



Business Plan 2019

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› Introduction

This Business Plan and Budget for 2019 sets out the Jersey Financial Services Commission’s (JFSC) objectives and priorities as the organisation enters its third decade. The document aims to help Islanders, the local financial services industry (Industry) and the Government of Jersey assess how we plan to address current challenges, while continuing with business-as-usual activities.

As a listening regulator, we welcome the opportunity to meet with Industry participants, members of Government and the public to explain our plans and hear constructive feedback.

› Chairman’s Statement



New Director General	In 2019 we welcome Martin Moloney, our new Director General, who takes over the reins at the end of February.
20 years of the JFSC	<p>Last year, 2018, marked the 20th anniversary of the foundation of the JFSC. It provided an opportunity to reflect on our achievements, not just over the last year, but also since our inception.</p> <p>It was evident that the JFSC, and indeed the Island’s Financial Services Industry as a whole, have over the years had to navigate significant upheaval and change, not least the financial crisis of 2007-8 and most recently the uncertainty surrounding the UK’s departure from the European Union.</p> <p>Vital to maintaining our reputation as a first class finance centre has been our ability to adapt in the face of adversity. Not just survive, but thrive. Whilst we can all be rightly proud of our achievements, a good reputation is hard won and can be easily lost. The next 12 months present a number of challenges, and those are just the ones that we know about already. Innovation is continuous in financial services. We will need to call on our strengths as an agile regulator throughout this year and beyond.</p>
Maintain market access and reputation	<p>The key external challenges facing the JFSC are largely related to maintaining our market access and reputation; the latter is itself a vital factor in achieving the former. Whilst we will continue to maintain international standards, the UK’s departure from the European Union makes it likely that securing equivalence with EU directives will face significant delays.</p> <p>We have been encouraged to see the positive progress that the European Union’s Code of Conduct Group has made. We will continue to work with Government on the economic substance requirements.</p>



FATF and MONEYVAL

In addition we are interacting continually with international regulation standard setters. None are more important than the Financial Action Task Force (FATF) and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), whose next assessment of Jersey will be in a couple of years' time. We will therefore be devoting significant resources to the National Risk Assessment (NRA) during 2019, since this is a key priority in the preparation for these tests.

Change from within

We are beginning to see the benefits of our successful completion of the restructuring of Supervision last year with increased visits and risk-focused resourcing. But change never stops. Enhancement of systems and the legal framework in the Registry will be important this year. Not least because new registry legislation is required both as a precursor to the MONEYVAL visit and to enhance the Beneficial Ownership and Control requirements and additional registers.

Focus on consumer

In line with past business plans, our resources are directed toward the core functions that we provide and are required to administer. Our first guiding principle is to protect the consumer. The Government is planning to extend the scope of JFSC consumer protection to include pensions and consumer lending. We expect to be involved in framing policy requirements in these areas. In addition we will continue to play our part to facilitate Fintech in Jersey.

Constraints

All this will be achieved, yet there are constraints on our present resources, such as the escalating maintenance of cyber security measures and the expensive provision needed to fund enforcement action. Then there are the unforeseen, resource-intensive events that seem to pop up every year.

Working together

The JFSC is a listening regulator. To do our best for Jersey we need your engagement over the next 12 months. The commitment of Industry will be vital in working together on the NRA and preparing adequately for the MONEYVAL assessment. I know the demands of these programmes are a burden. But far better this burden than the reputational damage that Jersey might otherwise suffer.

One of our statutory objectives is to pursue the best economic interests of Jersey. I believe that is done by enhancing our reputation as a well regulated jurisdiction. But this can only be achieved if regulator, Government and Industry work together towards that common goal.

John Eatwell
Chairman



About the JFSC



Our key responsibilities are set out in the Financial Services Commission (Jersey) Law 1998. They require the supervision of financial services and the maintenance of an appropriate regulatory framework.

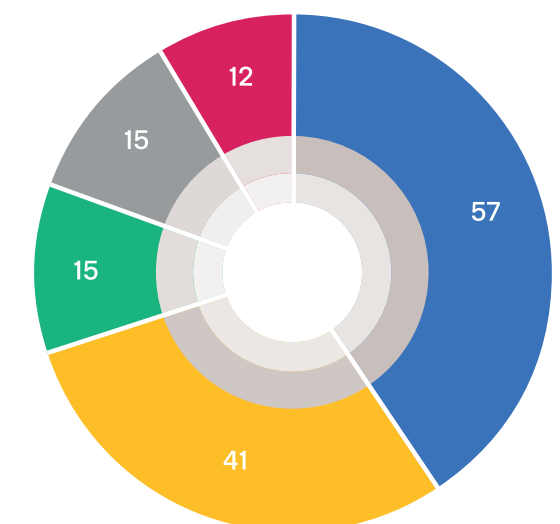
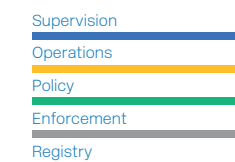
To meet these requirements, we must pay particular attention to our guiding principles:

- › 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.

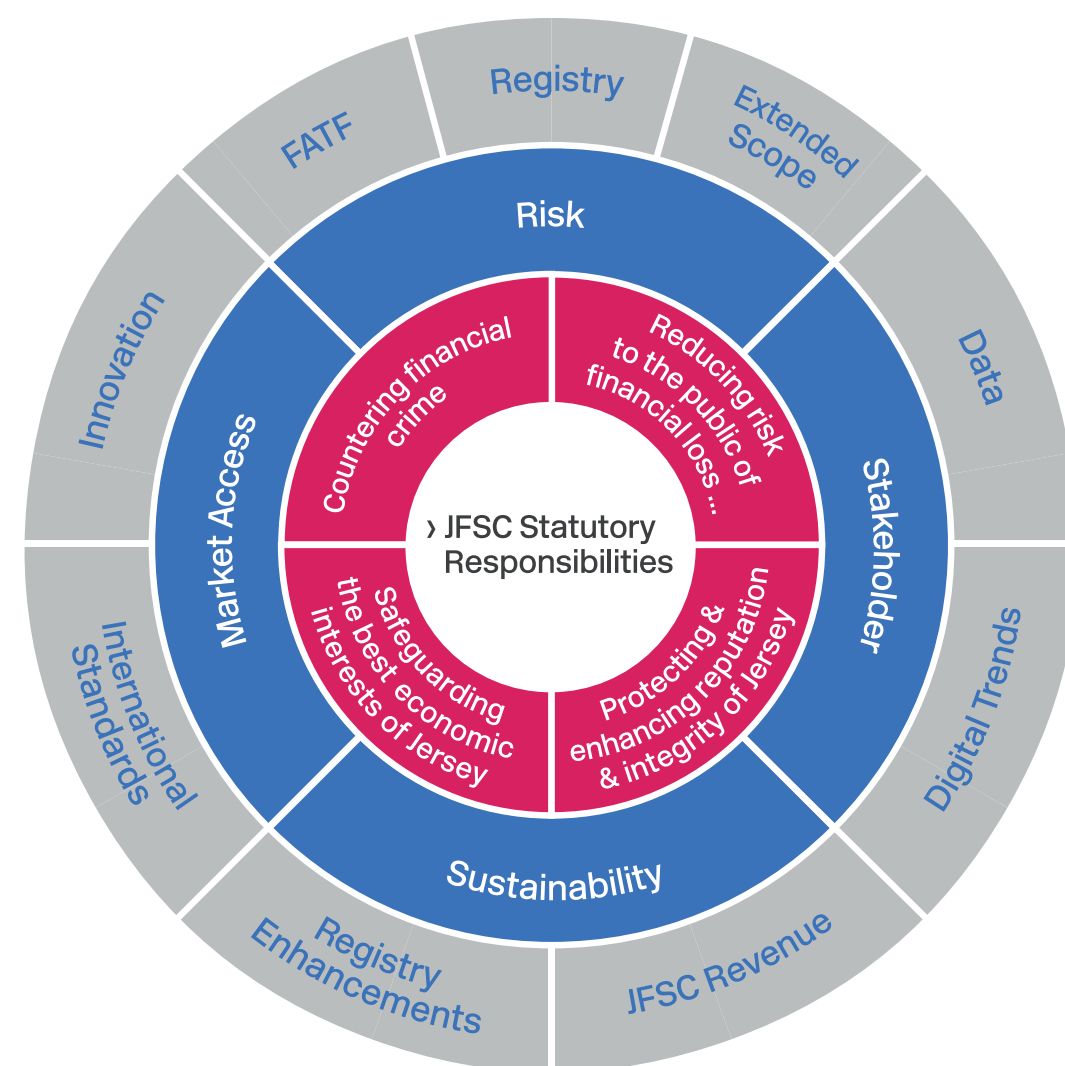
The bulk of our resources and energy is focused in the core day to day functions of the JFSC. Whilst acknowledging how agile we must be to respond and adapt to the changing landscape of financial markets and international standards, it is vital that we protect and maintain our status as a first class international finance centre.

Core Functions by Employee Distribution

→ Key:



› Our major priorities for 2019



→ Key:

Guiding Principles

Strategic Objectives

Business Plan 2019

As with previous years, the key projects that we are prioritising this year can be categorised by the following strategic objectives:

- › To focus the regulation and supervision of Jersey's financial services on where the greatest perceived risks lie
- › To ensure stakeholder interaction with the JFSC is as straightforward, effective and fair as possible through the continual development of our people and infrastructure
- › To facilitate access to key markets by working with all relevant domestic stakeholders, other regulators and international bodies
- › To safeguard the sustainability, efficiency and independence of the JFSC.

Risk-focused Regulation

Last year we completed the major restructure of the supervisory operating model and, in our ongoing and universal commitment to enhancing our risk-based approach, we are focused on projects this year that mitigate the greatest perceived risks.

FATF Recommendations: implementation and assessment

During 2018 we participated in a multi-agency review of Jersey's Anti-Money Laundering/Countering Financial Terrorism (AML/CFT) framework against the 2012 FATF Recommendations, which resulted in a technical "gap-analysis" and the issue of a consultation paper outlining proposed legislative amendments.

We have played a significant role in the Island's NRA, including providing aggregated industry data to all NRA teams and contributing to their work.

During 2019 we will:

- › Play a strategic role in the Island's NRA and assist the Jersey Financial Crime Strategy Group in the drafting and implementation of legislative amendments following the 2018 consultation
- › Contribute to the multi-agency review of the effectiveness of Jersey's AML/CFT regime
- › Enhance the supervisory approach to AML.



Registry

In 2018 we continued our work with Government on a new registry law (currently the draft Register of Entities (Jersey) Law 201-) which will, amongst other things, introduce a Central Register of Directors, recognised agents, and place the requirement relating to Beneficial Ownership and Control into primary law.

Last year new guidance, policy, procedures, processes and systems were also created to support the introduction of the new Limited Liability Partnership law and new de-merger regime.

During 2019 we will develop new systems, as well as provide guidance, policy, procedures and processes, while engaging with Industry to deliver:

- › A Central Register of Directors
- › Systems and processes to replace the Annual Return with a confirmation statement
- › Systems and processes to introduce the new Limited Liability Company.

Extended Scope of Activities

Pending the Government consultation papers, we are likely to have our scope of activities extended in two areas that have been on our perimeter for some time.

During 2019 the Policy division will work closely with Government and Industry to develop regulatory regimes in the following areas:

- › Consumer Lending
- › Pensions scheme providers, as well as pension schemes.

Stakeholder Interaction

The last few years have been foundational and a precursor to our data driven focus for 2019. Our commitment remains to streamlining our interaction both with registered persons from a supervisory perspective and all businesses that use the Registry.

Over the next 12 months we will work on utilising our data most effectively and delivering new digital channels.

Data

In 2018 we began to collect the data we need to drive risk-based supervision. The data collected via our new online channels in the two phases of the Supervisory Risk Data Collection Exercise will help to broaden our understanding of risk and will be used in our supervisory risk model, and therefore supervisory approach.

The Registry continued to develop its Applications Process Interfaces (APIs) with increasing uptake by Trust Company Service Providers during the year.

In 2019 we will:

- › Develop further our platforms for data collection, increasing the applications and data submissions that can be made online
- › Use the data we collect to generate insights that will focus our supervisory and registry activities in the right places
- › Ensure the data we hold is handled and processed securely, using modern analytical tools to produce reliable reporting.

Digital Trends

Work continued on the delivery of digital services for Supervision in 2018, with the release of the online Jersey Private Fund application and NRA data submissions. We also started work on the new JFSC website.

Over the coming year we will:

- › Extend CRM and the myJFSC portal, with the addition of new data exchange services, such as new services for Basel III banking and online forms including PQs
- › Launch the new JFSC website that will be responsive on all modern devices and offer better accessibility, navigation and enhanced search functionality
- › Further develop our cyber security programme in conjunction with other stakeholders.

Facilitating Market Access

Maintaining the reputation of Jersey and facilitating market access continue to be of paramount importance, particularly in the current political environment.

In order to help build these relationships, we regularly interact with overseas regulators, governments and other international standard setting bodies; where applicable we ensure the JFSC is meeting the required standards.

In addition to maintaining our position as a first class international finance centre, we also look to take advantage of our adaptability to provide agile solutions in line with innovative developments.

International Standards

In response to the financial crisis, new and revised international standards were established including financial soundness of banks (Basel III), bank resolution, and MiFID II.

In 2018, the capital quality and liquidity elements of Basel III were implemented, to come into force in 2019. On resolution, the Bank (Recovery and Resolution) (Jersey) Law has been enacted, but there is significant work outstanding, including the establishment of a Jersey Resolution Authority (JRA).

During 2019 we will:

- › Complete the transition to Basel III supervision of bank capital quality and liquidity, and establish a path to implement the rest of Basel III, where the international standard calls for implementation by 2022 for key elements
- › Work with Government on the JRA and otherwise support the addressing of international standards for bank resolution, including depositor compensation
- › Implement legislative enhancements to the Investment Business regime aligned to relevant MiFID II proposals.

Innovation

The JFSC has developed a successful approach to supporting innovative businesses and we have begun to incorporate cyber security considerations into our supervisory approach.

Building on our experience, and following domestic and international developments, in 2019 we will:

- › Review our Fintech/innovation strategy to ensure that it remains consistent with Government and Industry priorities, and consider enhancing it where appropriate
- › Build on our existing engagement with other regulators, registries and international bodies to increase opportunities for innovation
- › Carry out focused cyber security supervisory examinations, following up on our 2017 cyber security survey.

JFSC Sustainability

A sustainable, efficient and independent financial services regulator is a fundamental pre-requisite for Jersey's continuing success as an international financial centre.

There are a number of aspects to this: financial security (with appropriate cost control and fee structures), our staff (their skills, experience, commitment and adaptability), the ability to react quickly to new threats or opportunities that may require a regulatory response, the security of the information we hold, and the meeting of legal obligations such as the new data protection requirements.

Our focus this year is two-fold; enhancing our registry capabilities and ensuring our fee structure is sustainable.

Enhancements to Registry

In 2018, the Registry focused on enhancing the accuracy and integrity of the information submitted to the Central Register of Beneficial Ownership and Control. This commenced with a Cabinet Office review six months after the operation of the Exchange of Notes, and was followed up with a supervisory thematic review.

This year we will enhance existing systems and build additional vetting tools (using Artificial Intelligence where appropriate) whilst providing guidance to:

- › Enhance the accuracy and integrity of data held in the Register of Beneficial Ownership and Control
- › Maintain security and facilitate API submissions
- › Continue the development of the new registry platform, including portal and APIs.

JFSC Revenue

In order to meet increasing demands upon the JFSC, we set a target of increasing our non-registry income to £13m by 2019 (a 15% nominal increase over 2015). However, it is notable that Jersey's inflation between 2016 and September 2018 was around 9% (latest available figure at time of print).

During 2019 we will:

- › Consult on our approach to JFSC regulatory and registry fees for the near future
- › Explore with Government potential funding models related to desired outcomes from international assessments
- › Explore further types of possible fee income (e.g. user charges).

Budget 2019

Policy

We manage our finances to ensure that we have sufficient resources to meet our statutory obligations and be sustainable over the longer term.

To achieve this, we consult with Industry and agree fees at appropriate levels to cover our current running costs, to maintain sufficient reserves, to replace capital assets and to be able to fund the cost of investigations and unplanned contingencies.

Our target level of reserves is the aggregate of six months operating expenses and one year of average annual litigation costs. Currently our target amounts to £9m whilst actual reserves amount to £6m, having been reduced by losses incurred in recent years.

Medium-term Horizon

Relentless cost pressures

We appreciate the significant support that we have received from Industry and Government. This has allowed us to increase the level of our annual regulatory income and retained registry fees to mitigate some of the effects of significant changes taking place in the Island's financial services industry and the global regulatory environment.

The financial crisis led to a consolidation in the number of regulated entities in the Banking and Trust Company Business sectors, and thus lower total fee income, which has been offset to some extent by an increase in Funds sector income.

Whilst it may appear counterintuitive, future fee income levels can be difficult to forecast, particularly as new business volumes are highly unpredictable and Funds sector activity levels tend to be more volatile than other business lines.

It should be no surprise that our cost base shows the effect of our need to invest more in ICT staff, systems and infrastructure, as well as the skills of all our teams. We expect that this trend will continue for the foreseeable future as we address the critical challenges which face the JFSC, Government and Industry.

This Business Plan highlights that we are dealing with:

- › A step change in the expectations of international regulators such as MONEYVAL
- › Government's ambition to achieve excellent results in international assessments
- › Being connected digitally to deliver efficiency and effectiveness
- › Investing in our people and technology to manage the risk of data losses
- › Managing the costs of investigating misconduct as cases are increasingly complex
- › Developing the scope of our activities in areas such as pensions, lending and bank resolution.

We will consult on our fee levels during 2019 and 2020 as the future costs of these challenges and additional activities become clearer.

2018 Estimated Result

Surplus £800,000 (2017 deficit: £300,000)

The forecasted outturn for 2018 is a surplus of approximately £800,000 compared to an expected deficit of £300,000. This positive variance resulted from increases in income and lower than expected investigation and litigation costs. Operational costs were in line with budget overall.

Stronger than expected business volumes contributed to increased income. Annual fee increases, strong applications income, high funds sector volumes and increases in other registry fees were the key areas which resulted in income rising by £1.6 million from 2017.

While operating costs were in line with budget, we continued to experience difficulties in relation to sourcing appropriate candidates for certain roles. Headcount and staff costs therefore remained below budgeted levels. Professional contractors were required to alleviate these resource pressures, resulting in higher professional services costs which offset lower than expected staff costs.

An emphasis on cash management has led to improved recovery of outstanding receivables and the better than expected financial performance has mitigated the cash outflow by limiting it to £800,000 after total capital expenditure of £2.2m.

2019 Budget

Breakeven (2018 budgeted deficit: £300,000)

Our budget for 2019 anticipates that we will make neither a surplus nor a loss.

The Board of Commissioners is conscious that there are more uncertainties than usual that are beyond our control and could give rise to wholly unexpected outcomes. In particular the Board believes there are more significant downside risks when compared to prior periods.

High on the list of uncertainties is any effect of the UK's departure from the European Union on new and existing business, which may at some point give rise to low transactional fee income or loss of recurring fees if business is lost to other jurisdictions.

Significant investment in systems is critical to maintaining the required international standards and to meet the objectives agreed with Government. Development of new registry systems is planned for completion in 2019 in addition to continued investment in supervisory systems. This will give rise to further development costs, higher systems costs and depreciation. Computer systems costs and depreciation are expected to increase by £600,000 annually from 2019.

Fee income is budgeted to increase to £18.7m. This assumes a 3% increase in regulatory fee income to £14.2m and a 3% increase in registry fee income to £4.5m. There are uncertainties in relation to income as outlined above. However, we believe that these income figures are achievable provided economic conditions remain stable to marginally weaker than those experienced in 2018.

Operating expenditure (excluding investigation and litigation costs) is expected to increase by 7% to £18.2m due mostly to higher staff costs, computer systems costs and depreciation. Other costs are expected to remain at similar levels to those in 2018.

Staff costs are expected to increase by 6% (£700,000) from actual 2018 costs. Much of this increase is due to the assumption that we will return to full establishment by recruiting current vacancies in 2019.

Investigation and litigation costs incurred on enforcement cases are budgeted at the running average of costs incurred in recent years. These costs are not possible to estimate accurately and thus are disclosed separately. Whilst these costs were lower than expected in 2018, this does not imply that these costs will remain at 2018 levels.

A net cash outflow of £1.5m is expected in 2019, thereby reducing cash reserves to £5.9m. The expected outflow is a result of planned capital expenditure for key systems.

Due to the expected 2019 cash outflow, it will be increasingly important to generate cash surpluses in subsequent years to build up resources for the next reinvestment cycle.

By the end of 2019 we expect that our financial reserves will be back down to 2010 levels and cash balances will be at pre-financial crisis levels, which are significantly below our internal target.

To return to the target reserves level necessary to demonstrate resilience, it will be crucial to develop additional sources of income and manage costs very tightly in future years.

Budget for year ending 31 Dec 2019

	2016 Actual £'000	2017 Actual £'000	2018 Forecast £'000	2019 Budget £'000
Regulatory Fee Income	11,559	12,146	13,794	14,212
Registry Fee Income	3,206	4,248	4,334	4,475
Other Income	302	192	74	65
Interest Income	44	19	41	20
Total Income	15,111	16,605	18,243	18,772
Expenses				
Staff Costs	(11,102)	(11,572)	(11,802)	(12,478)
Premises Costs	(768)	(782)	(855)	(937)
Computer Systems	(1,095)	(1,172)	(1,565)	(1,761)
Professional Services	(677)	(729)	(816)	(547)
Business Travel	(202)	(155)	(178)	(178)
Staff Learning & Development	(217)	(191)	(241)	(255)
Operational Costs	(459)	(653)	(687)	(694)
Depreciation of Fixed Assets	(484)	(799)	(892)	(1,322)
Total Operating Expenditure	(15,004)	(16,053)	(17,036)	(18,172)
Operational Surplus	107	552	1,207	600
Investigation & Litigation Costs	(537)	(872)	(367)	(600)
Net (Deficit)/ Surplus	(430)	(320)	840	(0)
Accumulated Reserve brought forward	6,261	5,831	5,511	6,351
Accumulated Reserve at end of period	5,831	5,511	6,351	6,351
Opening Unrestricted Cash Balances	9,958	7,740	8,208	7,394
Operating Cashflows	(367)	2,052	1,427	1,850
Investing Cashflows	(1,851)	(1,584)	(2,241)	(3,305)
Closing Unrestricted Cash Balances	7,740	8,208	7,394	5,939



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