Jersey Financial Services Commission

Annual Report

2018

› Delivering balanced, progressive, risk-based financial services regulation, built on insight, integrity and expertise.

Jersey Financial Services Commission

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Annual Report

2018

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Highlights and achievements 2018

01.

Celebrated 20 years as the Island's financial services regulator

02.

Collected 2.7 million data items from Industry as part of our supervisory risk data collection exercise and in support of the National Risk Assessment

03.

Completed restructure of our Supervision division to enhance risk-based approach

04.

Received landmark Royal Court judgment in favour of our enforcement action

05.

Launched ground-breaking online tool to transform Jersey Private Funds applications process

06.

Amended legislation to extend civil financial penalties to individuals

07.

Approved 340 new regulatory licences across all sectors

08.

Expanded Jersey's Investment Business regime to include the regulation of advice given on transferring out of defined benefit pension schemes

09.

Raised more than £12,000 for charitable causes through staff donations

10.

Achieved unprecedented staff survey results with 99% response rate

11.

Collaborated with Government on successful completion of statutory review of mutual Crown Dependencies, Overseas Territories and UK Exchange of Notes.

12.

Appointed Martin Moloney as Director General and Mark Hoban and Monique O'Keefe as Commissioners.

01.

Jersey Financial Services Commission: our role

What we do

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

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

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

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

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

We aim to fulfil these responsibilities by:

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

01.

The Industry we regulate

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

The key Industry sectors include:

Banking

Jersey's 25 banks attract clients from more than 200 countries and a sizeable share of the Island's total deposits are held in foreign currencies - a reflection of Jersey's international appeal as a banking centre.

- The Island's banking model is stable and diversified, and the sector's average capital ratios remain strong and well above Basel III requirements
- We have seen a trend in declining licence numbers, which has, in part, been prompted by rationalisation. This is due to the prolonged low interest rate environment and also to structural reform of the UK banking sector
- Re-structuring to comply with the UK's ring-fencing regime concluded in 2018 and these changes provided opportunities for banking businesses in Jersey to develop more profitable asset books
- Our Banking Business Licensing Policy provides a workable and flexible framework for a wide variety of banks to operate within a strong regulatory framework.

Investment Business

Licence numbers within Jersey's investment business sector remained relatively static during 2018, with 82 licences held at the end of the year. The profile of those licence holders typically ranges from smaller owner-managed firms to branches and subsidiaries of large multinational financial services groups.

Services being provided to local and international clients primarily relate to discretionary investment management services, the provision of investment advice, and dealing and custody services.

We saw a slight increase in the number of discretionary investment management clients, with 14,795 reported at the end of December 2018, and likewise a slight increase in the assets under management to £23.6 billion.

There was a drop in the number of qualifying segregated managed accounts (QSMA) during 2018, falling from 22 at the end of 2017 to 16 at the end of 2018. Assets under management in QSMA however remained fairly constant with £1.5 billion compared to £1.6 billion at the end of the previous period.

Licensing activity in the sector was limited with three new licences granted during 2018. That said, we continue to receive enquiries for potential applications.

14,795

A slight increase in the number of discretionary investment management clients, with 14,795 reported at the end of December 2018

£23.6 billion

A slight increase in the assets under management to £23.6 billion

22 ↘ 16
2017 2018

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£1.5 billion

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01.

Funds

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

£319.9 billion

The total net asset value (NAV) of funds under administration in Jersey stands at £319.9 billion

963

Jersey has 963 regulated collective investment funds

NAV of £3.2 billion

The Private Placement Fund regime was introduced in May 2013 and there are currently 55 Private Placement Funds with a reported collective NAV of £3.2 billion

202 approved

We introduced the Jersey Private Fund Guide in April 2017 to modernise the Island's private funds regime, amalgamating the Private Placement Fund, the COBO-only fund and the Very Private Fund. The Jersey Private Fund can be marketed to up to 50 professional investors and at year end 202 funds had been approved

Trust and Company Business

At the end of 2018, Jersey had 186 trust and company service providers, holding 843 licences.

Having had its own Trust Law since 1984, the Island has a mature trust sector. Trust and company service providers range from long established owner-managed businesses to trust companies owned by some of the larger banks. However an increasing number of businesses in the trust sector have seen considerable private equity investment in recent times.

We are an active member of the Group of International Finance Centre Supervisors (GIFCS) which promotes compliance with both the Basel Core Principles and the FATF recommendations. GIFCS strives to ensure its member jurisdictions apply AML/CFT standards. It has established its own Standard for Regulation of Trust and Company Services Providers.

Capital Markets

Jersey has been attracting deposits and investments from institutions and private clients across the world for more than 50 years.

The Island supports cross-border capital markets transactions structured by leading investment banks and professional services firms.

£323.42 billion

£221 billion

Jersey listed companies on global exchanges held a total combined market capitalisation of £221 billion (compared to £323.42 billion in 2017)

86

Jersey has 86 companies listed on global stock exchanges

FTSE100

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

Figures source: Jersey Finance

02.

› Vision from the top: Chairman’s statement

02.

Vision from the top: Chairman's statement

2018 was an eventful year for the JFSC. We contended with global pressures including supporting the Island's response to the European Union's list of non-cooperative tax jurisdictions and, of course, preparing for the UK's departure from the EU. Both activities have occupied a great deal of our time and effort. In the midst of evolving, often highly-politicised challenges, we delivered successfully the planned stages of our change programme, further innovation in the Companies Registry, and business as usual – our ongoing programme of supervisory, enforcement and registry activities.

This was our objective in 2018: to be an agile regulator, a regulator that encourages dialogue with firms, a regulator that listens to the wider network affected by and interested in its work, a regulator that delivers against its objectives.

20 years of the JFSC

2018 marked the 20th anniversary of the Law that established the JFSC and this warranted a reflection on our relatively short history. We have faced persistent challenges through the continual evolution of international regulatory standards, the need to deliver proportionate regulation for the finance industry that contributes 40% of Jersey's Gross Value Added, and through the impact of external events, notably the financial crisis of 2007-2008. In each case I believe that our agility allowed us to react well, enabling us to calibrate appropriate responses that, first and foremost, serve the needs of the Island.

Our Registry exemplifies the very best of the JFSC. Its journey over the past 20 years mirrors the developments in scale and complexity felt throughout our organisation. We have come from what was effectively a single, (very) partially computerised register to now housing more than nine registers in electronic form. Our registers are recognised as best-in-class by our international peers and are accessible to enforcement agencies worldwide.

Our first guiding principle is to protect consumers and, in turn, the reputation of the Island. This focus drove the organisation's rapid development from 1998: widening our perimeter to include Trust Company Business in 2000; Fund Services Business in 2007; the host of firms supervised for AML/CFT in 2008; the extension of our powers to include civil financial penalties in 2015; and the extension of our registry data to better capture beneficial ownership and control information in 2017.

Facilitating market access is one of our other critical functions. Examples from our short history include achieving Alternative Investment Fund Managers Directive (AIFMD-) equivalence in 2012, introducing the innovative Jersey Private Fund (JPF) in 2017 and our ongoing support for regulated firms operating with crypto-assets. We were early adopters of AIFMD, ensuring Jersey operators were not just adequately regulated but measurable against the highest international standards. The creation of the JPF, in collaboration with Government and Industry, has been a great success as demonstrated by the 202 JPFs formed by the end of 2018.

"The JFSC of today is responsive and far more open to dialogue than ever before"

02.

Education also plays a key role in our work, both for Industry and the general public. Our innovative campaign on investment mis-selling, in partnership with the UK's Personal Finance Society, epitomises the success of what focused public awareness activities can achieve. We also undertake financial education in classrooms at two-thirds of Jersey's secondary schools and actively participate in global initiatives such as IOSCO's World Investor Week each year.

With increased responsibilities naturally follows an increased need to be open and transparent, and to listen to all parties affected by our work. Feedback from my personal meetings with Industry and other bodies suggests that the JFSC of today is responsive and far more open to dialogue than ever before. While we will not always make popular decisions, we will engage to provide reasons for them.

Now to 2018 itself and change seemed an ever-present theme throughout the year for all areas of the organisation; whether that was driving forward the final elements of our change programme, preparing for the General Data Protection Regulation (GDPR), making the necessary legislative preparations for the UK's exit from the EU or the retirement of John Harris as Director General after 12 years of service.

The Executive team take collective responsibility

The period preceding the appointment of our new Director General, Martin Moloney, saw the Executive team share collective responsibility for leading the organisation, while fulfilling their own roles. Fitting into the peculiar, and occasionally awkward, role of "Quasi-Executive Chairman" has afforded me the opportunity to gain deeper insights into the work of the directors and their teams. It was a naturally challenging period for the Executive to ensure that it was business as usual, both inside and outside the organisation, and that they delivered our business plan objectives for the year.

Reacting to changes in international standards saw members of the JFSC Policy teams attend a Financial Action Task Force (FATF) plenary, contribute substantially to a FATF paper on beneficial ownership and work with Government on the publication of consultation papers on legislative amendments associated with implementing the FATF Recommendations. They also represented the Island at MONEYVAL and formed part of a MONEYVAL assessment team.

During 2018 members of the Policy and Supervision teams also continued working with the Group of International Finance Centre Supervisors (GIFCS) on its evaluation of our trust and company service providers' framework. This was a significant piece of work, following their onsite visit in 2017, and subsequently we have made minor enhancements to our existing regime on the Group's recommendation. I am pleased with the positive results in the published report, which demonstrate yet again Jersey's commitment to and compliance with international standards.

It will be no surprise that the most frequent topic raised in my interactions with Industry during 2018 was our supervisory risk data collection exercise and the National Risk Assessment (NRA). Many firms have seized the opportunity to improve information management and to enhance their understanding of risk in their customer base. Data-driven activity is the "new normal" and, while it continues to be a challenge, I am confident that the future benefits will be tangible.

Our regulatory regime is always evolving because it needs to in order to ensure we meet international standards and adhere to our guiding principles. In 2018 the Policy team expanded Jersey's Investment Business regime to include the regulation of advice given on transferring out of defined benefit pension schemes and had discussions with Government about the possibility of the JFSC regulating pensions and consumer lending in the future. The team, working with colleagues in Supervision and Operations, also did the groundwork to adopt Basel III banking standards for subsidiaries and local branches with the delivery of online functionality for prudential reporting.

The Executive team oversaw further structural and system changes in our Supervision division during the year, which included the development and deployment of the Customer Relationship Management (CRM) system to support risk-based supervision. These improvements in digital capability led to increased engagement with the regulated community over the course of the year, with more face-to-face meetings, regular onsite visits and thematic examinations. Supervision also launched the first online application, the JPF, and began preparing the functionality and agreeing the prioritisation of further online applications.

Amendments to our civil penalties regime in 2018 mean that we can now fine individuals, as well as firms, for significant and material regulatory misconduct. This addition to our powers is a welcome change and brings us in line with international standards. In the most serious case in 2018, members of the Enforcement team, with their Supervision colleagues, gave evidence at the criminal trial of a financial adviser who was found guilty and sentenced to seven years in prison for defrauding his clients, conducting unauthorised financial services business, and providing the JFSC with false and misleading information.

We must not forget the significant developments in our Registry during the year. While the Central Register of Beneficial Ownership and Control took centre stage in 2017, the subsequent administration of the register has seen our small team dealing with considerable volumes of transactions. In fact, there was 1200% increase in the number of changes the Registry processed for updates to beneficial owner and controller information. With public registers still very much on the UK parliamentary agenda, members of the Executive met with MPs Dame Margaret Hodge and Andrew Mitchell to demonstrate the JFSC's commitment to transparency. The Registry team also worked on developing the new Registry Law and the new Register of Directors, and made good progress with improving portal services and creating the new registry platform.

Innovation was a significant feature of our work during 2018. Bitcoin and 'crypto' rapidly became ever-present in the media, not least because of a volatile market. Four years earlier, after extensive consultation and risk assessment, we approved the regulation of the Island's first bitcoin fund and, in 2016, we introduced legislation to regulate virtual currency exchanges for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). In 2018 we stepped up activities in this area by having regular interactions with firms in the Fintech space and showing commitment to innovation and Regtech by joining the Global Financial Innovation Network. The Policy team also published guidance on Initial Coin Offerings. Regarding our own digital improvements, the team developed an important Application Programme Interface (API) capacity and began work on the design and development of our new website, which will go live in 2019.

It's people who matter

During what could potentially have been an unsettling period for our people, I was delighted with the way in which staff responded to the challenges. This was reflected in the highly positive results of the internal survey conducted in November. All bar 1% of the workforce completed the voluntary questionnaire, of which 91% said they were proud to work at the JFSC and 100% cared about the future of the organisation.

I would like to express my sincere thanks to the Executive team and all the staff for their commitment and hard work throughout 2018. It was a year of transition and all our people delivered under challenging circumstances.

I would also like to thank my fellow Commissioners for their support and dedication. In particular I give thanks to two members of the Board who retired during 2018: Michael de la Haye and Debbie Prosser. Michael de la Haye provided wise counsel during his tenure. Debbie Prosser served as a commissioner for ten years and as my Deputy Chair for the last three years of her term. Her commitment and support to the Board, and the organisation more widely, was unwavering during that time. Jersey is in her debt. My thanks go also to Ian Wright who has assumed the role of Deputy Chair.

Looking ahead and the future is guaranteed to bring further change and challenges for the JFSC, whether in relation to pressure to introduce public registers before they are the international standard, to achieve success in upcoming international assessments or to deal with the next unexpected challenges market forces produce. Martin Moloney takes the reigns as Director General in 2019 and, on behalf of my fellow Commissioners, the Executive team and the staff, I look forward to working with Martin as we embark on a new chapter for the organisation.

Entering my final full year as Chairman, I find that my confidence in the JFSC's agility, talents and professionalism is as strong as ever.

John Eatwell
Chairman

03.

› A smart outlook: Director General's statement

03.

A smart outlook: Director General's statement

I have arrived in Jersey as incoming Director General of the JFSC just after the end of the period which this annual report covers.

I am struck by the professionalism and talent here at the JFSC and how much has been achieved in the recent, ambitious change programme. As we bring this programme to a conclusion – a little later than targeted - in 2019, this will position us well for the substantial challenges ahead.

So while this Annual Report rightly focuses on what has gone before, I take this opportunity to look ahead.

And there are very significant challenges. The post-crisis period has been dominated for over a decade by the reform of regulatory law and the G20 post-crisis agenda. That period is coming to an end and new challenges are front and centre. The most difficult is the effectiveness of supervision in sifting through an increasingly complex and technology-driven industry to find and remediate those regulated firms which are falling below required standards.

It seems clear to me that of all the international financial centre jurisdictions, Jersey has no peers in terms of its cultural approach to good governance, its strong judicial system and its determination to have an independent regulator with teeth which is committed to high standards.

My intention during my tenure is to cement further the Island's reputation as a leading international finance centre by building its supervisory capacity to differentiate between those firms where we need to intervene and those we can leave to go about their well-regulated commercial activities.

Short-term goals of anyone in my position are inevitably all about getting plugged into the local ecosystem and opening up dialogue with Industry and Government about where we need to go. That is particularly important because the costs of regulation will rise and we need to be able to provide assurance that those increased costs are worth it.

And, of course, getting to know the intricacies of this organisation and the highly committed people who work here is also crucially important. I am already heartened by what I see of the team's shared passion to deliver a first-class public service. I look forward to working with the staff, the Executive and the Commissioners to bring about positive changes.

Medium-term, I am focusing on identifying what I will achieve over the next three years and I will be opening up that strategy discussion straight away. Discussion will be centred on technology and culture as the two core themes of the next phase in the development of the techniques of supervision. If we can build an approach here that is distinctively ours and which isn't afraid of either the impact of culture or technological innovation, then we will have done well. I don't just mean the culture in individual firms or the innovation that

firms take on, but the culture and overlapping technology that the JFSC and Industry share together. This is the big challenge for all of us. Tackle that and Jersey's financial services sector will prosper in a sound regulatory environment.

My longer-term goals are embedding a supervisory approach on the Island that is all about 'smart regulation.' Jersey should be a byword for regulation that delivers diligent supervision and high standards in ways that minimise costs for Industry. Some people assume that talk about reducing the cost of regulation must mean lightening the regulatory burden. I don't believe that's the only way. Prosperity beckons where Industry champions high regulatory standards and the regulator champions low compliance costs. We will not compromise on standards, but we will do everything we can to find clever ways of achieving those standards. To do this, we need Industry to have the ambition and the imagination to work with us to find those clever solutions. We, the JFSC, cannot do this on our own. This is ambitious. I don't think it will be easy. But who ever said regulation was easy?

Martin Moloney
Director General

"A supervisory approach that is all about 'smart' regulation"

04.

› Business review

04.

Business review

Our strategic priorities for 2018 were to focus regulation on the areas of greatest risk, to improve interactions with Industry and the general public, to develop our people and infrastructure, to facilitate access to key markets, to safeguard our sustainability, efficiency and independence, and to deliver our business as usual. We made considerable progress throughout the year in these areas.

Performance against 2018 Business Plan objectives

2018 Priority	Objective	Commentary
Supervision Target Operating Model	Achieved	> Centralise all authorisation and cessation activities in one team > Centralise regulatory maintenance activities > Consolidate enhanced and proactive firms within two relationship managed teams
Data for risk-based Supervision	Achieved	> Publish reporting requirements and guidance > Develop solutions for data collection, storage and analysis
National Risk Assessment (NRA) and post MONEYVAL action plan	Achieved In progress	> Aggregate risk-based supervision data to submit to Jersey Financial Crime Strategy Group (JFCSG) > Contribute and lead NRA working groups to analyse financial crime information
Registry developments	In progress	> Develop system platform compatible with Application Programme Interface (API) technology > Configure registers on new registry platform > Agree Government funding and technical specifications for the Register of Directors > Continue to work with Government on new Registry Law
Basel III delivery	In progress	> Implement new prudential reporting for banks and publish revised codes and guidance > Consult on assessments for Market Risk, Credit Risk and Operational Risk
Funds regime review	In progress	> Review our approach to public funds
Implementing 2012 FATF recommendations	Achieved In progress	> Undertake consultation exercise on legislative amendments identified by JFCSG > Island-wide, multi-agency review of Jersey's AML/CFT regime
Civil Penalties	Achieved	> Extend the regime to cover regulated firms and principal persons which contravene the Codes of Practice
Digital channels	Achieved In progress Achieved	> Make progress on delivering new website > Enhance the myJFSC portal, including multi-factor authentication > Apply additional API technology
Cyber security	Achieved Achieved In progress	> Embed cyber-security into existing supervisory framework > Take active role in Cyber Security Task Force > Invest in own technical and people-based defences
Financial education	Achieved Planned 2019	> Continue work with local schools and International Organization of Securities Commissions (IOSCO) > Undertake second public awareness campaign

04.1

Charting change

Embarking on our change programme in 2015, our goal was to build on our existing reputation for efficient regulation and registration by becoming even more effective at what we do. Our vision was to create a culture of continuous improvement and drive better regulatory outcomes for years to come. We had five key aims – to become more e-enabled, achieve enhanced information management, improve our risk awareness, develop our authorisation and supervision activities, and grow our people strategy.

In three years we have made significant progress in all these areas, while continuing with our business as usual. We are now an easier organisation for our stakeholders to interact with and we have laid the foundations for future enhancements to our operations. The benefits of the various projects have had both external and internal focus and impact.

More e-enabled and enhanced information management

Updating our systems was the starting point; a priority programme of work after very little investment for the previous six year period following the financial crisis. We could not have continued to operate in the same way with the level of applications we process, the volumes of data we now hold and the information security requirements of that data.

The biggest change for Industry has been the development of the myJFSC portal. Now with more than 1300 users, it provides a more secure, efficient and effective way of interacting electronically with the JFSC. For us, it has simplified and reduced processes and provided enhanced management of information for both regulatory and financial control purposes. The majority of our annual regulatory fee processes are now completely online. In 2018 we collected more than £13.5 million in fee income from the new online invoicing process. We now raise and publish more than 2,000 annual invoices through the portal where businesses can access, download, print invoices and track their payment history. In 2018 we also used the portal for our supervisory risk and National Risk Assessment data collection exercises, receiving more than 1,800 spreadsheets from Industry. We also implemented the functionality for a specified range of online applications for authorisation, maintenance, cessation and notification activities. We now receive 60% of regulatory application volumes through the portal.

In addition to the portal, we have also started to expand the range of tools we have to analyse the data we collect and hold, which helps us to better focus our activities and drive improved effectiveness and efficiency.

Another component of our technical enhancements was upgrading and replacing our core back office IT technologies and more than 80 legacy systems. While this does not directly and noticeably have an impact on our external stakeholders, it has substantially improved our infrastructure and capabilities, consequently leading to better efficiencies. For example, introducing the new Customer Relationship Management system in Supervision means we have the capability to expand the information we hold, process and use it to model risk at entity level and, having done so, deliver a risk-based supervisory response.

Our new website is one element of the change programme that is ongoing. In 2018 we went out to tender for the design and development and have subsequently been working with our preferred supplier on the requirements and stakeholder

workshops. We finalised the designs in 2018 and the new website will go live in 2019 giving better accessibility, navigation and search functionality for all users. This long overdue project will replace the existing 20 year old website.

While we still have more to do, we have now deployed systems that are more flexible, extendable and more secure.

Improved risk awareness and management

A large part of our change programme has focused on becoming a risk-based regulator. How we identify, monitor and manage risk is now at the heart of all our activities and we continue to review and refine our approach so that we can deal with domestic and international risks that pose a threat to Jersey and the JFSC's reputation.

During the programme, we have devised and continue to develop our Enterprise Risk Management Framework and our risk model. We now more easily capture risks relating to the firms and individuals we regulate and supervise, and these will populate our risk model. We have also created forums to identify and review internal and external risks, with appointed members of staff acting as dedicated risk owners who oversee and report on any potential organisational risks.

Unquestionably one of the greatest risks for both the JFSC and the financial services industry is cyber. With the amount of sensitive information we hold, we must have the security controls in place to continuously and successfully repel the vast volume of attempted cyber-attacks on our systems.

As part of the change programme, we identified a need to enhance our cyber security capability. We recruited a dedicated cyber security team and, with our new integrated IT systems, we now undertake increased penetration testing of our internal procedures. We have also invested in cyber security training and awareness programmes for our staff and Board members to test their diligence in identifying possible threats from emails and attachments.

We strive to lead by example in the cyber security space we have consequently established the JFSC gold standard cyber security framework for Industry to be assessed against.

Our vision was to create a culture of continuous improvement and drive better regulatory outcomes for years to come

04.1

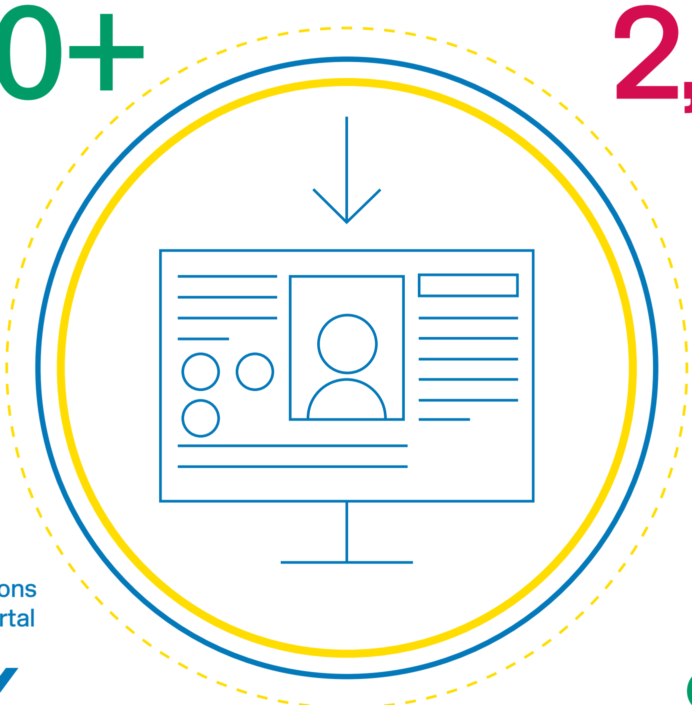
The JFSC portal

Portal users

1,300+

Annual invoices raised and published

2,000



Regulatory applications received through portal

60%

Legacy systems replaced

80+

Enhanced authorisation and supervision

To determine how we needed to improve the way we supervise, we undertook an extensive review of the people, procedures, process and systems capabilities required to deliver our statutory functions in the early part of change programme. This led, amongst other things, to the restructure of the Supervision division to focus on entity supervision rather than by the type of licence held, developing further our risk-based approach.

We completed the restructure in 2018, centralising authorisations and cessations, assigning firms to teams according to the perceived risks they pose, and creating a dedicated team to undertake onsite examinations.

We implemented our new supervision target operating model, delivered functionality for online submissions of risk data through the portal and developed core case management capabilities.

→ More detailed information about the changes in Supervision can be found on page 39 -44.

People strategy

Attracting, recruiting and retaining quality and experienced people for Jersey's sole financial services regulator naturally poses some unique challenges, in what is already a challenging recruitment market. In order to compete, we recognised that we needed to make the JFSC an attractive place to work and position ourselves as an employer of choice.

Over the past three years we have made significant investment in our people. We have created a more structured approach to learning and development and recruited a dedicated Learning and Development Manager. We have developed an in-house training programme to "grow our own" talent, to better equip staff to do their jobs effectively, and we have introduced bespoke leadership and coaching programmes. We support our people to further their professional development through study and we have co-developed a specific regulatory qualification. We have rolled out a performance management framework, which assesses employees against a defined set of role specific competencies and recognises them for their contribution with our 'Pay for Performance' strategy. We have introduced a better benefits package, flexible working practices, health and wellbeing strategies, and forums for staff, environmental initiatives, and corporate social responsibility activities. Our efforts in the latter were recognised when we won the 2017 CIPD award for Best Corporate Social Responsibility Initiative for our work with Jersey Mencap.

Before the change programme, we did not have a Communications function. Putting this small team in place has enabled us to keep our people up-to-date about key matters affecting them and the organisation, as well as ensuring we communicate more effectively with our regulated community, Registry users, the media, and our other stakeholders.

To make sure we are getting it right, we are measuring the effectiveness of our people strategy through annual staff surveys; the first undertaken in 2017 and the second in 2018. Using an external provider, the completely anonymous surveys provide us with honest staff feedback which helps us to track our performance and progress and identify any areas for future improvement. A comparison of the results of both surveys shows we are achieving continual improvement, with overall staff engagement increasing from 85% in 2017 to 91% in 2018. All but one of the 27 areas we measured showed improvement or remained the same between surveys. 92% of our staff say they find their work both interesting and challenging, up 19% from 2017 and 88% say they now get the training and development they need to do their job, again up 19% on the previous year. And our people are helping to make beneficial changes. After each survey we create staff working groups to identify areas where we could be doing better and the teams find solutions and drive forward improvements.

Additional significant projects

There have and always will be new and unplanned calls on our resources to deliver projects in addition to those we have planned. We will continue to evaluate every request in order to determine what must be done and what must be stopped or postponed.

During the change programme, we responded to and delivered several additional and significant pieces of work and, in doing so, demonstrated our much-improved level of agility and technological capability. Two examples of projects that were not originally in the scope of the programme but have dominated our work were delivering the enhanced Central Register of Beneficial Ownership and Controllers in 2017, at short notice and to a deadline dictated by the UK Government, and the 2018 requirement to support the Island's NRA in accordance with the Government of Jersey's timeline.

Both projects rightly took priority and required huge efforts on our part. They took more of our time and Industry's than initially anticipated and quite naturally impacted the original programme schedule, as we had to divert key IT and human resources across the organisation. The portal and technical solutions that we have implemented unquestionably minimised the burden.

Change is a continuous journey

While we have embarked on this detailed change programme over the past three years, we know that change is a continuous journey which is needed and beneficial. It is the new normal for us and, now we have laid the foundations, we can continue to deliver.

No change programme of this size achieves everything everyone wants. Some things could not be done, some things took longer than we hoped, some individual components ran over budget, while some were under budget. We will not get it right first time every time but we will strive to learn quickly and use the knowledge gained to improve what we do.

Collaborating with our stakeholders is key for us to succeed with any future changes we make and we are grateful to those we have already worked with us to date for their valued contribution and feedback. This has been a key learning area for us and one where there is an acknowledged need to apply learning to achieve continuous improvement.

We move into 2019 under the banner of continuous improvement and with the ongoing aim of being a smart and agile regulator

04.1

› Charting the Change Programme progress

One JFSC | Supervision | Registry developments

Digital channels | Platform and back office | ICT infrastructure

› 2015

- Completed core process mapping, architecture design, data migration strategy
- Devised technology solution, underlying security and infrastructure design
- Designed fee process
- Completed supervisory review
- Upgraded core back office technologies
- Enhanced technical infrastructre

› 2016

- Created efficiencies by replacing legacy systems to provide a single record of information
- Introduced digital channels for stakeholder interaction
- Implemented new structure required to become an entity-based regulator

› 2017

- Devised Supervision target operating model (TOM) and risk-based capability model
- Consulted on Supervision data collection
- Launched risk event capture form
- Defined case management business requirements
- Delivered fee registration and collection process
- Delivered functionality for new funds product
- Delivered enhanced Central Register of Beneficial Ownership and Control

› 2018

- Implemented Supervision TOM
- Delivered functionality for submission of risk footprint data and NRA through the portal
- Developed core case management functionality and delivered enhancements to Supervision Examination Unit
- Implemented online authorisation, maintenance, cessation and notification functionality
- Delivered risk functionality incrementally and finalised solution design for risk model
- Completed new website design
- Commenced new Registry platform design

Foundation (Design) | Emerging (Implementation Phase 1) | Established (Implementation Phase 2)

04.2

Risk management

In pursuit of our statutory objectives, we have identified principal risks which we seek to manage through our regulation and supervision of Jersey's financial services businesses and our own internal operations.

We are an integral part of Jersey's financial services industry and we work together with Government and the local regulated community to manage the risks we all face.

We are exposed to risk from various quarters - whether on the global stage in relation to political and economic issues or closer to home with the Industry we regulate and our own internal processes.

In 2018, we have further developed our Enterprise Risk Management framework and will continue to evolve this in 2019.

Jersey's international reputation

Jersey is widely acknowledged to be a high quality International Finance Centre. Maintaining our hard fought reputation is paramount. A loss of confidence in the Island's reputation would hinder Industry's ability to retain and attract clients.

In 2018 the Island was one of a number of jurisdictions that was yet again subject to continued scrutiny and pressure to enhance transparency in relation to tax and beneficial ownership and control.

Being on the EU Tax Blacklist would mean the potential for economic sanctions and significant reputational damage for the Island's financial services sectors.

Jersey has consistently maintained that it is a jurisdiction of substance and has worked quickly and effectively to introduce economic substance legislation to reinforce that message. The Island works closely with the EU to monitor its requirements and takes necessary steps in order to comply.

There is a vigorous international debate on the transparency of beneficial ownership. We believe that the combination of our regulation of Trust Company Service Providers and the Central Registry puts us in a leading position to meet international standards. It enables us to share information with law enforcement agencies across the world and help tackle financial crime.

We made these arguments to two UK MPs, Dame Margaret Hodge and Andrew Mitchell, when they visited the Island last year. They are driving an attempt in the House of Commons to force Crown Dependencies to make their registers public. The Island's authorities believe that this would put business at risk, so we have supported the Government's case to prove that we have an effective and appropriate regime. We will continue to engage actively in this debate.

Our work with the Government of Jersey on tax and beneficial ownership are two examples of how we regularly partner with Island agencies to enhance the external reputation of Jersey.

Meeting international regulatory standards

Our commitment to meeting and setting international standards is unfaltering and is intrinsically linked to maintaining Jersey's leading reputation as a well-regulated financial services jurisdiction.

Failing to meet these standards would be a significant risk to the ongoing success of the island's finance industry.

In order to ensure continued positive international assessment, in 2018 we committed significant resources to activities, projects and initiatives designed to ensure compliance with FATF standards ahead of forthcoming MONEYVAL assessment.

During the year we also supported the Government's work on the NRA which is vital for all the agencies across the Island to demonstrate that we have a full understanding of the threats and vulnerabilities of money laundering and terrorist financing. We have been able to use the extensive reporting of the supervisory risk data, collected through our new systems, to support the NRA.

We also continued to place persistent emphasis on developing an approach to risk-based supervision and its ability to meet the 'gold standard' of compliance with FATF's technical compliance and effectiveness standards, which is due to be assessed by MONEYVAL in 2021/2022.

In 2018 we progressed our work to implement the changes to the new standards described by the Basel Committee as Basel III, in particular delivering revised regulatory requirements for capital quality and liquidity management and reporting in Jersey. Our new reporting solution, that will be operational in 2019, draws on the technologies used to collect the NRA data.

Showing our commitment to meeting and setting international standards, we worked with the Group of International Finance Centre Supervisors to finalise its evaluation of our trust company regulation. We were the first jurisdiction to be assessed by the Group under its Standard for Regulation of Trust and Company Services Providers, as we felt it was important to lead the way and support the process. Other jurisdictions are now able to use the GIFCS standards and our evaluation to make changes to their regimes ahead of their assessments. This can only lead to higher standards of international regulation among other finance centres.

Leaving the European Union

The uncertainty of the final outcome of the UK's future relationship with the EU and the subsequent impact on Jersey financial services naturally features as one of our key risks in 2018. The impact on the Island's customers and markets is uncertain.

Although the Island has maintained a consistent line that it is not looking to change its relationship with the EU, there is still a risk that the loss of the UK as an EU member state could have implications for how remaining EU members perceive international finance centres, including Jersey.

As a 'third country', Jersey should be able to maintain access to EU funds markets thanks to established bilateral agreements between the JFSC and financial regulators in the majority of EU countries. The UK will become a third country as a consequence of leaving the EU.

Throughout the year we monitored the negotiations, which culminated in the UK Government and the EU agreeing the terms of the withdrawal agreement in November 2018. At the time of writing the agreement was still awaiting ratification from Parliament.

During this ongoing period of political instability, we worked to secure our relationships with both the EU and the UK. The UK's change in status means that our existing memorandum of understanding with the Financial Conduct Authority (FCA) would no longer be valid so we signed a new memorandum, ensuring the Island's funds industry can continue to be marketed in the UK.

We continue to work with Government and all relevant agencies to prepare appropriately for all possible outcomes, mitigating risks and threats and taking advantage of any potential future opportunities.

04.2

Information security and cyber

As an organisation that holds sensitive and commercially valuable data, we are obviously at risk. Any significant information security event, whether loss or theft, would create considerable reputational damage for the JFSC and the Island. Equally a data breach by a local firm would pose the same reputational risk.

As the regulator, we know the importance of protecting the information we hold and we have a role to play in requiring regulated businesses to ensure they have adequate controls in place, as well as warn them about the current fraudulent trends affecting the Island.

In 2018 we issued a number of warnings to Industry relating to 'impersonation attacks' on local businesses and Islanders. This is based on information we received from local Industry, UK agencies and global security intelligence sources.

To help our supervisors assess the security controls that regulated firms have in place, we created and delivered a cyber training plan, which equips our teams with security knowledge and assessment capabilities. We hold ourselves to the same standards that we assess Industry against. To that end, in 2018 we underwent an independent review and audit of our own security controls. This review is based on the JFSC cyber security gold standard framework, which is aligned to ISO27001 and NIST frameworks.

We know the ever-increasing importance of our own staff's cyber hygiene and resilience. During 2018 we continued our programme of regular training and testing with controlled phishing exercises for all employees including our Board Members.

Showing our ongoing commitment to protecting both Industry and the Island, in 2018 we actively participated on Government's Cyber Security Task Force, contributing our expertise and resources as appropriate.

In 2018, we saw the introduction of the Data Protection (Jersey) Law 2018. Breaching this new legislation could have serious consequences for us, Jersey's financial services community and other local organisations. During the year, we mitigated our own risks of not complying by undertaking an extensive internal programme of work. We expect our regulated firms to have reviewed their compliance with the law and taken steps to remedy any deficiencies.

Resource challenges

Our aim is to continue to be a sustainable, efficient and independent financial services regulator: a fundamental pre-requisite for Jersey's ongoing success as an international financial centre. Without sufficient financial and human resources, we will not be able to do our job effectively.

We are constantly being asked to do ever more with the same resources whilst maintaining our high standards. Over the last 10 years, our workforce has increased by less than 15%, whereas in the same period some regulators have doubled in size. From a Supervision, Enforcement and Registry perspective we have to demonstrate continued effectiveness in a more demanding international environment, our policy agenda is more complicated than ever before, and operationally we face greater challenges each year to support the organisation to deliver new projects and business as usual activities.

The external environment places pressures on our technology, systems and people. We have maintained our investment in these areas whilst being mindful of the challenging environment in which regulated firms operate. We see these pressures continuing in future years and will need to maintain appropriate levels of expenditure to help us address the risks we and the Island's businesses face. In addition, we will need to manage our resources so we can continue the enforcement activities that are a key part of upholding Jersey's reputation.

Mindful that we must safeguard our independence, in 2018 we reviewed our existing funding model and explored other potential income streams. This piece of work will continue into 2019.

04.3

Policy

Keeping domestic laws, regulation and codes up to global standards and working with international policy makers and governments are key responsibilities of our two Policy teams. Sharing this work, our Financial Crime Policy advisers focus specifically on AML/CFT and sanctions while our Policy advisers cover all other areas. Both teams lead on evaluations by external standard setters, update Jersey's regulatory framework as required, and monitor and react with proportionate policy responses to international regulatory developments.

2018 was dominated by two significant pieces of work for our Policy division – preparations for Brexit and working on the NRA.

In anticipation of the UK's departure from the EU, our Policy advisers participated in a Brexit legislative and regulatory gap analysis which led to formulating and reviewing legislative and regulatory amendments. This included revisions to the bilateral agreement between the JFSC and the FCA to secure continued access for Jersey to the UK funds market. The team also attended Government meetings with HM Treasury, the Department of International Trade and the Foreign and Commonwealth Office about Brexit.

Our Policy teams provided significant support to the Government of Jersey for the Island's NRA, chairing seven of the working teams and supporting the national vulnerabilities, national threat, and financing of terrorism teams.

A key component of our NRA work has been our own supervisory data collection exercise which we launched in 2018. Financial Crime Policy have been extensively involved with this project, helping to define the data that firms need to submit to us and producing guidance to help them meet their requirements. Following this exercise, we have provided the NRA teams with aggregated, analysed data so that they can undertake an evidence-based risk assessment of the Island's financial services industry.

In addition to this work, both teams undertook a range of other activities during 2018, including acting as the primary knowledge resource on our regulatory framework for Industry and our staff, supporting other JFSC departments to develop policy specific to their functions, and assisting with other significant pieces of work either domestically or internationally.

International

- Represented Jersey at MONEYVAL, forming part of the MONEYVAL team which is currently assessing Malta's compliance with the Financial Action Task Force 40 Recommendations, and acting as rapporteur for the follow-up report on Hungary
- Coordinated the Island's input into MONEYVAL and FATF surveys, questionnaires and calls for information
- Attended a specialist FATF terrorist financing NRA training course and FATF plenary, and contributing substantially to a FATF paper on beneficial ownership
- Continued to support the Group of International Finance Centre Supervisors with its programme of mutual evaluations to assess international finance centres' compliance with its Standard for trust and company service provider regulation
- Represented Jersey as members of international standard setters such as IOSCO
- Supported Government's Global Marketing Co-ordination Group with regulatory counterparts in various jurisdictions
- Participated with Government and Industry in Jersey's response to the EU Code of Conduct Group
- Signed memoranda of understanding with the Law Society of Jersey, the Irish Auditing and Accounting Supervisory Authority, and the Abu Dhabi Global Market Financial Services Regulatory Authority respectively
- Attended Channel Islands Brussels Office meetings on EU equivalence, Capital Markets Union, Audit Equivalence, Sustainability, MiFID and AIFMD.

Domestic

- Expanded Jersey's Investment Business regime to regulate advice given on transferring out of defined benefit pension schemes, as well as formulating enhancements to the Codes of Practice. Worked with Government of Jersey on legislative amendments for the FATF's 2012 Recommendations, and possible regulation of pensions and consumer lending
- Progressed local adoption of Basel III standards through implementation of the capital quality and liquidity elements, and the development of new prudential reporting systems for locally incorporated banks
- Made changes to Jersey's Funds Regime
- Undertook analysis of potential enhancements to the Insurance regime
- Reviewed new product laws such as Limited Liability Partnerships and Limited Liability Companies
- Managed enquiries and requests for support from businesses and individuals looking to launch or use Fintech products/services
- Produced guidance for Initial Coin Offerings in collaboration with Industry and Government
- Coordinated our financial education programme for local secondary schools and delivering a regular public talk for adults called "The Regulator in your Community"
- Issued guidance for Industry on integrity and competence.

04.3

› Developing proportionate policy responses to changes in international regulatory standards

Supervisory risk data collection exercise and National Risk Assessment

Data is integral to our work. It helps us understand where to focus our attention and make best use of our limited resources.

Collecting comparable data on a systematic basis from our local regulated community was a new initiative for us in 2018. However, to reiterate our Chairman's comments in this Annual Report, data-driven activity of this kind is the new normal for Industry.

We will use the data we have collected to develop further our risk-based approach to supervision and to inform our future data collection and reporting requirements. Aggregated data will also form part of the Island's NRA.

In 2018 we collected data from regulated sectors using a phased approach, which will continue in 2019.

Both the NRA and our own data collection exercise have had a significant impact on our resources, which has only been manageable thanks to our new systems and e-enablement - CRM, our portal, data storage and enhanced management information.

While we consider the exercise to have been a success, it was not without its challenges and once again we thank all businesses for meeting the requirements of this extra regulatory burden. The long-term benefits of these collection exercises will see us delivering a more streamlined, proportionate and effective form of supervision.

Data collection volumes

› 01

Data submissions processed

1,810

› 02

Valid data submissions

1,330

› 03

Data items received

2,699,796

› 04

Industry respondents

3,377

› 05

Questions answered by Industry

23,255

04.4

Supervision

At the JFSC, we operate a risk-based approach to our supervisory activities, ensuring that we deploy our resources to those businesses that pose the greatest potential regulatory risk to Jersey's reputation as an international finance centre.

As the organisation's largest division with circa 55 staff, Supervision's primary function is to oversee regulated businesses and individuals to ensure they meet their relevant legal and regulatory obligations.

2018 was the year that we accelerated change in Supervision, implementing an extensive programme of enhancements and laying the foundations for future improvements, with the aim of driving better regulatory outcomes for years to come.

Focusing on demonstrating our effectiveness to both Industry and international standard setters, we completed a number of changes to the structure of the division in early 2018, with the aim of developing our risk-based approach.

Central Authorisations Unit

The first change we made was to create a centralised unit for authorisation and cessation activities for all regulated businesses, products and individuals. Central Authorisations is our first line of defence in our supervisory model and this small team works closely with all of our frontline supervisory units.

During the year, we approved 340 new registrations and revoked 261 across all sectors. We saw the most activity in the Funds sector with 218 new approvals, including 128 JPFs. The ring-fencing of UK bank deposits generated a number of licence changes and there was increased TCB activity in private wealth management. For AML purposes, we regulate activities in the crypto-currencies and initial coin offerings sector and in 2018 we published appropriate warnings on our website to inform investors about the risks associated with investing in these assets.

Relationship Managed Supervision

To oversee regulated businesses that are considered to present the greatest risk, we created two Relationship Managed Supervision units; one for Banking and Fund Services Business (FSB) and another for Trust Company Business (TCB), Investment Business (IB) and Insurance. Supervisors working within these units remain sector-focused, ensuring we retain specialist knowledge, and they manage a portfolio of entities categorised as either 'enhanced' or 'proactive'.

During 2018 these units focused on increasing face-to-face activities and regular dialogue with firms, through on-site examinations, outreach and annual review meetings. Both units dealt with a number of emerging risks and, consequently, supervisors had to monitor several large remediation projects, often working closely with Enforcement colleagues.

Over the 12 months these units also worked on the NRA, Basel III implementation, and our ongoing internal systems development projects.

Pooled Supervision Unit

Supervising firms that pose a lower potential risk, this team is responsible for approximately 700 firms. A number of these are Designated Non-Financial Businesses and Professionals such as lawyers, accountants and estate agents. While the pooled firms pose a lower potential risk to our guiding principles, they are not necessarily low risk. Our strategy for supervising these businesses is built on thematic examinations, entity risk examinations, (where the specific risk is above our own risk tolerance) and outreach to Industry, such as providing guidance, best practice publications and briefings. Based on this strategy, the unit completed a thematic examination programme in 2018, engaging with 24 property managers.

We are committed to developing the supervisors of tomorrow and this team offers the perfect training environment, while equally giving experienced supervisors the platform to develop their leadership capabilities.

Regulatory Maintenance Unit

Our Regulatory Maintenance Unit provides support to Industry and our other Supervision teams for day-to-day activities, easing the administrative burden for supervisors to ensure they can focus their efforts on where the greatest risks lie.

Our resources are deployed to firms that pose the greatest risk

Supervision Examination Unit

Responsible for coordinating and delivering a dedicated programme of onsite examinations for all sectors of the regulated community, our Supervision Examination Unit carried out 46 examinations in 2018, its second full year of activities.

29 of the examinations were thematic and focused on two main themes - the revised registry requirements for beneficial owners and controllers and also client assets - and we published detailed feedback papers on the findings on our website.

17 of the onsite visits focused on risk, covering detailed reviews of firms' compliance functions, corporate governance, market abuse systems and controls, and complaints handling.

Some of the key findings we identified were:

- **Conflicts of interest**
  Out-of-date policies or no policies at all, and conflict registers not being managed appropriately
- **Effectiveness of governance**
  Board meetings, agendas, minutes, actions, and terms of reference not being managed appropriately
- **Business risk assessments**
  Lack of adequate, orderly and up-to-date records of risk management systems, and business risk assessments without specific money-laundering and terrorist financing risks identified
- **Customer risk assessments**
  Numerous instances of customers with 'high' or 'very high' risk appetites based on inappropriate risk ratings
- **Compliance monitoring**
  Compliance monitoring plans which had not been mapped to the risks facing the business or our regulatory framework
- **Policies and procedures**
  Inconsistencies between group and local policies and procedures which resulted in a lack of clarity that local regulatory requirements would be met.

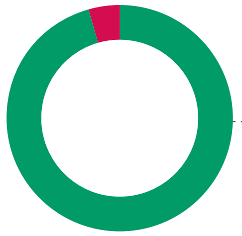
Such reviews enable us to look across all sectors and share our findings with the whole of Industry. This will continue to be a key component of how we supervise going forward.

04.4

Industry feedback on our examination process

We always ask businesses for their feedback after the examination process and this has already helped us to make refinements to our approach. The table below shows the cumulative responses from the start of the team's onsite examinations in 2016 to the end of 2018.

Feedback

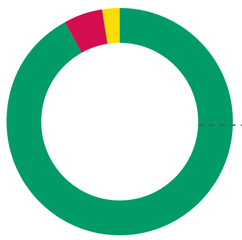


Information request

Positive (strongly agree / agree)	96%
Negative (disagree / strongly disagree)	4%
Other (no comment / no meeting held)	0%

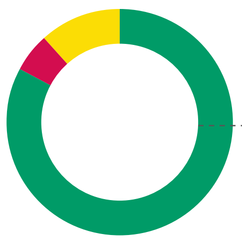
Preliminary meeting

Positive (strongly agree / agree)	77%
Negative (disagree / strongly disagree)	3%
Other (no comment / no meeting held)	20%



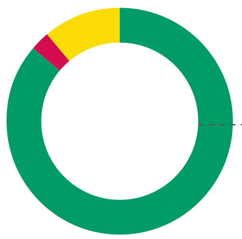
The examination

Positive (strongly agree / agree)	92%
Negative (disagree / strongly disagree)	6%
Other (no comment / no meeting held)	2%



The debrief

Positive (strongly agree / agree)	83%
Negative (disagree / strongly disagree)	6%
Other (no comment / no meeting held)	11%



Factual accuracy report

Positive (strongly agree / agree)	86%
Negative (disagree / strongly disagree)	3%
Other (no comment / no meeting held)	11%

Other supervisory activities

Our commitment to enhancing our digital capabilities has underpinned the changes we have made in Supervision, for example the development of our CRM system which enabled us to launch our first online application, the JPF. This was a significant milestone for us, improving our efficiency and enabling us to achieve straight-through processing. We are grateful to a number of firms who helped us to develop and test this functionality. In 2018 we also completed other digital projects, such as end-to-end processing of examinations through CRM. Our systems development will continue to be a key focus in 2019 and beyond.

As mentioned elsewhere in this Annual Report, data collection featured heavily in 2018 in support of risk-based supervision and the NRA. The data we collected via our online portal will help us to develop further our risk model so we can continue to focus our activities in the right places.

International engagement remains critical in an ever-changing world and we recognise the importance of developing relations with other regulators, particularly to support our efforts to effectively supervise local businesses with a presence in other jurisdictions. In 2018, we visited Hong Kong to share our experiences and framework for trust and corporate service providers regulation and we also led and participated in a number of trust company business regulatory colleges through our membership of the GIFCS.

We were the first jurisdiction to be assessed by the GIFCS against its Standard for Trust and Company Service Providers and we received top ratings. With stringent assessment criteria, the evaluation made a small number of recommendations for improvements to our existing practices, which we either made during 2018 or were in the process of doing so at the time of this Annual Report. A JFSC representative will be an assessor for one of the next GIFCS evaluations taking place in 2019.

04.5

Enforcement

Our Enforcement team takes action against businesses and individuals that do not comply with our regulatory and legal requirements. We investigate actual and potential cases of serious regulatory misconduct.

Where appropriate, we will engage and work constructively with our regulated community so that we achieve successful outcomes. We seek to act firmly but fairly, working alongside colleagues in Supervision, to ensure regulated businesses and individuals take steps to resolve issues, particularly when breaches are self-reported by firms.

Where breaches are particularly serious or efforts to address shortcomings fail, we will use our statutory powers and are prepared to impose a range of sanctions. These include restricting or preventing people from working in the finance industry, revoking a firm's licence, issuing public warning notices, imposing civil financial penalties and referring cases to the States of Jersey Police or Attorney General for consideration of criminal prosecution.

In 2018, Jersey had its first criminal conviction for conducting unauthorised financial services business. Members of both our Enforcement and Supervision teams gave evidence in the trial which led to an independent financial adviser being convicted of defrauding his clients, providing false and misleading information to the JFSC and conducting unauthorised financial services business. The seven-year prison sentence he received from the Royal Court sent a strong message to anyone contemplating defrauding the investing public or seeking to evade our regulatory laws.

In May, the Royal Court handed down a landmark judgment in favour of the JFSC's decision to issue a direction and public statement against a former principal person. The Court agreed that we had acted reasonably in concluding that the individual had acted with a serious lack of integrity and displayed incompetence of the most serious kind.

In terms of active investigation in 2018, it was a particularly challenging and busy year for our 12-strong team who dealt with 142 cases in total. The type of cases varied with investigations into regulated businesses failing to comply with their anti-money laundering obligations, mis-selling investments to retail clients, and individuals conducting unauthorised financial services business. Where appropriate, we issued public warnings in accordance with our guiding principles.

We started 77 new investigations during the year, which was an increase on 2017's total of 64 but in line with the five-year average of 79 new cases per annum. We carried over 65 cases from 2017 and this was slightly higher than the carryover figure of 57 from 2016 to 2017.

In nine cases we provided assistance to overseas regulators by securing evidence in the Island. During the year, we issued 124 notices requiring individuals to produce evidence and information for our investigations.

We received 33 whistleblowing calls in 2018. Whistleblowers continue to play an important role in identifying the most serious misconduct and breaches. We remain committed to preserving the identity of whistleblowers, even where individuals prefer to communicate through face-to-face meetings.

Accessing reliable and timely intelligence is a key part of undertaking effective and focused investigations. In addition to managing the JFSC's own in-house intelligence unit, our Enforcement team also works closely with the States of Jersey Police and Customs Joint Financial Crimes Unit to make the maximum use of intelligence, which often originates from Industry. In 2018 our timely exchange of intelligence helped protect some of our most vulnerable Islanders from falling victim to financial crime.

In October 2018, we gained the power to extend financial penalties to individuals in addition to businesses, following an amendment to the law. The threshold for imposing civil financial penalties was lowered to include negligent breaches of our Codes of Practice. These changes are likely to see the increased use of civil financial penalties in 2019.

› 01
Live cases in 2018
134

› 02
Cases carried over from 2017
57

› 03
New cases in 2018
77

› 04
Cases carried into 2019
65

› 05
Requests for assistance from overseas regulators
09

› 06
Formal Notices issued
131

› 07
Notices compelling individuals to attend an interview
26

› 08
Public statements issued
09
Four of which prevented/restricted the individual from working in financial services

› 09
Calls to whistleblowing line
33
16 of which led to active investigations

04.5

04.6

Registry

We are one of very few jurisdictions to benefit from housing our regulator and registries under one roof. We look after nine registers, including the Central Register of Beneficial Ownership and Control, the Security Interests Register and the Trademarks Register.

With an international reputation for being a centre of excellence for our registries, we register Jersey companies, partnerships, foundations and business names. Our aim to maintain a customer-centric approach so all our users have access to accurate and reliable information.

Our responsibilities include:

- Acting as Jersey's first line of defence for AML/CFT checks (and the second line of defence for regulated businesses)
- Assessing and recording beneficial ownership and control details
- Monitoring and vetting compliance with the Sound Business Practice Policy
- Managing global continuance, cross-border mergers and international transparency requirements.

Our busy Registry team of only 12 staff deals with vast quantities of transactions every year. In 2018 we processed some 394,853 diverse tasks and 33,373 company annual returns.

Central Register of Beneficial Ownership and Control

The international registry community and global standard setters such as MONEYVAL regard Jersey as being in a leading position for our Central Register of Beneficial Ownership and Controllers. Throughout 2018 our activities continued to be dominated by the administration of this register.

While managing our business as usual requirements, we worked tirelessly to satisfy the Exchange of Notes signed between the Island and the UK Government in 2016 to ensure that our register is adequate, accurate and current. The agreement enables us to share highly sensitive information with trusted international law enforcement and tax authorities on request and in appropriate circumstances. The first mutual review of the Notes was successfully undertaken and completed during early 2018.

Every day we are now conducting an average of 337 beneficial ownership and control transactions and we now hold more than 380,000 records. During 2018 we saw a 1200% increase in the number of transactions we are processing for changes in beneficial ownership and controller information, now that companies are required to provide us with these details within 21 days of any changes.

To deal with this increasing volume, we undertook further work on the API gateways and we are seeing increasing traffic via this route. Until we introduce our new registry systems, the data integrity checks we do for beneficial owner and controller data will remain a largely manual exercise.

2018 developments

During 2018, we continued to make changes in the Companies Registry, concentrating on delivering operational excellence and efficiencies.

As part of our annual programme of work we made incremental improvements to our existing registry platform so it is as user-friendly and efficient as possible for our stakeholders, while we continue to design and develop our new system.

We delivered the Limited Liability Partnerships register on 1 July and for de-mergers we incorporated revised legal requirements in our register with new systems and provisions coming into force on 1 August.

Our next big projects are the Register of Directors and the new Registry Law. For the former we provided Government with a high-level specification for the proposed register and for the latter we collaborated with Government to develop concepts for the new law, with a particular focus on digital enablement. Government's registry review process concluded that we would not develop this Register of Charities.

In July, our Director of Registry, Julian Lamb, became the Registrar of Companies.

International engagement

As Registrar, Julian Lamb was re-elected to the Boards of the US and Canadian registry fora, the International Association of Commercial Administrators, and the new registry organisation representing Europe, the European Business Registries Association. He continued to represent Jersey in other forums during 2018, ensuring the Island is benchmarked and positioned correctly.

Our Registry team also continued to collaborate internationally, helping with scrutiny and policy development, and providing specialists on request. This was particularly the case for beneficial ownership and control policy and best practice.

A noteworthy Government and JFSC collaboration in 2018 was the successful completion of statutory review of the mutual Crown Dependencies, Overseas Territories and United Kingdom Exchange of Notes.

Registry output 2018

› 01

Companies incorporated

2,551

844 x 2 hour
Fast tracks
507 x 1 day
257 x 2 day
314 x 3 day
629 x 5 day

› 02

Companies dissolved

2,736

› 03

Total live entities

56,126

› 04

Total registrations

3,400

› 05

Total dissolutions / cancellations

3,147

› 06

Changes to beneficial owners / controllers

43,792

› 07

Beneficial owners / controllers' records

382,920

› 08

Annual returns

33,373

04.7

Operations

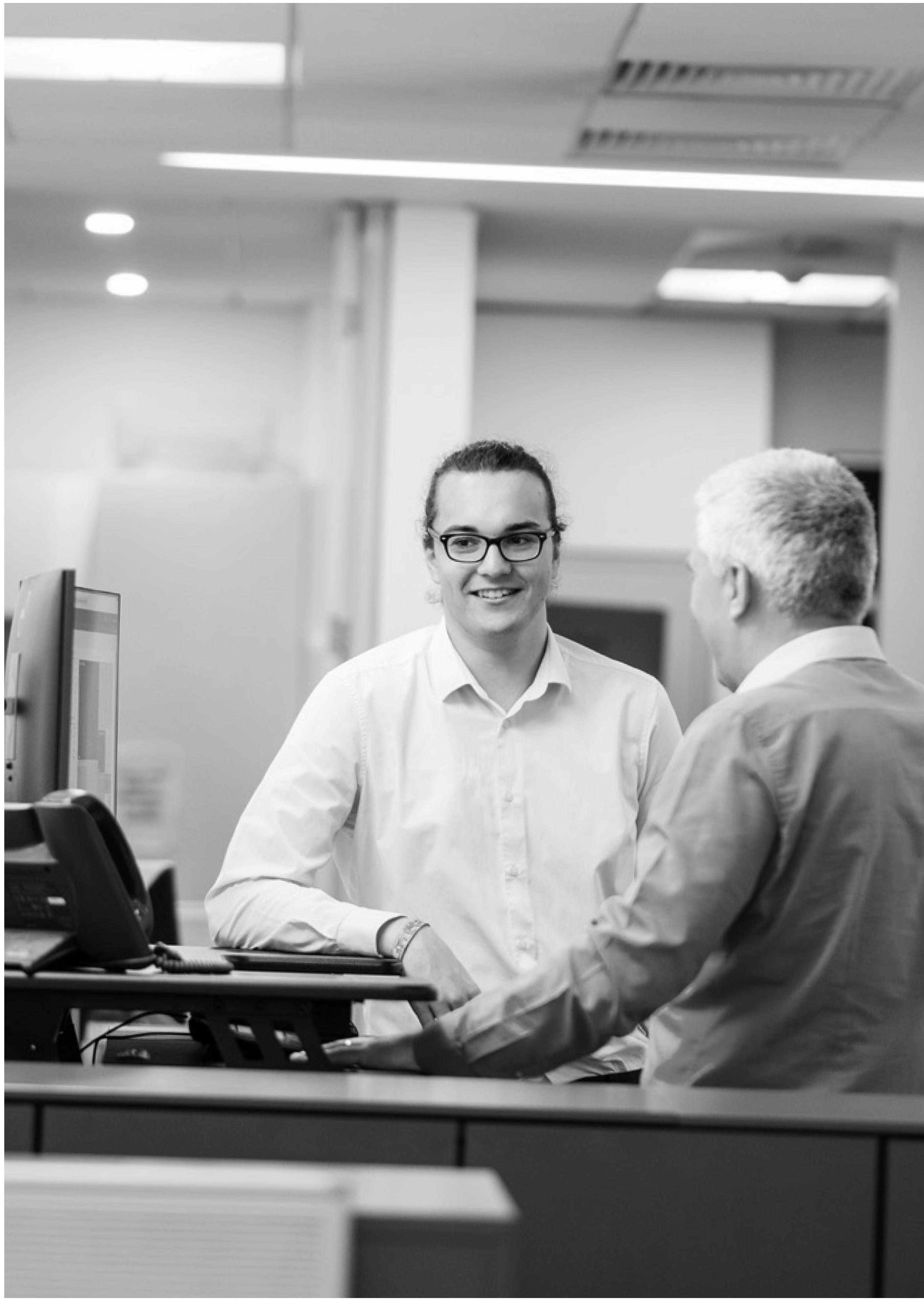
With a team of 35 people, our Operations team is the JFSC's second largest division after Supervision. Comprising Communications, Facilities, Finance, Human Resources, ICT, Information Management and the Programme Management Office, this division's primary focus is to support other JFSC teams to execute their duties efficiently and effectively.

While our official change programme is drawing to a close, we understand that to be truly effective as a regulator, we must continue to adapt and evolve the way we operate, introducing new systems and digital solutions to streamline our processes. Our operations team is key to making this happen and in 2018 we made significant progress in this area by completing technological developments and laying additional foundations for ongoing enhancements in the future.

It was also the year of GDPR, with the Data Protection (Jersey) Law 2018 coming into effect in May. To fulfil our obligations in this regard, we established a dedicated Information Management team which, led by a Data Protection Officer, ensured we addressed and adopted all the necessary policies and procedures. The team also gave essential in-house training to our people.

As anticipated, 2018 presented another full programme of projects for the Operations team. There were numerous divisional highlights during the year including:

- Improving our data protection systems and controls to meet the demands of the Data Protection (Jersey) Law 2018 and to strengthen the management of our information
- Facilitating the systems changes required for restructuring our Supervision division
- Making significant progress on the design, development and delivery of our new website, while revitalising our existing intranet to improve internal communications for our people
- Recruiting a new Director General and three new Commissioners to the Board
- Enhancing our financial education programme by re-launching the Jersey Fraud Prevention Forum, supporting IOSCO's World Investor Week, and continuing to work with local schools, for example judging Les Quennevais students' enterprise challenge
- Supporting the supervisory risk data collection exercise and NRA through issuing communications to our stakeholders and providing technical solutions for collection, storage and analysis of data
- Implementing the digital functionality to enable online submissions of firms' financial statements, banks' prudential reporting and the application tool for Jersey Private Funds
- Developing a bespoke regulatory qualification, the International Certificate in Financial Services Regulation, in addition to establishing a comprehensive in-house training programme
- Creating and delivering a cyber security training programme for supervisors to assess firms' security controls
- Organising key external events and outreach such as the annual Business Plan presentation to Industry and our 20th anniversary celebrations
- Streamlining internal financial processes and controls to enhance operational efficiencies across the JFSC.



04.8

Our people

91% of our employees feel engaged in their work, according to a staff survey that we carried out in 2018. That is a statistic we are hugely proud of and will seek to improve upon as part of our people strategy.

We know that we are making improvements based on our 2017 survey when our engagement score was 85%. In just one year we have been able to make tangible and positive differences to life at the JFSC. We have done this by listening to our people and taking on board their feedback. After each survey we have created working groups to empower employees to find solutions and drive forward changes to improve our culture and working environment. Our latest set of results show this approach is working.

Our goal is to be an employer of choice. We can only achieve that by continually improving how we do things and by recognising and investing in our people. We know how important employee engagement is to the success of our organisation and we will continue to work hard to ensure the JFSC is a motivating, rewarding, inclusive and fun place to work, where people feel valued.

Learning and development

Throughout 2018 we focused on investing further in the professional development of our teams with the aim of creating highly qualified professionals with the technical expertise to meet the needs of the organisation.

We achieved this primarily through devising our own learning curricula at Foundation and Intermediate Level which are delivered by in-house technical subject matter experts. In addition to in-house technical training, we collaborated with BPP and ICSA: The Governance Institute to develop a bespoke regulatory qualification - the International Certificate in Financial Services Regulation. This qualification ensures our staff continue to focus on professional competency. During the year a number of staff achieved other professional qualifications at various levels.

Following the rollout of a structured training programme in Supervision in 2017, our dedicated Learning and Development Manager focused on meeting the learning requirements of the rest of the organisation. One successful addition to our development programme is our leadership and management framework. This was created to support staff new to line management roles and to up-skill existing line mangers to strengthen our leadership capability.

The over-arching factor in designing this programme was to establish a sustainable and credible leadership development offering which has longevity. A key objective for 2019 is to have our leadership programmes accredited so that staff have the opportunity to attain an internationally recognised qualification in leadership and management.

Performance Management

Our Performance Management framework has now been embedded into the culture of the organisation and in 2018 we took steps to ensure we have a meritocratic culture for all employees including the executive directors. This approach recognises exceptional work from our people and rewards achieved performance. From the survey the 93% engagement score is a clear indicator that the “Pay for Performance” strategy is effective at the JFSC.

Recruitment

In 2018 we successfully recruited for 23 positions, across all divisions and at varying levels of seniority. We fill roles by reviewing our existing expertise, inviting current employees to apply for senior roles and assessing any skills gaps. We have successfully maintained our “grow your own” model with trainees in most divisions and bespoke training plans for employees.

We are still attracting applicants by advertising our vacancies via our social media channels, website, staff referral scheme, and occasionally recruitment agencies.

In 2018, we oversaw the whole recruitment process for three new Commissioners and worked with a London-based recruitment agency for the role of Director General.

We continue to develop, coach and mentor our people and in 2018 we promoted 16 staff members who displayed exceptional ability and competence. Some of these promotions were inter-divisional, demonstrating that we support and foster multi-skilled and adaptable individuals in our ever-evolving organisation.

During the year we also developed a working relationship with the Jersey Employment Trust, assisting those looking for work or seeking to come back into the workplace after a period of time off. We successfully recruited into permanent roles and provided support and guidance for potential candidates through mock interviews and feedback. We also invited clients into the workplace and offered temporary placements to build confidence, relationships and, most of all, the courage to get back into a working environment.

04.8

Diversity and inclusion

Part of our strategy to be an employer of choice is to successfully embed equality, diversity and inclusion into our culture and in late 2018 we started a Diversity and Inclusion Committee to do just that. With 12 members of staff signed up, we aim to demonstrate that we value and promote diversity, champion equality, and foster a respectful and inclusive environment. Our goal is to achieve the British Diversity and Inclusion Standards within the next three years.

Health, wellbeing and the environment

A primary focus for us is the health and wellbeing of our people. We are committed to improving the physical and mental health of our employees and investing in initiatives to help us achieve a fit workforce. For example, we provide private medical and dental care and we have a dedicated Employee Assistance Programme, which is a personal and confidential support service for staff.

We encourage all of our employees to take ownership of how we promote health and wellbeing by joining our staff forum. Through the forum, we collectively contribute ideas and plan events, activities and campaigns.

In 2018 we strengthened our strategies for health, wellbeing and environmental matters. Improving our working environment goes hand in hand with the wellbeing of our staff and our month-long awareness campaign for better wellbeing inspired staff towards healthier lifestyles. We shone more light on mental health issues and engaged in more conversation around improving our wellbeing.

2018 showed that we continued to support flexible working practices by reviewing flexible and remote working, to ensure that business needs were met and the individuals had access to the tools they need to fulfil their duties.

September 2018 brought changes to the statutory rights for family friendly policies which include maternity, parental and adoption leave. We updated our JFSC policies to reflect the new legislation with additional or enhanced paid time off and support through our various healthcare plans.

Key staff survey results

	2017	2018
› Overall engagement score	85%	91%
› I am proud to say I work for the JFSC	84%	91%
› I would recommend the JFSC as a good place to work	72%	86%
› I care about the future of the JFSC	97%	100%

Average headcount across departments (including contractors)

Department	Headcount
› Supervision	55.9
› Enforcement	12.1
› Registry	14.3
› Policy	13.7
› Operations	36.6
Total	132.5

- › Workforce = 58% female / 42% male
- › Commissioners = 30% female / 70% male
- › Heads of Unit = 55% female / 45% male.

› We continue to develop, coach and mentor our employees

04.9

Corporate Social Responsibility

Year on year our people give more of their time and donations to support local and overseas charities. With a workforce of fewer than 140 employees, we are continually heartened by the generosity and compassion displayed by our staff, whether that's putting their hands in their pockets to support our various monthly fundraising activities or getting their hands dirty volunteering for community projects. Fundamentally everyone at the JFSC comes together with the shared desire of making a positive impact on our community and our environment and this is now a very evident part of our culture.

Since 2016 we have supported Jersey Mencap, a local charity for children and adults with learning difficulties and once again we nominated it as our chosen charity for 2018. In addition to raising money for the organisation, our staff continued to help at its Pond Project, developing the reservoir and conservation area by planting more trees and introducing an irrigation system.

Jersey Hospice, the JSPCA, Autism Jersey and Fostering and Adoption Jersey were some of the many other worthy causes that benefitted from the £12,000 we raised during the year. We always explore innovative and engaging ways to fundraise and our dedicated team of Staff Forum volunteers are instrumental in spearheading our activities. Over the 12 months, two team members from Supervision jumped out of a plane, another trekked to Machu Pichu, a group served up an in-house soup kitchen, while other teams took part in the Swimarathon, South Coast Charity Walk, the Race for Life, and the Standard Chartered Jersey Marathon. At Christmas, we raised £2,000 in one week for Jersey Hospice and the JSPCA, also donating pet food and toys to the latter.

Thanks to our corporate social responsibility (CSR) policy, staff can dedicate up to two days every year to volunteer for their chosen charitable causes or environmental projects. While there are too many to mention here, one initiative we are particularly proud to support is Every Child, Our Future - the education charity that helps primary age pupils improve their literacy skills. Our employees are some of the 500 plus volunteers who regularly go into local schools to help young children with their reading.

04.9

Charity money raised

› Giving

£12,000+
(£2,000 in one week)

Money raised for good causes

Another of our core CSR initiatives is our work with the Jersey Fraud Prevention Forum. Established in 2015, we are a founding member of the Forum that was set up to raise awareness about frauds and scams in the Island. In 2018, we strengthened our existing activities by doing public road shows and social media campaigns, and launching of a biannual newsletter that is distributed to all Island homes. We also coordinated a text message campaign that reached all Islanders with mobile phones, warning them about the risks of phishing. We commit our time and funding to support Forum activities, which align with our own guiding principles of protecting the public and reducing the risk of financial loss. We see this as a significant component of our work, particularly given the huge impact and sophistication of frauds and scams today.

With global focus on climate change and the impact we are having on our environment, we recognised that we needed to do more as an organisation so in 2018 we focused more of our energy on saving energy and becoming a greener, leaner, cleaner JFSC. We embarked on a month-long internal awareness campaign dedicated to eco and sustainable activities such as a bike maintenance workshop to encourage more staff to cycle to work, a beach clean, and plastic-free solutions. Over the year, we stopped using plastic glasses in the office and invested in re-usable water bottles for all staff to raise awareness about single-use plastic. Thanks to our Green team volunteers making sure that eco is now a top priority, we have achieved Plastic Free status in 2018 and have a year of activities planned for Green 2019.

Our staff's commitment to making a difference by donating to charities and doing more to protect the environment is truly commendable. In turn, that commitment is fostering a culture of community and teamwork within the JFSC, which we wholeheartedly encourage and will continue to support.

04.10

Finance and resources

In 2018 we made a surplus of £843,000 compared to a budgeted deficit of £369,000. This was predominantly due to increases in registry and supervisory fee income and lower than expected enforcement costs. Our total regulatory fee income increased by 11% year on year which we can attribute to inflationary annual fee increases and stronger than expected income from applications and funds sector activity.

Our total expenditure for 2018 was marginally below budget overall, which resulted from lower than expected investigation and litigation costs, higher staff vacancy rates throughout the year, and lower annual depreciation charges.

The result for the year was a net **surplus** of

£843,000 (2017: deficit of £320,000)

We have committed to strengthen our IT systems which has led to a shift in our operating costs towards IT spending together with further investment of £1.6 million on new systems. The expenditure on new systems in recent years has also increased the depreciation and amortisation charges. On a net basis, the book value of intangible and tangible fixed assets increased to £5.3 million by year end (2017: £4.4 million).

Our financial reserves consequently **increased** to

£6.4 million by 31 December 2018

While our cash balances increased to £9.5 million (2017: £8.9 million), short-term liquidity barely changed. Our liquidity (net current assets excluding prepayments, income received in advance and provisions) increased marginally to £6.4 million (2017: £6.1 million) illustrating the limited extent to which the current year surplus affected our cash balances.

Regulatory fees

Our total regulatory fee income reached £18.2 million (2017: £16.6 million) following increases in both supervisory and registry fee income.

Supervisory fee income rose by £1.7 million compared with 2017. Higher annual fee income accounted for £1.3 million of this increase, with the remaining £348,000 arising from stronger than expected business volumes.

Registry fee income increased more moderately, taking into account that the number of annual returns processed in 2018 declined by 0.4%. The total increase in registry income roughly equates to the rate of annual inflation.

Operating costs

Our total expenditure increased to £17.6 million (2017: £16.9 million). The most notable movements during the year were increases in depreciation, computer expenditure, professional services and operational costs. These increases were offset by unexpectedly lower investigation and litigation costs.

Overall our operating costs broadly reflect a similar cost structure to that of 2017. We had higher computer systems and depreciation costs due to the introduction of digital and automated processes.

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

Our staff costs remain the most significant item of expenditure. The average number of full-time employees remained unchanged in 2018. Staff costs incurred were below budget as we had more vacancies than expected throughout the year.

Professional services costs remained high because of temporary resource requirements and costs incurred in the early development of our new registry system. We expect these costs to decline as the vacancy rate improves and systems developments enter the capital stage of development and finally wind down on completion.

Our investigation and litigation costs decreased significantly in 2018 compared to the historic average. This was due to the completion of a significant enforcement case during the year. Our costs for the year were £373,000, compared to £872,000 in 2017 and we expect it to revert to a high level in due course.

Financial position

Our overall financial position remains under pressure, having sustained losses in recent years. While our financial reserves improved during 2018 to £6.4 million, they remain below target levels. We have an ongoing requirement to return to the target level of reserves necessary to demonstrate our resilience. To achieve this, we need to develop additional sources of income and continue to manage costs very tightly in future years.

Cash balances improved, increasing by £0.6 million to £9.5 million (2017: £1.1 million inflow to £8.9 million), but overall short-term liquidity is little changed from the prior year at £6.4 million, despite the current year surplus.

Our total investment in fixed assets amounted to £1.8 million (2017: £1.6 million). Our principal investments during the year related to core information systems replacements, upgrades and further development of our CRM system for risk-based supervision and the expansion of our portal services.

Depreciation and amortisation charges rose to £887,000, reflecting the extent to which we have invested in fixed assets. Depreciation was slightly behind budget because of delays in the development of our new registry system and the implementation of systems that were nearing completion at the end of 2018.

We have made provisions for probable material liabilities to ensure that we have funds available to settle these obligations when they materialise. Total provisions of £510,000 were reflected at the end of 2018 (2017: £513,000) with £183,000 (2017: £210,000) expected to be settled during 2019.

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

05.

› Governance

05.

Governance

Constitution

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

Accountability arrangements

We are an independent body, accountable to the public through the Island's elected representatives, namely the Chief Minister and the States of Jersey. Our relationship with ministers is set out in a memorandum of understanding to ensure our independence, whilst facilitating effective dialogue and working practices. Article 12 of the Commission Law provides that the Chief Minister may give the JFSC general directions, subject to significant safeguards.

In 2017, an Article 12 Direction was issued in order for the Exchange of Information on Beneficial Ownership agreement with the UK to be implemented to allow the Island's Joint Financial Crimes Unit to access to our relevant information and databases on beneficial ownership. The intention is that the Direction will be withdrawn once appropriate substitute legislation has been enacted.

We produce an annual Business Plan, and separately an Annual Report, to inform members of the States Assembly and other stakeholders. We consult extensively on all proposals to create or amend Laws and Regulations, and we provide feedback statements to explain how we have taken responses into account.

Governance arrangements

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

We comply with the vast majority of the Code's high-level principles. For example, we ensure there is a clear division of responsibility between the Chairman and the Director General, that no individual has unfettered decision-making powers and that we have transparent procedures for the appointment and re-appointment of Commissioners.

As explained in the Chairman's statement, the retirement of the Director General led to the Chairman taking on more responsibility for the day to day running of the organisation. Due to these unusual circumstances, the Chairman increased the amount of consultation with other Board Members to mitigate the risk that the division of responsibility between the Board and the Executive was compromised.

Delegation of Powers

Our Board delegates its powers where appropriate to one or more of the Commissioners or to a member of the JFSC staff to ensure that we can respond promptly, efficiently and effectively to events and circumstances. You can find a full explanation about the 'Delegation of Powers' on our website: jerseyfsc.org

Composition of the Board and appointment of Commissioners

Our Board currently comprises the Chairman, Deputy Chairman and nine other Commissioners, including the Director General. All of our Commissioners are considered to be independent, with the exception of the Director General. A chart of our current Commissioners is set out on page 103 - 104 of this Annual Report and you can find further information on their skills, knowledge and experience on our website: jerseyfsc.org

Commissioner recruitment

2018 was a busy year for the Board of Commissioners in terms of recruitment. In line with our succession planning strategy, and mindful that there were a number of Commissioners who would shortly reach the end of their second and final terms of office, three new Commissioners were identified for recruitment.

Our Board endeavours to ensure that there is an appropriate degree of knowledge, experience and diversity amongst the Commissioners. When a vacancy becomes available, the Board evaluates the current balance of its membership and identifies the characteristics, skills and experience that would most enhance its effectiveness. Once again, we worked with the Jersey Appointments Commission during the recruitment process. The Nomination Committee evaluated the successful candidates and made recommendations to the Board. The appointment of Commissioners Mark Hoban, Monique O'Keefe and, more recently, Tracy Garrad were made following this process.

This now brings the number of female Commissioners on the Board to three, representing just over 25% of the Board's membership.

After 10 years of service as a commissioner and, in more recent years as Deputy Chairman, Debbie Prosser retired at the end of November 2018. Commissioner Ian Wright assumed the position of Deputy Chairman following recommendations from the Board and appointment by the Chief Minister. Michael de la Haye stepped down as a Commissioner on 31 December 2018.

It is intended to recommend to the Chief Minister that Mark Hoban assumes the position of Chairman in 2020, subject to his satisfactory performance as a Commissioner. The current Chairman, Lord Eatwell, is due to retire in April 2020.

Profiles of our new Commissioners are on our website: jerseyfsc.org

05.

Board meetings and attendance

Our Board met seven times during 2018 to consider strategy, risk and regular business. All Board members attended all seven meetings with the exception of three Commissioners, of whom three were unavailable for one board meeting respectively. Our Board also met several times in 2018 to review and consider enforcement settlement cases and contested matters. The Commissioners and Executive also met for a strategy day and participated in events with fellow regulators, Industry representatives, Government ministers and the States of Jersey Police.

Our Commissioners had regular discussions during the year with Government in terms of significant financial services matters, the NRA and Brexit preparations.

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

An externally facilitated governance effectiveness review will be conducted towards the end of 2019 or early 2020.

Board activities

Executive Board

The unexpected absence of a Director General during the second half of 2018 posed challenges, largely in terms of time commitment, for our Board and Chairman in particular. In addition to their regular Board meetings and sub-committee commitments, the Commissioners took time to collectively support and provide guidance to the Executive team throughout the period. The Chairman spent more time in Jersey to make himself available to the Executive, ensuring that the organisation maintained progress with the Business Plan and continued to conduct business as usual effectively.

20 years

As we celebrated 20 years of the JFSC, our Board reflected on the past two decades and acknowledged the increased pressures on regulators today in terms of international standards and the advantages and complexities of technological developments. The overriding reason for establishing the JFSC remains true today – to protect the public and maintain Jersey's strong position as an international finance centre with a highly respected regulatory framework.

International assessments

International assessments featured as a regular Board meeting agenda item. In the interests of Industry and the Island's reputation, our Board is keen to ensure that we continue to strive to meet the level of regulatory performance expected among international bodies. Today that incurs large costs and increasing demands on resources due to the scale and capacity of that expectation. In terms of the long-term vision for the JFSC, our Board was forced to acknowledge that our sustainability is of concern in the face of continuing resource pressures.

Throughout the year, our Board was kept apprised of developments regarding the NRA data collection process. Commissioners supported the Executive in considering how to manage this obligation alongside business as usual, while acknowledging the impact on Industry.

05.

Risk

Throughout 2018 our Board maintained a strong focus on risk management. Work is progressing to embed risk into our organisation wide culture and all employees' daily activities. Commissioners and executive directors worked closely together on strategy while the Board kept oversight of developments. As the ERM model developed, it became clear that a Risk Committee of the Board was the next natural step in establishing risk as a key element of the Board's strategy. In February 2019 the Board approved the formation of a Risk Committee with Mark Hoban as Chairman. The Risk Committee will advise and partner with the Executive in fulfilling the Executive's accountability to the Board regarding risk management.

Other matters

During 2018 our Board also:

- Kept the possible implications of Brexit under close review
- Received monthly reports from the executive directors on various matters and made challenges and recommendations to address issues as they arose
- Supported the publication of guideline methodology to determine the quantum of civil penalties. As a consequence of being granted the power to impose civil financial penalties on principal persons where their actions (or inaction) has resulted in the contravention of a Code of Practice, we needed to update our Decision-Making Process. This was publicly consulted on in accordance with Article 21B(6) of the FS(J)L
- Monitored the significant cost implications for the JFSC of future digitalisation and the ever-increasing threat of cyber-attacks. Digitisation is an ongoing strategic consideration for the Board, recognising the merits of automating systems and exploring the benefits of Artificial Intelligence
- Reviewed and were delighted with the unprecedented results of the Staff Engagement Survey (conducted in November 2018) which undoubtedly reflect the positive culture now very much embedded at the JFSC.

Our Board of Commissioners believes that high quality effective governance arrangements are essential for well-run organisations.

Commissioners' remuneration

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

Commissioners' fees did not increase in 2018. The existing annual amounts will be reviewed during 2020 following the next external governance effectiveness review.

Towards the end of the year, our Board concluded its annual evaluation of the Chairman's performance, noting in particular his increased commitment to the organisation and executive 'leadership' in the absence of a Director General. It was also noted that, as ever, his activities had helped to enhance the visibility and reputation of the JFSC, both on and off-Island.

Fees paid to Commissioners during the year were as follows:

	2018	2017
	£	£
Lord Eatwell of Stratton St. Margaret (Chairman)	150,000	150,000
John Harris (Retired 10 July 2018)	-	-
Michael de la Haye (Retired 31 December 2018)	26,000	26,000
Peter Pichler	26,000	26,000
Simon Morris	36,500	36,500
Debbie Prosser (Retired as Deputy Chairman 29 November 2018)	30,571	33,350
Markus Ruetimann	36,500	36,500
Cyril Whelan	26,000	26,000
Stephan Wilcke (Retired 31 July 2017)	-	21,292
Ian Wright (Appointed Deputy Chairman 29 November 2018)	26,740	26,000
Annamaria Koerling (Appointed 29 September 2017)	36,500	9,262
Mark Hoban (Appointed 9 November 2018)	3,041	-
Monique O'Keefe (Appointed 9 November 2018)	2,167	-
	400,019	390,904

Subsequent to the year end, Tracy Garrad was appointed as Commissioner on 8 February 2019.

John Harris, who retired from the JFSC in July 2018 with six months' leave of absence, was not paid any fees in his capacity as a Commissioner but rather was paid in his capacity as Director General. During the year, he received total remuneration of £303,333 (2017: £335,000).

05.

Nomination Committee

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

As stated overleaf, two new Commissioners were appointed in 2018.

John Harris retired in July 2018 and Martin Moloney was chosen as the new Director General in November 2018, following a thorough search process, in partnership with the Jersey Appointments Commission and recruitment firm Odgers Berndtson.

Legal Proceedings Committee

The Legal Proceedings Committee was created in 2018 after the Board had to consider a number of enforcement cases under the Decision-Making Process. The Committee's terms of reference are available on our website jerseyfsc.org

In accordance with our policy statement "Delegation of Powers of the Jersey Financial Services Commission", the Legal Proceedings Committee has responsibility for determining whether we will initiate or defend any legal proceedings arising from any law under which we have statutory powers. However, a decision to defend or not to defend an appeal to the Royal Court, against an imposed regulatory sanction or other decision taken by the Board, is a matter reserved to the Board. The Committee takes into account potential legal costs when making decisions.

Depending on the duration and complexities of a case, or in the event of court proceedings, legal fees represent our highest costs, which are often unknown and cannot easily be budgeted for. Our Board recognises that a large enforcement case may significantly deplete our cash reserves.

The initial members of the Legal Proceedings Committee were Lord Eatwell, Debbie Prosser and Peter Pichler. Cyril Whelan replaced Debbie Prosser and Monique O'Keefe joined the Committee in November 2018.

Remuneration Committee

One of the Committee's principal functions is to approve the staff salary and bonus allocations for the year and this process took place in November 2018. Remuneration and bonus payments are awarded strictly by reference to performance and the Committee was pleased to note that high performance ratings for several individuals reflected that in 2018. The Committee assists in approving and providing oversight for the awards of bonuses for the highest achieving members of staff.

The Committee met on four occasions during 2018 and all committee members attended the scheduled meetings. Certain members of the Executive and the Head of Human Resources attended the meetings as required. The remit of the Committee is fairly broad, encompassing a wide range of remuneration and human resources functions. The Committee had regular discussions regarding remuneration strategy.

The Committee's Terms of Reference, which are reviewed annually, are available on our website.

The former Deputy Chairman, Debbie Prosser continued as Chairman of the Remuneration Committee until October 2018, with members Markus Ruetimann, Michael de la Haye and Annamaria Koerling. Commissioner Koerling assumed the position of Chair following Debbie Prosser's retirement and Monique O'Keefe joined the Committee on 1 December 2018, in anticipation of Michael de la Haye's departure on 31 December.

Audit Committee report

The Audit Committee is constituted of Commissioners with relevant knowledge, experience and qualifications to carry out an effective audit committee function.

All eligible members attended all four meetings.

The Terms of Reference for the Audit Committee are available on our website.

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

The 2018 audit process went well and it was concluded that there were no material unadjusted errors in the accounts.

The Committee met with the audit partner as part of the audit planning process and held a meeting at the completion of the annual audit process where it reviewed in detail the judgements made about subsequent events and contingencies.

In 2018 the Committee was chaired by Ian Wright and its members included Crown Advocate Cyril Whelan and Peter Pichler. The Committee had appropriate financial and other experience detailed below:

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

Auditors

BDO LLP (the auditors) undertook the annual audit as approved by the Audit Committee in November 2017.

During 2018 the auditors undertook a review of management override (such as journal entries made with a degree of estimation) as well as revenue recognition/completeness (looking at whether all revenue had been recognised this financial year, including deferred income and appropriate postings at year end).

Responsibility for Annual Report and accounts

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

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

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

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

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

The Commissioners have considered the financial statements on pages 83 - 100 and are satisfied that they show a true and fair view of the surplus of the year and our financial position at 31 December 2018.

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

For and on behalf of the Board of Commissioners

L Roe
Commission Secretary
6 June 2019

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

06.

Independent auditor's report to the Chief Minister of the States of Jersey

06.

Independent auditor's report to the Chief Minister of the States of Jersey

Opinion

We have audited the financial statements of Jersey Financial Services Commission ("the Commission") for the year ended 31 December 2018 which comprise the income and expenditure account, the balance sheet, the statement of changes in accumulated reserves, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2018 and of its surplus for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Financial Services Commission (Jersey) Law 1998.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter in our audit
Income recognition – existence including cut-off around year end Revenue consists of regulatory and registry fees, for which annual fees run from different dates throughout the year depending on the specific fee. There is a risk that revenue recognition policies are not appropriate, revenues do not exist, or that revenue may be incorrectly recorded in the wrong year resulting in a misstatement of revenue. The details of the accounting policies applied during the year are given in note 1 to the financial statements.	For regulatory fees we reconciled the revenue in the financial statements to system generated reports containing details of the licences held. We tested these reports through performing walkthroughs of the relevant systems. We also tested on a sample basis that fees for regulated entities had been calculated in accordance with fee notices published by the Commission, agreed to payment, and recognised in the appropriate period. We recalculated deferred income to ensure it had been correctly accounted for in accordance with the Commission's accounting policies, and that the appropriate proportion of fees had been deferred. We tested a sample of regulatory fees and receipts processed specifically around year end to ensure the related income had been recognised in the appropriate period. For registry fees we tested on a sample basis that fees had been calculated in accordance with fee notices published by the Commission and agreed to payment. We recalculated annual return income based on the number of registered companies. We tested a sample of registry fees and receipts processed specifically around year end to ensure the related income had been recognised in the appropriate period.
Completeness of income Given the number of income streams and the ad-hoc nature of some of these fees, there is a risk that certain fees had not been billed to the customer, or that the income had been recognised in the incorrect period due to billing taking place significantly later than it should have. The details of the accounting policies applied during the year are given in note 1 to the financial statements.	We tested the completeness of regulatory and registry income throughout the year by selecting a sample of Financing Statement numbers and company numbers and vouching to supporting fee income, ensuring that the fees had been recognised in the appropriate period. We also tested completeness by checking for any gaps in the Financing Statement numbers, which are expected to be sequential. We reviewed a sample of post year end receipts and invoices to ensure the related income had been recognised in the appropriate period.

06.

Annual return fee surplus

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

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

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

We reviewed the Commission's paper on the accounting treatment of the surplus.

We obtained and reviewed all correspondence on this matter, including confirmation from the States of Jersey of the position at year end.

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

Our application of materiality

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

We determined materiality for the financial statements as a whole to be £290,000 (2017: £267,000). In determining this in both the current and prior year, we based our assessment on a level of 1.75% of average income over a 3 year period. We used income as a benchmark as this is the primary Key Performance Indicator used to address the performance of the business by the Commissioners, and is consistently referenced within the annual report. Average income was used to calculate materiality to ensure any significant increases in fees or aspects of non-recurring income did not bring materiality to an unacceptably high level.

We determined performance materiality to be £211,700 (2017: £193,575). In determining this in both the current and prior year, we based our assessment on a level of 73% (2017: 72.5%) of materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £14,500 (2017: £13,350) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

Other information

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

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

Responsibilities of Commissioners

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

BDO LLP
Chartered Accountants
Bristol
United Kingdom

20 June 2019

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

07.

Financial statements

07.

Financial statements

Income and expenditure account
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Regulatory income			
Regulatory fee income	4	13,815	12,146
Registry fee income	5	4,396	4,248
Total regulatory income		18,211	16,394
Other income	6	194	192
Interest income		41	19
Total income		18,446	16,605
Expenses			
Staff costs	7	(11,837)	(11,572)
Computer systems		(1,549)	(1,172)
Premises costs		(845)	(782)
Professional services		(956)	(729)
Investigation and litigation		(373)	(872)
Other operating costs		(730)	(653)
Depreciation, amortisation and impairments		(887)	(799)
Staff learning and development		(247)	(191)
Travel costs		(179)	(155)
Total expenses		(17,603)	(16,925)
Surplus/(Deficit) for the year	8	843	(320)

All the items dealt with in arriving at the net surplus/(deficit) relate to continuing operations.

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

The notes on pages 88 to 100 form an integral part of the financial statements.

Balance sheet as at 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Intangible assets	9	4,697		3,694	
Tangible fixed assets	10	621		720	
			5,318		4,414
Current assets					
Trade receivables		322		768	
Sundry debtors		181		102	
Prepayments		1,087		923	
Cash and bank balances	11	9,515		8,886	
			11,105		10,679
Total assets			16,423		15,093
Creditors - amounts falling due within one year					
Fee income received in advance		5,903		5,441	
Creditors	12	3,656		3,628	
Provisions	13	183		210	
			9,742		9,279
Total assets less current liabilities			6,681		5,814
Creditors - amounts falling due after one year					
Provisions	13		327		303
Total assets less total liabilities			6,354		5,511
Represented by					
Accumulated reserves			6,354		5,511

The notes on pages 88 to 100 form an integral part of the financial statements.

The financial statements on pages 83 to 100 were approved by the Board of Commissioners on 6 June 2019, and signed on its behalf by:

John Eatwell
Chairman

Martin Moloney
Director General

07.

Statement of changes in accumulated reserves

		Accumulated reserves
		£'000
Balance at 1 January 2017		5,831
Deficit for the year		(320)
Balance at 31 December 2017		5,511
Balance at 1 January 2018		5,511
Surplus for the year		843
Balance at 31 December 2018		6,354

Statement of cash flows
For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Cash flows from operating activities		
Net surplus/(deficit) for the year	843	(320)
Interest receivable	(41)	(19)
Depreciation, amortisation and impairment charges	887	799
Utilisation of provision	(111)	(111)
Movements in provisions	108	112
Deferred rental incentive	6	6
Decrease/(Increase) in debtors and prepayments	204	(350)
Increase in income received in advance	462	688
(Decrease)/Increase in creditors	23	1,906
Net cash generated from operating activities	2,381	2,711
Cash flow from investing activities		
Interest received	41	19
Purchases of tangible and intangible fixed assets	(1,793)	(1,584)
Net cash used in investing activities	(1,752)	(1,565)
Net increase in cash and bank balances	629	1,146
Cash and bank balances at 1 January	8,886	7,740
Cash and bank balances at 31 December	9,515	8,886
Cash and bank balances consist of:		
Cash at bank and in hand	283	205
Short term deposits	9,232	8,681
Cash and bank balances	9,515	8,886

The notes on pages 88 to 100 form an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

01. Significant accounting policies

Basis of preparation

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

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

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

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

Income

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

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

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

Expenses

All expenses are accounted for on an accruals basis.

07.

Foreign currency

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

Investigation and litigation costs

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

Cash and bank balances

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

Government registers

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

Tangible fixed assets

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

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

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

The estimated useful lives used for this purpose are:

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

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

Intangible assets

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

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

The estimated useful lives used for this purpose are:

› Computer software	Up to 7 years

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

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

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

Impairment

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

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

Leases

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

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

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

07.

Financial contributions

Financial contributions received for the development and implementation of specific Government policies and objectives are accounted for in accordance with the guidance provided for government grants. Contributions received are recognised based on the accrual model and are measured at the fair value of the assets received. Contributions are classified as relating to revenue or the development of assets. Contributions relating to revenue are recognised as income over the period in which the related costs are recognised. Contributions related to the development of assets are initially recognised as deferred income and are recognised in income on a straight line basis over the expected useful life of the related asset.

Government grants

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

Pension costs

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

Annual leave pay accrual

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

Provision for long leave entitlements

Provision is made for the accrued entitlements to long leave as at the balance sheet date, even when such entitlements may not yet have vested. The provision is increased each year as additional entitlements are earned. The provision is decreased when long leave entitlements are taken and when such entitlements expire. The provision represents management's best estimate of the amounts expected to be paid out, taking into account long leave entitlements that may be lost when an employee leaves our employment. The provision is discounted if the effect would be material.

Provision for premises reinstatement

Provision is made for the expected cost of reinstating office premises to their original condition on termination of existing lease agreements. The balance represents management's best estimate of amounts to be paid for reinstatement. The provision is assessed each year based on changes in the expected cost of restoration and discount rates where applicable. The provision will be reduced when related costs are incurred in future periods. Provisions for premises reinstatement are discounted if the effect would be material.

02. Critical accounting judgements and key sources of estimation uncertainty

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

Key accounting estimates and assumptions

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

Provision for long leave entitlements

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

Provision for premises reinstatement

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

Useful lives and residual values

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

03. Taxation

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

07.

04. Regulatory fee income

	2018	2017
	£'000	£'000
Banking	1,775	1,489
Funds	6,130	5,310
Insurance Companies	908	698
General Insurance Mediation	148	108
Investment Business	1,337	1,355
Trust Companies	2,788	2,545
Designated Non-Financial Businesses and Professions	675	599
Recognised Auditors	33	19
Money Service Business	21	23
	13,815	12,146

05. Registry fee income

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

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

The number of annual returns received during the year was:

	2018	2017
Annual returns received	33,373	33,515
	2018	2017
	£'000	£'000
Total annual return fee income	6,905	7,023
Less: collected on behalf of Government of Jersey	(4,912)	(5,025)
Retained by the JFSC	1,993	1,998
Other Registry income	2,403	2,250
Total Registry income	4,396	4,248

06. Other income

	2018	2017
	£'000	£'000
Income from hosted events	-	18
Registry development services	-	67
Recognised financial contribution income	185	71
Sundry income	9	36
	194	192

07. Staff costs

	2018	2017
	£'000	£'000
Staff salaries	9,653	9,401
Commissioners' fees	400	391
Social security contributions	447	438
Pension contributions	771	740
Permanent health and medical insurance	360	325
Other staff costs	135	150
Long leave provision	57	112
Annual leave pay accrual	14	15
	11,837	11,572

Contributions to staff pension schemes are payable monthly to pension scheme administrators. Contributions amounting to £NIL (2017: £95,000) were payable to the schemes at year end.

The average number of staff employed during the year was 131 (2017: 131).

08. Surplus/(Deficit) for the year

Surplus/(Deficit) for the year is stated after including the below:

	2018	2017
	£'000	£'000
Depreciation of tangible fixed assets	(273)	(251)
Amortisation of intangible assets	(614)	(548)
Foreign exchange differences	7	-
Contributions to employee pension schemes (refer to note 16)	(771)	(740)
Operating lease expenditure	(566)	(537)
Audit fees	(32)	(22)

07.

09. Intangible assets

	Computer systems under development	Computer systems	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2018	1,127	5,892	7,019
Additions	1,638	-	1,638
Completed computer systems	(1,572)	1,572	-
Disposals	-	(40)	(40)
At 31 December 2018	1,193	7,424	8,617
Amortisation			
Balance at 1 January 2018	-	(3,325)	(3,325)
Charge for the year	-	(614)	(614)
Disposals	-	19	19
At 31 December 2018	-	(3,920)	(3,920)
Net book value at 31 December 2018	1,193	3,504	4,697
Net book value at 31 December 2017	1,127	2,567	3,694

Our principal expenditure during the year related to core information systems replacements and upgrades, further development of our CRM system related to risk based supervision, and expansion of our portal services.

10. Tangible fixed assets

	Office furniture, fittings & equipment	Leasehold improvements	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Balance at 1 January 2018	760	295	1,555	13	2,623
Additions	13	16	147	-	176
Disposals	(186)	-	(306)	-	(492)
At 31 December 2018	587	311	1,396	13	2,307
Accumulated depreciation					
Balance at 1 January 2018	(700)	(44)	(1,157)	(2)	(1,903)
Charge for the year	(36)	(59)	(174)	(4)	(273)
Disposals	184	-	306	-	490
At 31 December 2018	(552)	(103)	(1,025)	(6)	(1,686)
Net book value at 31 December 2018	35	208	371	7	621
Net book value at 31 December 2017	60	251	398	11	720

11. Cash and bank balances

	2018	2017
	£'000	£'000
Current accounts	281	201
Deposit accounts	9,232	8,681
Petty cash	2	4
Cash and cash equivalents at bank	9,515	8,886

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

Included in deposit account balances are funds amounting to £1,718,565 (2017: £677,496) which have been identified as relating to deferred registry fees (refer to Note 12).

12. Creditors

	2018	2017
	£'000	£'000
Trade creditors	391	1,333
Accruals	958	705
Deferred rental incentive	88	82
Financial contributions	358	422
Deferred registry fees*	1,719	678
Sundry creditors	142	408
	3,656	3,628

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

In the event of a sustained surplus of such deferred fees, the residual amount is likely to be remitted to the Government of Jersey at a future date. The balance represents the surplus of such fees collected in 2017 and 2018 that exceeded the agreed expenditure on registry systems in the year.

07.

13. Provisions for liabilities

	Provision for long leave	Reinstatement Provision	Total
	£'000	£'000	£'000
Balance at 1 January 2017	268	-	268
Amounts provided for during the year	120	244	364
Reversal of unused provision	(8)	-	(8)
Utilised during the year	(111)	-	(111)
Balance at 31 December 2017	269	244	513
Amounts provided for during the year	71	37	108
Reversal of unused provision	-	-	-
Utilised during the year	(111)	-	(111)
Balance at 31 December 2018	229	281	510
Falling due within one year	183	-	183
Falling due after one year	46	281	327
	229	281	510

Provision for long leave

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

Provision for premises reinstatement

The provision relates to the expected cost of reinstatement of office premises to their original condition on termination of premises leases. The balance at year end has been determined based on a guideline rate of £13.80 per square foot (2017: £12 per square foot) as determined by the Royal Institute of Chartered Surveyors. The provision is adjusted annually based on movements in the guideline rate.

14. Commitments under operating leases

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

	2018	2017
	£'000	£'000
Not later than 1 year	592	560
Later than 1 year but not later than 5 years	1,422	2,015
	2,014	2,575

Rentals payable under this operating lease are subject to periodic review and are based on market rates. The most recent rent review was agreed during 2017. The resulting rental increase was effective from May 2016. The next rent review is due to commence in 2019.

15. Financial instruments

Our financial instruments are analysed as follows:

	2018	2017
	£'000	£'000
Financial assets		
Financial assets measured at amortised cost	10,018	9,756
Financial liabilities		
Financial liabilities measured at amortised cost	(891)	(2,227)

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

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

07.

16. Pension costs

JFSC 2012 Staff Pension Scheme

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

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

Salaries and emoluments include pension contributions for staff to the schemes of £746,070 (2017: £716,850). Contribution rates have remained unchanged. Aggregate contributions increased due to changes in membership numbers, ages and employment grades.

Public Employees Contributory Retirement Scheme

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

Salaries and emoluments include pension contributions for staff to this scheme amounted to £24,807 (2017: £23,449). The average contribution rate paid by the JFSC during the year was 13.6% (2017: 13.6%) of salary. The contribution rate has not been changed following the actuarial valuation because the valuation is within the funding parameters specified in the related regulations.

We are unable to identify our share of the underlying assets and liabilities of PECRS in accordance with FRS 102 (Section 28) and accordingly we account for contributions to the scheme as contributions to a defined contribution scheme.

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

Copies of the latest Annual Accounts for the scheme, and for the States of Jersey, may be obtained from the Government of Jersey website gov.je

17. Related party transactions

Transactions and balances arising in the normal course of operations

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

During the year we engaged the UK division of CMS Cameron McKenna Nabarro Olswang LLP (CMS), a Law Firm in which Commissioner Simon Morris is a Partner. Legal services costs amounting to £122,534 were incurred and paid to CMS. No amounts were payable to CMS as at 31 December 2018.

During 2018, Commissioner Simon Morris was engaged in his personal capacity for the provision of legal services to the JFSC. Total costs amounting to £26,940 were incurred and paid to Simon during the year. No amounts were payable to Simon as at 31 December 2018.

Remuneration of key management personnel

Key management personnel include the Commissioners, the Director General and executive directors who together have authority and responsibility for planning, directing and controlling our activities. Total compensation paid to members of key management personnel during the year was £2.4 million (2017: £2.2 million).

Remuneration of Commissioners

Remuneration of the Commissioners and the Director General is set out on page 72 of this Annual Report. There were no other transactions with key management personnel other than reimbursement of expenses incurred for JFSC purposes and as referred to above.

18. Subsidiary undertakings

At 31 December 2018, we had an interest in one wholly owned subsidiary company (2017 one wholly owned subsidiary company). Further details are outlined below:

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

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

19. Subsequent event

Subsequent to the year end, the JFSC has reached a settlement to recover costs of £250,000 related to a long running legal case.

08.

› Appendices

08.

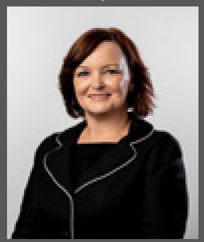
Appendices / 01
Commissioners

As at 31 May 2019

Lord Eatwell
Chairman

Ian Wright
Deputy Chair

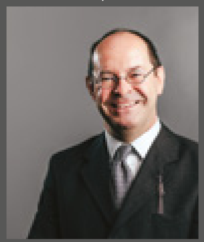
Martin Moloney
Director General



Tracy Garrad
Commissioner

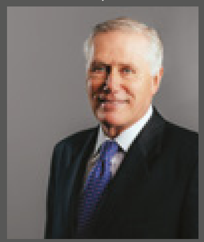
Mark Hoban
Commissioner

Annamaria Koerling
Commissioner



Simon Morris
Commissioner

Monique O'Keefe
Commissioner



Peter Pichler
Commissioner

Markus Ruetimann
Commissioner

Cyril Whelan
Commissioner

08.

Appendices / 02
Executives & Heads of Unit

As at 31 May 2019


Martin Moloney
Director General

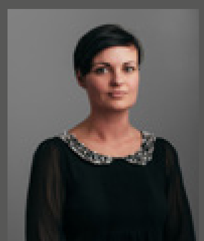

Jill Britton
Director of Supervision

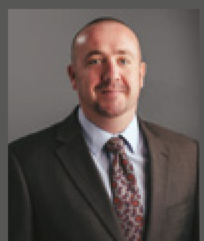

Jason Carpenter
Head of Supervision Examination Unit


Sam Davison
Head of Regulatory Maintenance and Pooled Supervision


Roy Geddes
Head of Authorisations


Andrea John
Head of Relationship Managed Supervision

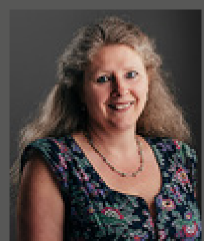

Caroline McGrath
Head of Strategic Support


Tony Shiplee
Head of Relationship Managed Supervision


Mike Jones
Director of Policy and Risk


Hamish Armstrong*
Acting Head of Financial Crime Policy


Andrew Garbutt
Head of Risk


Caroline Morgan*
Acting Head of Financial Crime Policy


David Porter
Head of Policy

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


Barry Faudemer
Director of Enforcement


Kerry Petulla
Head of Enforcement


Mike Jeacock
Chief Operating Officer


Stuart Keir
Head of Finance


Sarah Kittleson
Head of Programme Management Office


Abi Nance
Head of Communications and Digital

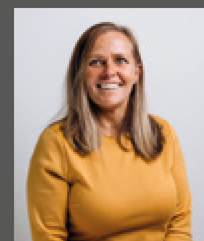

Susan Russell
Head of Human Resources


Denis Philippe
Head of ICT


Mark Syvret
Head of Facilities


Julian Lamb
Director of Registry


Wanda Adam
Head of Registry Policy and Service Delivery


Dawn Kennedy
Head of Registry Operations and Processing

09.

Notes

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

1. Full member of:

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

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

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

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

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

10.

Glossary

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

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

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