Business Plan 2017

Contents & introduction

Introduction

The Jersey Financial Services Commission's (JFSC) Business Plan and Budget 2017 sets out our objectives and priorities for the coming year and beyond. Its purpose is 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.

We welcome the opportunity to meet Industry participants, members of Government and the public to explain our plans and we would particularly appreciate constructive feedback.

Chairman's statement

Strive for success

Maintain reputation

Act responsibly

Protect the public

Fiduciary activities lie at the heart of Jersey's role as an international financial centre. The proper sense of responsibility that characterises Industry in Jersey is fundamental to the Island's economic success.

But this responsibility is not confined to Industry; consumers and the JFSC also need to play a part in protecting the reputation of the Island. Recognising and acting upon our mutual responsibilities will ensure Jersey's continued success as a reputable, trustworthy and well-regulated jurisdiction.

In the years since the financial crisis, a common criticism of the global financial services industry has been that many firms treat their clients as profit centres, rather than acting responsibly in their clients' best interests.

Mortgage losses, the PPI debacle, other episodes of mis-selling and price fixing, and the consequent refunds and fines, provide a severe warning about where such bad business practices can lead.

As the JFSC's recent public awareness campaign about mis-selling has emphasised, while bad practices may be perpetrated by firms, investors are also responsible for doing their best to ensure that they understand the risks they take. As the saying goes, "if it's too good to be true, then it usually is!"

While we take our supervisory responsibilities very seriously, it is not for the regulator to assess the suitability of every investment or every financial adviser, or offer individuals protection when they make ill-informed, credulous decisions. We could not, and should not, be looking over the shoulder of every person making an investment choice.›››

This Business Plan sets out how we at the JFSC intend to fulfil our responsibilities over the next year.

Enhance approach

First, we remain committed to enhancing our supervision activities and as such are reaching the final stages of a major overhaul of our supervisory function, undertaken as part of our Change Programme. New information systems will feed a new risk model, as we enhance our risk-based approach to supervision.

Provide support systems

These technical changes will provide the necessary support system for the change from licence-based to entity-based supervision, with supervisors now able to build a more comprehensive understanding of how a firm makes money, the rationale behind its business plan, and the environment in which it operates.

Improve interaction

Second, we will continue to refine our communication with Industry, becoming yet more efficient, effective and accessible in our approach. Fees no longer need to be paid by cheque and advanced digital interaction with regulatory and registry activities should ease compliance and simplify Industry systems, thereby reducing costs.

Secure market access

Third, we will continue to work to secure the widest possible market access for Industry. The character of the JFSC's regulatory contact with other jurisdictions and international bodies is defined, in large part, by this goal.

This is not always easy or straightforward. Despite the success in securing an ESMA recommendation for an AIFMD passport, the final outcome of the assessment process and its timing is now somewhat uncertain, with the UK referendum result likely to have a bearing on the general question of EU equivalence.

Adapt to change

While we will adapt to this changing environment where necessary, we will work hard to secure recognition for our equivalent AIFMD regime, to continue with the implementation of a Basel III equivalent regime, and to adopt an efficient approach to MiFID II equivalence.

Set standards

In a similar vein we will develop the MONEYVAL review follow-up and will continue to be an international leader in transparency and standards of Beneficial Ownership awareness.

Develop people

Fourth, we can only meet these responsibilities if we have the appropriate resources to sustain our operations. While our own financial stability is of course absolutely necessary, the most important resource is our people. The new supervisory regime, the development of new digital interactions with Industry, our work in policy development and international relations, and many other activities all depend on us continuing to recruit, retain and, in a rapidly changing world, develop first class staff.

Work together

Of course Industry also has its responsibilities. Reckless behaviour by one firm can destroy the business prospects of many. That is why Industry and regulator have the responsibility to understand one another and work together. As I say so often, the JFSC is a listening regulator, but we can listen only if Industry speaks. I hope that the value of Industry-regulator dialogue became clear after the publication of the Panama Papers, in which Jersey was one of the few international financial centres to escape with its reputation intact.

Confront challenges

There are further challenges ahead, most notably in information security and cyber-crime, and we all need to play our part to ensure the best possible protection for Industry, consumers and the Island. Extending our activities to raise awareness in financial education generally will add another dimension to the goal of risk mitigation.

Recognise duties

But we can not do everything. Only if everyone acknowledges their responsibilities will Jersey be protected and Industry able to take full advantage of new opportunities. Only if we work together to build an environment in which all participants recognise and acknowledge their responsibilities will we build a financial services industry embodying the crucial ingredient of trust – the foundation of overall financial efficiency.

Pursue ambitions

This is a challenging Business Plan. But as I have already suggested, in my view we all have responsibilities to fulfil in order to support our shared ambitions for Jersey's continued success. At the JFSC we are ambitious too, not just in our role as a regulator, but also in our positive outlook for the future of the Industry in a well-regulated jurisdiction.

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.

Our overall vision is to sustain Jersey's status as a first class international finance centre.

In order to achieve this and to ensure that we continue to satisfy our responsibilities, we have identified the following strategic objectives for 2017:

- To focus the regulation 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 continued 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.

Our major priorities for 2017

In addition to business-as-usual work, we have a number of major projects underway to help us achieve our strategic objectives; several of which contribute towards more than one objective:

Focusing regulation on the greatest risks

Supervision & Risk

During 2017, we will continue to work on increasing our focus on risk-based supervision by:

- Implementing an improved supervisory risk model that will provide a more consistent and focused view of risk within individual entities and across the wider Industry
- Establishing improved IT functionality that will better track our regulatory activity and demonstrate our effectiveness in managing risk
- Consulting on the future of data collection by the JFSC.

National Risk Assessment & post MONEYVAL action plan

This year we will progress several high priority financial crime projects including:

- Implementing an Island-wide MONEYVAL action plan and beginning work on changes to Laws and Codes of Practice as necessary, working alongside other agencies
- Launching a National Risk Assessment (NRA) for Jersey in conjunction with Government
- Collecting, analysing and publishing an NRA data set, ahead of the publication of the NRA due in 2018. ›››

Financial education

Increasing concerns about Islanders investing in high-risk products has led to the JFSC embarking on an Island-wide public awareness campaign this year, highlighting the potential dangers of high-risk investments and mis-selling. The initiative, the first of its kind for the JFSC, represents a significant development in our activities to raise awareness and provide financial education for the Jersey public. This work will be ongoing in 2017 and the years ahead with:

› Continued Island-wide campaigning across local, online and social media platforms to raise awareness about mis-selling and to provide Islanders with guidance on how to protect themselves
› An enhanced financial education strategy to include our outreach work in local secondary schools.

Interacting efficiently and effectively with Industry

Digital channels

A key part of the JFSC Change Programme is a commitment to harnessing the benefits of digital technology. During 2017, we will:

› Make substantial progress on the development of a new website to provide enhanced user experience, improved navigation and access on all modern devices
› Extend the use of a single log-on for the JFSC external systems
› Make available new data services across the regulatory and Registry systems to support the seamless exchange of information.

Enhanced Beneficial Ownership Register and Registry systems platform

The Government's commitment internationally to enhance the policy on Beneficial Ownership and create a central register of directors means that we will need to make a number of developments to our existing Registry systems and registers. A significant element of these developments will be the establishment of peer-to-peer systems which will enable trust and company service providers to update securely the information held in our central register, using automation wherever possible.

To meet Government policy in 2017, we will:

› Launch a new, secure Beneficial Ownership interface between the JFSC and the Joint Financial Crimes Unit
› Establish an enhanced Beneficial Ownership Register and work towards the development of a register of directors
› Commit resources to a new Registry portal.

Facilitating market access

Funds Regime review

In conjunction with other key stakeholders, we will continue our work on the Funds Regime Review Project by implementing a series of enhancements to Jersey's funds regime, prioritised across the following three distinct phases:

› Complete and implement phase one of the Project, aimed at rationalising the private and unregulated fund regulatory requirements
› Issue, jointly with Government, a Consultation Paper on phase two of the Project, which among other things aims to review our regulatory approach to public funds
› Commence work on phase three of the Project, which entails consideration of certain exemptions and potential legislative enhancements.

Basel III implementation

The JFSC is on course to effect local adoption of the Basel III set of international banking standards and this work will continue through 2017. Discussion papers on the policy principles for the capital quality, leverage and liquidity elements, which have a final target implementation date of 1 January 2019, have previously been issued in conjunction with our Crown Dependency counterparts. This has been followed by a JFSC Consultation Paper on capital quality and leverage. This year we will:

› Issue a Consultation Paper on the local adoption of the Basel III liquidity requirements and a Discussion Paper on the Basel III standardised approach to credit and operational risk
› Complete planning for the implementation of a revised prudential reporting system to be based on Basel III and reported via a JFSC portal.

MiFID II

Consultation with Industry during 2015 and 2016 has identified a range of views on the costs and benefits of seeking equivalence with MiFID II. Working together with key stakeholders, including the Government of Jersey, Industry and consumer groups, we are focused on establishing an approach to this issue that will provide relevant and substantive benefits, while minimising unnecessary cost where possible. To this end, in 2017 we will:

- Consult and agree on a strategic approach for the Island's response to MiFID II
- Begin work on any necessary changes to achieve the targeted outcome.

Safeguarding the sustainability, efficiency and independence of the JFSC

Organisational readiness

We are committed to attracting and retaining staff of the highest calibre and will continue to develop a comprehensive people strategy which focuses on performance, staff engagement and technical competence. To facilitate this we will:

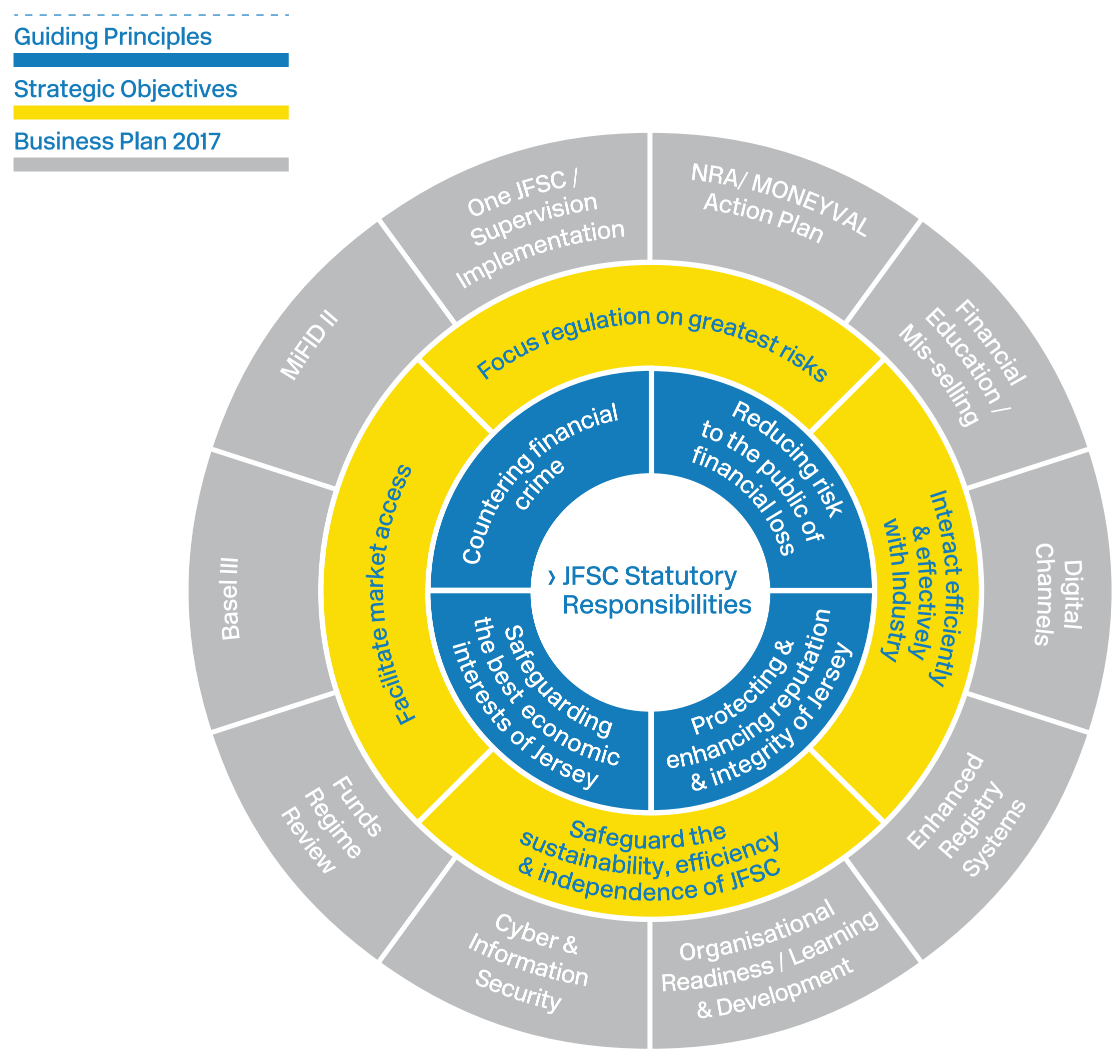
- Introduce a supervisory competency framework to complement the restructuring of Supervision, with a focus on technical competency, key supervisory skills and a risk-based approach
- Implement a formal leadership development programme to enable the growth of emergent leaders and manage succession planning
- Develop a more robust and effective induction programme.

Cyber and information security

We will take further steps in 2017 to manage the risks associated with cyber-security incidents, which are increasing in frequency, sophistication and impact. During the year we plan to:

- Enhance our internal protection environment through raising user awareness, introducing additional controls to prevent data loss, and implementing a new centralised information security risk management function
- Examine and provide feedback on Industry cyber-security measures through a thematic supervisory process.

› Key:



› Business-as-usual

This document focuses primarily on the JFSC's major priorities for change in 2017 and beyond. But it is important to recognise that the majority of our resources will continue to be focused on the essential day-to-day activity of the regulator. This includes authorisation, supervision, enforcement, international engagement, and continued efforts to maintain and develop successful relationships with relevant stakeholders, including Government, Industry and international regulatory bodies. More detail on these activities will be included in the JFSC's Annual Report.

Some of the major projects set out in this document are specifically intended to improve the efficiency and effectiveness of our business-as-usual activities.

Budget 2017

Policy

Our budgetary policy is to manage our finances in order to meet our statutory obligations. To achieve this, we need to:
› Set fees at appropriate levels to carry out our statutory duties
› Keep regulatory fees to a minimum by maintaining strict cost control
› Maintain appropriate reserves for the long term replacement of capital assets, fund the cost of investigations, meet any contingencies relating to enforcement cases, and maintain an appropriate balance of working capital.

Context

International finance centres are now subject to greater scrutiny than ever before. The JFSC has continued to further the ability of Jersey to participate as a responsible member of the international finance community, thereby sustaining the Island's reputation and market access for Industry. Accordingly, we play a key role in relevant assessments of the Island, such as MONEYVAL.

This work employs significant resources. We also, where appropriate, directly support Industry in fulfilling its regulatory obligations, such as offering extensive training and guidance on different facets of AML/CFT, and guidance on cyber-security.

We aim to keep the cost of regulation to a minimum, subject to maintaining the necessary standards. Compared to similar regulators, we incur the lowest costs relative to the size of the Industry we regulate.›››

2016 Budget & Provisional Results

The JFSC incurred planned deficits in 2015 and 2016 as overall fee income levels remained flat. Subsequently, we have evaluated the necessary level of future recurring costs given the Change Programme and the need to make substantial investments in our computer systems. The provisional deficit for 2016 is in line with the original budget, as are both fee income and operating expenditure. Provisional investigation and litigation costs are 11.7% lower than budget, notwithstanding several enforcement cases arising during the year.

2017 Budget

The budget for 2017 shows that the JFSC will return to break even. However, this will not replenish reserves which, as a result of recent deficits, remain below the target level of six months of operating expenses plus the five year average of annual investigation and litigation expenses.

Fee income is budgeted to increase to £16.45 million. This assumes a 3.4% increase in regulatory fee income to £11.96 million as fee rate increases begin to take effect. It also involves a larger retained share of the Annual Return fees, reflecting the substantial investment being made in new Registry systems.

Operating expenditure (excluding investigation and litigation costs) is expected to increase by 7.8% to £15.81 million. The key drivers of this movement are increases in computer system costs, depreciation (including depreciation on new systems which replaced fully depreciated technology) and staff costs. Other overheads are expected to decrease as the Change Programme nears completion.

The 19.6% increase in computer systems expenditure is driven by licence, support and maintenance costs of new systems. The indirect effect of currency devaluation has caused above inflationary increases on key supplier costs where these are priced in USD and EUR. The year-on-year increase in these costs will be mitigated when out-going systems are decommissioned. ›››

Cyber-crime and attempts to gain unauthorised access to JFSC information systems and data pose a significant risk and are expected to do so for the foreseeable future. We therefore continue to invest in our cyber defences which primarily impacts on our computer systems and staff costs.

Staff costs are expected to increase by 7.7% due to the full year employment effect of replacement roles, the creation of key roles during 2016, and annual pay reviews. We have been below target headcount for some years and showed flat staff costs between 2015 and 2016.

With the increasingly global nature of regulation, we are required to participate as a member of international regulatory bodies. Any associated travel expenditure has been actively managed and has reduced by 21.1% over the previous three years. We will continue to curb travel expenses wherever possible.

Investigation and litigation costs incurred on enforcement cases are expected to remain at the current level based on average charges in recent years and the current level of enforcement activity. These costs are inherently difficult to estimate and consequently are budgeted separately from other operating overheads.

Accumulated financial reserves are expected to increase very slightly to £6 million compared to a target level of £8.5 million. We remain committed to making progress to reduce this shortfall in 2018, restoring reserves to an appropriate level.

Budget for year ending 31 Dec 2017

	2015 Actual £'000	2016 Provisional £'000	2017 Budget £'000
Regulatory fee income	11,281	11,568	11,963
Registry fee income	3,362	3,207	4,485
Other income	69	19	62
Interest income	58	43	10
Total Income	**14,770**	**14,837**	**16,520**
Expenses			
Staff Costs	(11,007)	(11,057)	(11,909)
Premises Cost	(741)	(755)	(727)
Computer Systems	(873)	(1,057)	(1,265)
Professional Services	(739)	(390)	(427)
Travel costs	(219)	(201)	(198)
Staff Learning & Development	(313)	(218)	(251)
Operational Costs	(494)	(509)	(383)
Depreciation of Fixed Assets	(437)	(484)	(650)
Total Operating Expenditure	**(14,823)**	**(14,671)**	**(15,810)**
Operational Surplus	**(53)**	**166**	**710**
Investigation & Litigation	(591)	(613)	(600)
Less cost recovery	0	76	0
Net Investigation & Litigation Costs	**(591)**	**(537)**	**(600)**
Net (deficit)/ surplus	**(644)**	**(371)**	**110**
Opening accumulated reserve	6,905	6,261	5,890
Accumulated reserves at end of period	**6,261**	**5,890**	**6,000**

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