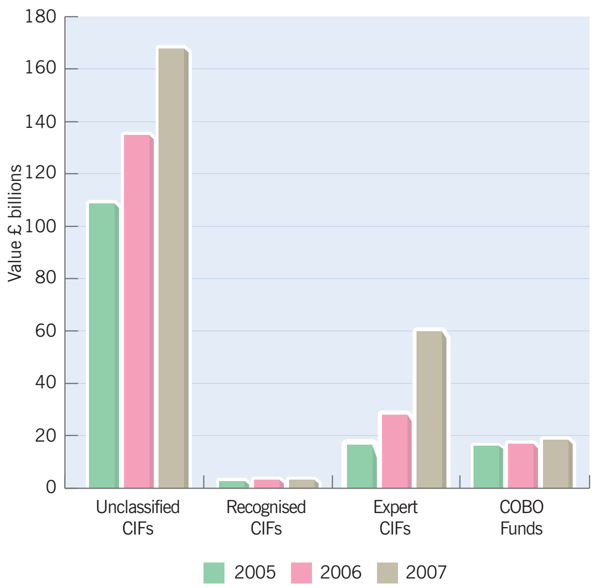
Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	82.993	465	563
CIFs	Open	146.041	606	2,115
	CIF Sub Total:	**229.034**	**1,071**	**2,678**
COBO Funds	Closed	9.932	194	194
COBO Funds	Open	7.184	46	62
	COBO Sub Total:	**17.116**	**240**	**256**
	Total:	**246.150**	**1,311**	**2,934**

Analysis by Class - 31 December 2007

Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	167.998	679	2,080
Recognised CIFs	2.738	9	55
Expert CIFs	58.298	383	543
CIFs Sub Total	**229.034**	**1,071**	**2,678**
COBO Funds	17.116	240	256
CIFs & COBO Funds Total	**246.150**	**1,311**	**2,934**

Analysis of funds by classification

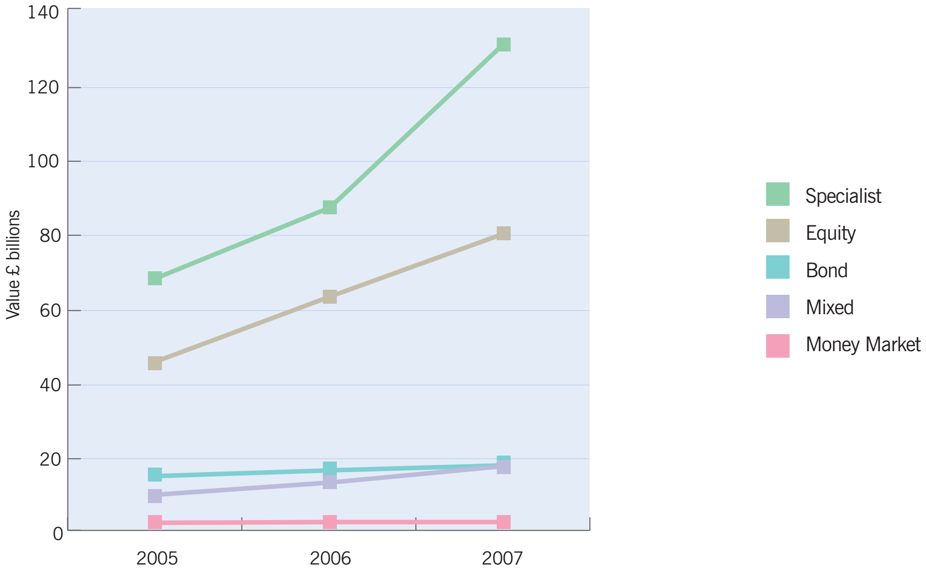


Funds

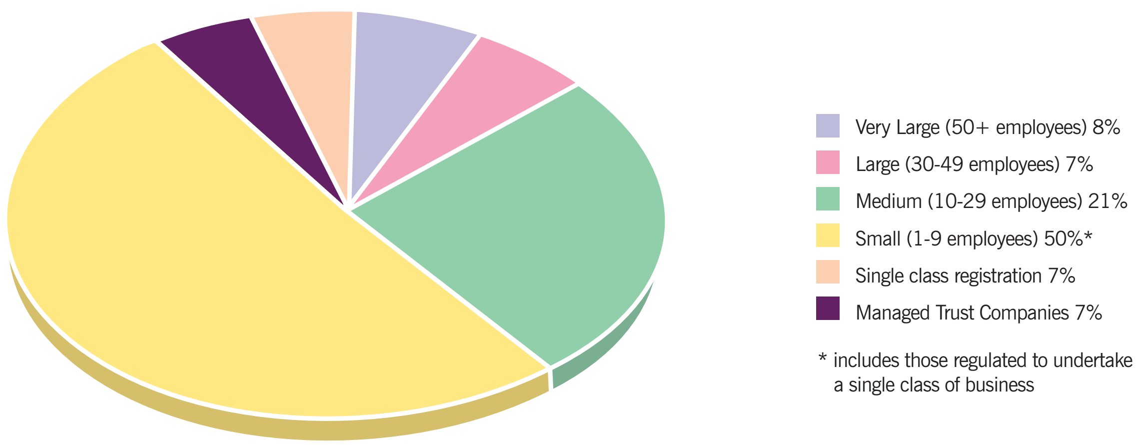
CIFs & COBOs - Analysis By Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	5	65	876	694	4,845
B02 - Bond-UK Debt	3	13	35	79	1,647
B03 - Bond-US Debt	1	15	536	272	1,842
B04 - Bond-Europe	1	23	189	320	1,979
B05 - Bond-Other	4	52	319	297	6,841
Sub Total Bond	**14**	**168**	**1,955**	**1,662**	**17,154**
E01 - Equity-UK	25	33	735	513	10,353
E02 - Equity-Europe (Including UK)	16	33	643	822	6,118
E03 - Equity-Europe (Excluding (UK)	14	10	1,458	1,098	6,346
E04 - Equity-US (North America)	9	29	684	976	6,413
E05 - Equity-Japan	3	11	278	240	1,209
E06 - Equity-Far East (Including Japan)	4	10	17	63	567
E07 - Equity-Far East (Excluding Japan)	3	13	188	275	1,622
E08 - Equity-Global Emerging Markets	6	6	400	213	1,824
E09 - Equity-Global Equity	37	134	4,952	1,835	23,393
E10 - Equity-Other	43	59	5,539	4,162	21,631
Sub Total Equity	**160**	**338**	**14,894**	**10,197**	**79,476**
X01 - Mixed-Mixed Equity and Bond	24	228	2,435	978	16,957
Sub Total Mixed	**24**	**228**	**2,435**	**978**	**16,957**
M01 - Money Market-Sterling	2	11	118	56	704
M02 - Money Market-US Dollar	1	11	82	102	409
M03 - Money Market-Euro	0	10	134	82	711
M04 - Money Market-Swiss	0	4	13	4	161
M05 - Money Market-Other	0	3	2	4	27
Sub Total Money Market	**3**	**39**	**349**	**248**	**2,012**
S01 - Specialist-Venture Capital/ Private Equity - Emerging Markets	45	0	18	0	2,854
S02 - Specialist-Venture Capital/ Private Equity - Other	212	5	264	56	17,724
S03 - Specialist-Real Property	155	33	2,142	239	30,365
S04 - Specialist-Derivatives	17	11	802	25	950
S05 - Specialist-Traded Endowment Policies	28	22	186	126	1,420
S06 - Specialist-Hedge/ Alternative Investment Funds	399	827	7,881	7,095	61,477
S07 - Specialist-Other	68	138	6,760	473	15,761
Sub Total Specialist	**924**	**1,036**	**18,053**	**8,014**	**130,551**
Grand Total	**1,125**	**1,809**	**37,686**	**21,099**	**246,150**

Funds - Analysis by Investment Code Policies



Breakdown of Trust Company Businesses by size.



'The Commission expects all employees to act in a manner consistent with its values, these being excellence, professionalism, integrity, teamwork, and respect for both colleagues and external clients.'

FINANCIAL STATEMENTS

INTRODUCTION TO THE FINANCIAL STATEMENTS

Fee income, at approximately £14.6 million, was some £1 million higher than in 2006. The increase came primarily from funds business, from registry fees, and from the additional income arising from the revised fee scales applicable to trust company business that took effect from January 2007.

Bank deposit interest received rose by £157,000 as a result of the higher fee income and the increase in interest rates during the year.

Under the provisions of Article 18 of the Financial Services Commission (Jersey) Law 1998, the Commission pays an amount each year into the annual income of the States of Jersey Treasury. The annual contribution to the States remained at £4.1 million in 2007. After taking this payment into account, the net income available to the Commission for its own expenditure increased to £11.1 million this year from £9.8 million in 2006.

Staff costs increased as a consequence of the increasing scope of regulation, including the establishment of an anti-money laundering unit. The Commission has been increasing staff numbers to a level that is sufficient for it to be able to properly carry out its functions.

The Commission's lease on its offices expired in 2007, so in May the Commission moved to new premises. Expenditure on accommodation therefore increased by £200,000 as a result of this move, although the new lease includes a rent-free period that will be accounted for over the full term of the contract.

In order to maintain an appropriate level of on-site examinations of regulated businesses, in 2007 the Commission continued the practice that it began in 2005 and employed external professional firms to provide advice and assistance, particularly the performance of some themed examinations on behalf of the Commission.

The Commission continued to manage its finances carefully, but during the year there was higher expenditure on computer systems in order to improve administrative efficiency, and on travel costs so as to maintain and extend contacts with overseas regulatory authorities and international standard-setting organizations.

The amount spent on investigations during the year rose to £882,000 from £519,000 the year before, because of the advent of two new major investigations involving regulatory intervention that remain ongoing. Despite this, 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.

Operating expenses rose from £8.9 million to £10.8 million so, after accounting for the increased income, the net result for the year was an operating surplus of £303,000 and a consequent rise in reserves to nearly £5 million. The Commission's policy in respect of its accumulated reserve is to build up such a reserve equal to one quarter's operating expenditure plus the average of one year's cost of investigations and litigation, in order to meet contingencies.

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

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

The Financial Services Commission (Jersey) Law 1998 requires the Commissioners to prepare financial statements for each financial year. Under that law the Commissioners have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable Jersey law. The financial statements are required to give a true and fair view of the state of affairs of the Commission and of the surplus or deficit of the Commission for that year. In preparing these financial statements the Commissioners are required to:

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

The Commissioners are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the financial statements comply with the Financial Services Commission (Jersey) Law 1998. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

For and on behalf of the Board of Commissioners
C. F. Renault
Commission Secretary
2 May 2008

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

INDEPENDENT AUDITORS' REPORT TO THE MINSTER FOR ECONOMIC DEVELOPMENT

We have audited the financial statements of the Jersey Financial Services Commission for the year ended 31 December 2007 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out herein.

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

Respective responsibilities of Commissioners and Auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with applicable Jersey law and United Kingdom Generally Accepted Accounting Standards, of the state of the Commission's affairs as at 31 December 2007 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Bristol
United Kingdom

2 May 2008

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	£000	2007 £000	£000	2006 £000
Income:					
Regulatory fees	4 (a)		8,228		7,347
Registry fees	4 (b)		6,381		6,169
Profit on sale of tangible fixed assets			1		-
Bank deposit interest received			569		412
Total income			15,179		13,928
Contribution to States of Jersey			4,100		4,100
Net income			11,079		9,828
Operating expenses:					
Staff salaries, social security and pension contributions		6,938		6,077	
Operating lease expenditure		466		319	
Other premises costs		362		306	
Computer systems costs		350		291	
Legal and professional services		455		301	
Investigations and litigation	5	882		519	
Public relations costs		35		41	
Travel costs		186		142	
Staff training		155		159	
Recruitment costs		63		139	
Other operating expenses		265		216	
Auditors' remuneration		13		16	
Depreciation of tangible fixed assets	7	606		411	
Total operating expenses			10,776		8,937
Excess of income over expenditure			303		891
Accumulated reserve brought forward			4,684		3,793
Accumulated reserve carried forward			4,987		4,684

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 62 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed Assets:					
Tangible assets	7		1,171		522
Current Assets:					
Fee income receivable		5		3	
Sundry debtors		32		10	
Prepayments		235		186	
Cash at bank and in hand		7,733		7,736	
		8,005		7,935	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	3,424		3,202	
Creditors and provisions	6	765		571	
		4,189		3,773	
Net Current Assets			3,816		4,162
Total Assets less Current Liabilities			4,987		4,684
Represented by:					
Accumulated reserve			4,987		4,684

The notes on pages 58 to 62 form an integral part of these financial statements.

The financial statements on pages 55 to 62 were approved by the Board of Commissioners, and signed on their behalf on 2 May 2008 by:

G C Powell CBE
Chairman

J A Richomme
Deputy Chairman

		2007		2006
	£000	£000	£000	£000
Reconciliation of net income to net cash inflow from operating activities				
Net income for the year		303		891
Profit on sale of tangible fixed assets		(1)		-
Interest received		(569)		(412)
Depreciation charges		606		411
(Increase)/Decrease in debtors and prepayments		(73)		36
Increase in creditors		416		499
Net cash inflow from operating activities		682		1,425

Cash Flow Statement

Net cash inflow from operating activities		682		1,425
Returns on investments and servicing of finance				
Interest received		569		412
Capital expenditure				
Payments to acquire tangible fixed assets	(1,255)		(355)	
Receipts from sale of tangible fixed assets	1	(1,254)	-	(355)
(Decrease)/Increase in cash		(3)		1,482

Reconciliation of net cash flow to movement in net funds

	2007 £000	2006 £000
(Decrease)/Increase in cash in the year	(3)	1,482
Net funds at 1 January	7,736	6,254
Net funds at 31 December	7,733	7,736

1. Accounting policies

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

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

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

c) Fixed assets are stated at cost less depreciation.
Depreciation on tangible fixed assets is calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives.
Computer equipment is depreciated over three years.
Computer software costs are written off as incurred to the Income and Expenditure Account, except for purchases in respect of major systems. In such cases, the costs are depreciated over three years.
Office furniture, fittings and equipment are depreciated over five years.

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

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

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

g) The contribution to the States of Jersey is shown as a deduction from total income in order to reflect clearly the amount available to fund the activities of the Commission.

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

2. Related party transactions

Whilst there are transactions on an arm’s length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions. However, Jacqueline Richomme is a Commissioner and also a partner of Mourant du Feu & Jeune. Similarly, Frederik Musch is a Commissioner and also the Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers Belgium. During the year, the Commission used Mourant du Feu & Jeune and PricewaterhouseCoopers to provide certain legal and professional services. Costs incurred were £70,000 (2006 - £56,000) and £42,000 (2006 - £18,000) respectively. These were contracted on an arm’s length basis, and are not considered to be significant in the context of the business of the parties.

3. Taxation

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

4. Income

	2007 £000	2006 £000
a) Regulatory fees		
Banking	**1,321**	1,188
Funds	**2,886**	2,537
Insurance companies	**516**	536
General insurance mediation	**88**	74
Investment business	**1,112**	1,085
Trust companies	**2,305**	1,927
	8,228	7,347

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.

c) Regulatory fees received in advance

	2007 £000	2006 £000
Banking	**1,430**	1,381
Funds	**1,216**	1,042
Insurance companies	**391**	370
General insurance mediation	**-**	2
Investment business	**379**	376
Trust companies	**8**	31
	3,424	3,202

5. 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. Net costs incurred during 2007 amounted to £882,000 (2006 - £519,000).

6. Creditors and provisions

	2007 £ooo	2006 £ooo
General expense creditors	496	346
Accruals	269	123
Provisions	-	102
	765	571

Accruals contain an amount of £213,000 (2006 - nil) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

7. Tangible assets

	Office Furniture Fittings & Equipment £ooo	Computer Equipment £ooo	Total £ooo
Cost of assets at 1 January 2007	485	1,810	2,295
Additions during year	451	804	1,255
Disposals during year	(470)	(126)	(596)
Cost at 31 December 2007	466	2,488	2,954
Depreciation at 1 January 2007	435	1,338	1,773
Charged during year	97	509	606
Eliminated on disposals	(470)	(126)	(596)
Depreciation at 31 December 2007	62	1,721	1,783
Net book value at 31 December 2007	404	767	1,171
Net book value at 31 December 2006	50	472	522

8. Financial commitments

The Commission has entered into an agreement through JFSC Property Holding No.1 Limited (note 11) to lease premises for the Commission's occupation.

	2007 £ooo	2006 £ooo
The annual rentals payable under this operating lease are:		
For a period of less than one year	-	160
For a period of more than five years	490	98

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

9. Contingent liabilities

At the balance sheet date the Commission has provided an indemnity of up to £10,000 in connection with the investigation of alleged mis-selling by regulated entities and the subsequent compensation of investors.

The Commission has also provided an indemnity of up to £90,000 to the liquidators of a regulated entity against the possibility that legal actions commenced by the liquidators are lost and that cost awards are made against the liquidators.

No provision has been made in the accounts for these possible future costs, because the outcome and therefore any obligation to make payments remains uncertain and is considered remote.

10. Commissioners' remuneration

Fees paid to Commissioners were as follows:

		2007 £	2006 £
Colin Powell	Chairman	**45,000**	45,000
Richard Pirouet	Deputy Chairman (resigned 31 May 2007)	**10,000**	24,000
Jacqueline Richomme	(appointed Deputy Chairman 15 June 2007)	**21,271**	18,000
John Averty		**18,000**	18,000
John Boothman	(appointed 30 June 2006)	**18,000**	9,000
Michael Clapham		**18,000**	18,000
Scott Dobbie		**27,500**	27,500
John Harris		**nil**	nil
Clive Jones	(appointed 23 October 2007)	**3,452**	n/a
Frederik Musch		**27,500**	27,500
Sir Nigel Wicks	(appointed 20 July 2007)	**12,375**	n/a
Andrew Winckler	(deceased 15 January 2007)	**n/a**	27,500

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 £225,000 for the year (2006 - £17,000 during the period from 1 November 2006 (his date of appointment) until 31 December 2006) in his capacity as Director General.

11. Interest in wholly-owned companies

The Jersey Financial Services Commission has two wholly owned companies, JFSC Property Holding No.1 Limited and JFSC Property Holding No.2 Limited.

JFSC Property Holding 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 Holding No.1 Limited whereby the Commission will be responsible for all expenditure associated with the lease. The company holds no assets or liabilities and therefore has not been consolidated in the financial statements.

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

12. Pension costs

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

Salaries and emoluments include pension contributions for staff to this scheme amounting to £91,000 (2006 - £87,000). The increase is due to the annual pay review. 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 benefit 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 2008.

Actuarial valuations are performed on a triennial basis, the most recent being at 31 December 2004. The main purposes of the valuation are to review the operation of the scheme, to report on its financial condition, and to confirm the adequacy of the contributions to support the scheme benefits.

The conclusion of the latest valuation is that there is a deficiency in the scheme assets at the valuation date of £17.4 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, at the date of the latest valuation at 31 December 2004 there was also a debt of £123 million due to the scheme from the States of Jersey that relates to the period pre-1987. The Committee of Management of PECRS advised the Commission that its share of the pre-1987 debt was approximately £1.5 million, and the Commission settled 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 £325,000 (2006 - £281,000). The increase is due to rising staff numbers.

Particulars of the scheme may be obtained from The Commission 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 in July 2003 and updated in June 2006, 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.

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 the Island;

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

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

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

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

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

Constitution of the Board

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

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

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

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

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

(c) individuals representing the public interest.

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

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

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

‘The Commission is committed to achieving high standards of corporate governance.’

Vacancies that arise on the Board are filled through the use of an open and transparent process. The Board follows the procedures recommended by the Jersey Appointments Commission - a body set up by the States of Jersey to overview all public sector appointments. A vacancy is always advertised and once a suitable candidate is identified a recommendation is made to the Minister. Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States of Jersey. If the Minister is satisfied with the Commission's recommendation, the Minister will take an appropriate proposition to the States for debate.

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

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

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

Operation of the Board

The Board usually meets at least ten times a year and will hold additional meetings when circumstances require it. 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 2007 the Board of Commissioners met ten times. Attendance was as follows:

Colin Powell	10/10
Richard Pirouet	4/4
Jacqueline Richomme	10/10
John Harris	8/10
John Averty	8/10
John Boothman	10/10
Michael Clapham	10/10
Scott Dobbie	10/10
Clive Jones	1/2
Frederik Musch	7/10
Sir Nigel Wicks	3/4

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 www.jerseyfsc.org

On an annual basis, the Board holds an Away Day. This event, which is also attended by the Director General, Deputy Director General and Divisional Directors, is an opportunity for the Board to conduct a frank evaluation of its performance during the year and discuss possible changes to its modus operandi. The Away Day also provides an opportunity to discuss strategic issues for the year ahead.

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

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

The Board monitored key risks during 2007 in compliance with the guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code (The Turnbull Guidance)'. The Board maintains a Risk Management Schedule that identifies the risks faced by the Commission and the controls that are in place to keep each risk within an acceptable level. Risks are identified by Division and regular reports submitted to the Board to enable it to ensure that appropriate controls remained in place.

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.

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

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

The members of the Audit Committee during 2007 were Scott Dobbie (Chairman), John Averty and John Boothman.

The Audit Committee met five times during 2007.

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

The key duties of the Nomination Committee are:

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

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

Responsibility for evaluating the Chairman's performance lies with the non-executive Commissioners led by the Deputy Chairman.

The Nomination Committee met once during 2007. Commissioner Andrew Winckler, who had been a Commissioner since the inception of the Commission, died on 15 January 2007. Having served three terms of office Commissioner Pirouet retired on 31 May 2007, with Commissioner Richomme replacing him in the post of Deputy Chairman. Two new Commissioners were appointed to fill the vacancies the first of whom was Sir Nigel Wicks who joined the Commission on 20 July 2007. The second Commissioner to be appointed was Commissioner Clive Jones who joined the Commission on 23 October 2007. The Board held an Away Day with the Executive in September 2007 and the Chairman reported on the annual evaluation of the performance of the Board, its Committees, and individual Commissioners at the Nomination Committee meeting held in October 2007.

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

The key duties of the Remuneration Committee are:

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

The members of the Remuneration Committee during 2007 were Richard Pirouet (Chairman until May 2007), Jacqueline Richomme (Chairman from July 2007), Colin Powell (from July 2007) and Michael Clapham.

The Remuneration Committee met twice during 2007.

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 his or her own remuneration.

Accountability arrangements

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

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

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

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

NOTES

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