



› Jersey Financial  
Services Commission  
› Annual Report

—

2019

- › Whether through our supervision, enforcement or registry activities, we aim to play our part in countering financial crime.





# Jersey Financial Services Commission

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## Annual Report

2019



01.



# Vision from the top: Chair's statement





# Vision from the top: Chair's statement

At the time of writing my first statement as Chair of the Jersey Financial Services Commission (JFSC), local and international financial services centres and communities across the world are experiencing unprecedented pressures as every one of us contends with the outbreak of the coronavirus, Covid-19.

For Jersey and our regulated community, the pandemic has posed its own unique challenges as many organisations, including our own, have been forced to move to home working for an indefinite period. While this has presented considerable operational issues for all, I have been immensely impressed by the way in which the JFSC has responded to the threat, ensuring that business as usual continues, albeit remotely.

The far-reaching consequences of this pandemic for the Island and Industry are yet to be fully determined, but I am confident that the organisation will weather this storm, as it has many others. In fact, one of our strategic goals for 2020 and beyond is to strengthen our medium-term organisational resilience. Nothing better illustrates our resilience than the positive way in which we have reacted and adapted to this global crisis.

## A tough act to follow

It would be remiss of me to start my tenure as Chair without thanking my predecessor, Lord Eatwell. John has been a distinguished Commissioner and Chair. He has helped guide the JFSC through difficult times and led its response to the changing regulatory environment in which Jersey, its businesses and its regulator operate. His thoughtful and engaging approach strengthened the JFSC's relationship with the businesses we regulate, as well as the Government and its agencies. He is a tough act to follow.

## A clear but difficult mandate

When I joined the JFSC, I was struck by the very clear mandate given to us by the guiding principles in the Commission Law. These principles drive the JFSC. They motivate our people to work on your behalf.

- › In supervision, we seek to reduce conduct and prudential risk as we authorise and supervise firms
- › In Registry, we seek to protect the Island's reputation when we check the beneficial ownership and business purpose of firms seeking to set up in Jersey
- › As an organisation, we seek to support innovation in financial services to keep pace with changes in technology, whilst at the same time protecting the public
- › Where firms let down their customers through incompetence or malpractice, we will take enforcement action where appropriate
- › Through our effective supervision we are able to protect the Island's reputation and promote the best economic interests of Jersey
- › Whether through supervision, registry or enforcement activities we aim to play our part in countering financial crime.

# “Everyone at the JFSC has a passion for their work because they know the difference they make...”

This is a challenging mandate to deliver. Made more challenging by the environment in which we operate.

There is continued focus on the role of International Financial Centres such as Jersey. As an Island, we understand the importance of adhering to the highest international standards to safeguard our reputation. Those standards though are dynamic, not static. We, therefore, need to evolve as a regulator in order to meet those new higher standards.

As a consequence, we are working closely with the Government of Jersey and the financial services industry to prepare for the next MONEYVAL assessment scheduled for 2022. However, we know that the bar for achieving the gold standard is much higher than the last assessment in 2015.

The businesses we regulate are changing too. They are becoming more complex, driven by technology, globalisation and innovation. Their response to Covid-19 is evidence of this. A decade ago, the Island's financial services businesses would not have had the technology to relocate their operations from offices to remote working. Globalisation means not just international businesses, but also hand in hand with technology, more complex supply chains and outsourcing.

Prior to the current crisis, as a regulator we were placing more emphasis on our own and the sector's operational resilience. Through our registry and regulatory functions, we see also the opportunities and challenges that come from innovation. It is undoubtedly the case that Jersey will only thrive through innovation but, as we note elsewhere in our annual report, that cannot come at the expense of consumer protection. At the JFSC, we need to focus our resources to enable us to continue to deliver our mandate against this backdrop.

## A changing international landscape

When I spoke at the launch of our 2020 Business Plan earlier this year, I put our strategy in the context of a changing international landscape. I made the point that the consensus after the

financial crisis around global regulatory coherence was fraying. As the trade in goods becomes more protectionist, then the rules that govern it become more fragmented. It is in Jersey's interests for this not to be repeated in financial services. Global regulatory coherence serves us well. Clearly, Brexit unsettles the international framework in which we operate. We do not know at this point what will be the long-term consequences of Brexit, but we do need to remain close to both the UK and EU and continue to promote a strong consensus around international standards. During 2019, we supervised closely Industry plans for a disruptive Brexit scenario, which did not emerge. We will continue to support the Government of Jersey in its international discussions on the implications of Brexit.

It was against this challenging backdrop in 2019 that we set ourselves three strategic goals: to build even more effective supervision; to embed risk-focused choices throughout our work; and to strengthen our organisational resilience.

Whilst our three strategic goals look to the future, as our report on our activities in 2019 show, they are being embedded in the JFSC. Our activities are grouped in five themes; looking at supervision, protecting the public, understanding risk, building regulatory and registry standards and better processes.

Underpinning this are our people.

## Making a difference

The JFSC has a demanding workload and rightly so. Together with the Government and businesses, we play a key role in maintaining and enhancing the prosperity and reputation of the Island. As I have got to know the team at the JFSC over the past year, I have been impressed by their dedication and their commitment. Throughout the organisation, everyone has a passion for their work because they know the difference they make to the Island.

I started by thanking my predecessor for his contribution to shaping the JFSC and I want to end by thanking our people. They, too, have made the JFSC the strong and effective regulator it is today. But we are not complacent. We have an ambitious agenda for 2020.

Mark Hoban  
Chair

02.

## › Reflecting on 2019: Director General's statement



# › Reflecting on 2019: Director General's statement

While this annual report focuses on 2019, I must acknowledge what we are experiencing as we compile this document in 2020. As our newly appointed Chair rightly highlights, our operational resilience has certainly been tested by the outbreak of Covid-19.

In my mind, there has been no greater challenge for businesses and communities to overcome in recent times. Having said that, I feel that, as an organisation, we have responded in an appropriate and effective manner to the pressures facing us. Our first concern has been minimising the human impact as our people have contended with the need to take care of their families and community. Equally, every business in Jersey has similarly focused on doing the right thing by their staff and clientele.

This focus continues as we look to the next stage of managing the gradual approach to recovery, yet it is a testament to the integrity of Jersey's finance industry that amongst the management of very real human needs, regulated businesses have also worked to ensure continuity in the services they provide to their global client base. A significant part of Jersey's ability to respond to the shocks the world has experienced is its pragmatic commitment to high standards. This is a practical benefit of Jersey's strong regulatory regime and the high quality people and businesses that operate here.

Jersey's enviable digital infrastructure has played a part in rapidly enabling the shift from face-to-face business to virtual with minimal impact. For our part, not only have we worked to maintain the right level of engagement between our Supervision team and regulated businesses, but we have also accelerated the progress of our work to digitise our Registry and, where possible, our other initiatives.

Our readiness to respond during the events of early 2020 has been supported by the Government of Jersey's commitment to ensuring that the environment for doing business accommodates the unexpected. Island agencies have pulled together to protect the environment in which our regulated businesses operate and this, in turn, reinforces the strength of the Island's collaborative approach to maintaining high standards – not just when times are good, also when times are tough.

The impact of the virus is already substantial. As the Island's regulator, we will work with our regulated community to navigate our way out of this crisis and hopefully return to the prosperity this Island has enjoyed for many years.

## Reflecting on 2019

This annual report details our many achievements during 2019. Over the year, the volume of activity across our Registry, Authorisations, Supervision and Enforcement teams was greater than ever and our work in policy development, as well as information technology and other aspects of our operations, grew in proportion.

2019 was a year when the JFSC also took stock. Alongside all our other work, we undertook that much-needed process of challenge, prioritisation and planning that will ensure our service to the Island remains true to our guiding principles over the coming years.

## “2019 was a year for taking stock and reflection”

Developing our strategy for the period to 2023 was not an easy process and I am grateful to our Board of Commissioners, our excellent staff, and key external partners for their part in those constructive conversations that resulted in our four-year strategic roadmap.

A clear message that came out of our planning exercises was that Jersey's financial services industry holds an enviable position for an international finance centre. The economic success of Jersey will always be subject to the headwinds of the global economy and never more than in 2020 has this been put to the test. Our position as the Island's regulator is strong enough to weather storms and support our community during harder times.

## A period of prosperity

While we know that the picture for the remainder of 2020 presents significant challenges, the stability and growth that Jersey's financial services industry has experienced means we enter the next stage from a position of strength. As with all jurisdictions, in the coming months and years, Jersey will be put to the test. A key part of passing that test will be ensuring that the Island continues to lead the way in complying with international standards and the global transparency agenda.

## › “By making these critical investments we are laying the foundations for success.”

Looking back on 2019, the majority of Industry has enjoyed a sustained period of prosperity since the 2007-8 financial crisis. The Net Asset Value of our funds has held record levels, there are more than 300 Jersey Private Funds and, holistically, employee numbers have been stable or have grown. Professional services firms have continued to win business, Jersey banks have experienced stable or increasing deposits and there has been similar stability, or growth, within the other sectors that we regulate.

Opportunities exist to invest in the right infrastructure and to be smart during times that are not so prosperous. We have already made progress with our change programme from 2015 to 2019, which saw marked improvements in our infrastructure, human resources and our approach to risk-based supervision.

But change never stops and 2019 saw the creation of the next stage of our journey; our strategic roadmap, which focuses our work under three priorities and will enhance our regulation and registry operations.

- › **build even more effective supervision**
- › **embed risk-focused choices throughout our work**
- › **strengthen our organisational resilience.**

In 2019, we decided it was time for us to make critical investments, even if some find the inevitable call for increased funding unpopular. Indeed, today we are laying the foundations for success. Foundations that are resilient to change.

As you will see throughout this annual report, the achievements of the JFSC during 2019 have delivered direct benefits to the Island. If 2019 was a year of taking stock and reflection, it was anything but idle. Our people, alongside the vast majority of our Industry, have demonstrated their absolute commitment to improving the work of the JFSC, particularly when it comes to fighting financial crime.

This annual report demonstrates our achievements in 2019 and our vision for the years ahead. It therefore serves as a litmus test for the regulator that we will become by 2023, as we embark on our strategic journey.

Martin Moloney  
Director General



03.



# 2019

## At a glance

# GIFCS

Set standard for international finance centre regulation with top ratings from Group of International Finance Centre Supervisors

# £381K

Issued our first civil financial penalty to a local financial firm for £381,000



Secured access to UK markets ahead of the UK leaving the European Union

# RISK → RISK

Implemented first phase of our risk model to focus our resources on the areas of greatest risk



Launched our new website to facilitate better engagement and online interaction

Continued to support the Government's National Risk Assessment

# NRA

Implemented Police National Computer system to conduct checks on regulated businesses and individuals



Represented Jersey on the international stage including IOSCO, FATF, MONEYVAL and registry fora



Set up dedicated Financial Crime Examination Unit, recruiting eight staff and completing three visits

Awarded positive rating for the Exchange of Notes review of management of our central register of beneficial ownership and control



# 1,500

Hosted more than 1,500 members of Industry at our outreach events

# 42 BUSINESSES

Completed three on-site thematic examinations across 42 businesses

Automated numerous registry and regulatory processes, including online applications and submissions



# INNOVATION

Received triple the number of innovation enquiries compared to 2016 and joined the Global Financial Innovation Network



Invited to co-author FATF guidance on risk-based AML/CFT supervision



Became an accredited ILM centre for leadership and management training

Worked with the Government of Jersey on Registry Law and limited liability companies



Hosted our second cyber-security masterclass with global expert guest speakers

Digitised 99% of registry transactions



# £15,000

Gave more than £15,000 to charitable causes thanks to staff fundraising

Processed huge volumes of data including:

# 3,231

Incorporations and registrations

# 292

Regulatory applications

# 44,033

Beneficial ownership updates

# 35,000

Trust Company Business verifications

# 98

Suspicious activity reports

# 83

New enforcement cases



Carried out a comprehensive review of all our activities and planned our strategic journey for the next four years...

# 2020-2023



04.

# › 2019 in detail



- 04

# Supervising with a focus on fighting financial crime

Jersey's reputation is critically dependent on our ability to demonstrate, through our regulatory and registry activities, that we can effectively regulate and supervise businesses in the Island.

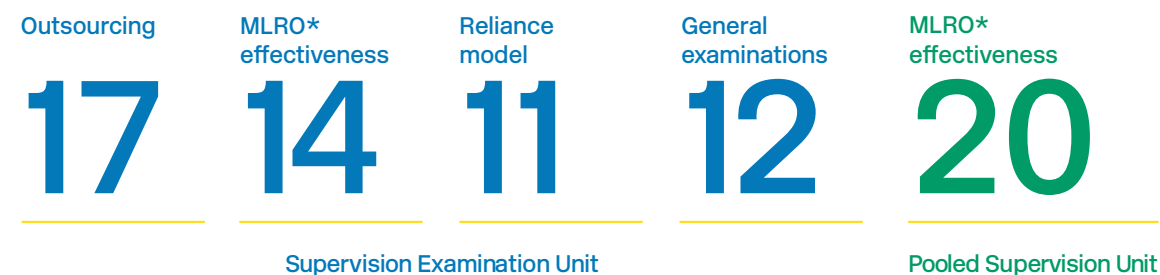
The strategic review that we undertook in 2019 reinforced this message. To improve our effectiveness, we have devoted more resources to financial crime, increased the number of examinations that we undertake, and laid the foundations for more risk-focused work through data collection and development of our risk model.

## Creating a dedicated team

In 2019, we created the Financial Crime Examination Unit in order to prioritise specific examinations with a financial crime focus, formalising the specialist capability to address relevant threats.

By ensuring that our supervisory examinations team has the specialist skills and resources to conduct specific financial crime examinations, we have simultaneously enabled our wider programme of examinations to undertake more thematic reviews across all risks and address the ongoing conduct and prudential threats present in Industry.

## Thematic examinations conducted on regulated businesses



\* Money Laundering Reporting Officer

## Increasing our engagement with businesses

Over the course of the year, we significantly increased our interactions and engagement with regulated businesses.

Our supervisory teams devoted increased resource to examinations with a particular focus on the role of the Money Laundering Reporting Officer – the key person responsible for coordinating a business' front-line fight. The output of our Supervision Examination Unit increased by 18% compared to 2018 and we completed three thematic examinations across 42 businesses with feedback published for outsourcing, property managers, letting agents and estate agents.

During 2019 we collected the second full year of supervisory risk data which supported our work on the Island's National Risk Assessment and powered the development of our risk model. The core purpose of the risk model is to ensure that the activities we undertake are focused on the areas of greatest risk of which terrorist financing and financial crime are the most significant.

Building on the rich dataset that we will continue to develop beyond 2019, we were able to complete the first phase of our risk model during the year, which will support our supervisory and enforcement teams in continuing to hone our focus on the financial crime threat.

## Working together to tackle the threat

This work is a joint effort, both within the JFSC and with key Island agencies.

We saw the increased benefits of a closer working relationship between our Supervision and Registry teams to share common issues and escalate matters to our newly formed High Risk Business Committee, which considers applications that could potentially pose higher risk due to the nature of the business. As we progress our strategic roadmap, this relationship will intensify with the development of Registry supervision – adding additional oversight to our registry processes in our fight against financial crime.

We equally have our own role to play in spotting and reporting suspicious money laundering activity and, in 2019 alone, 35 members of our staff submitted 98 suspicious activity reports to the Government of Jersey's Joint Financial Crime Unit.

## Authorisations and Cessations in 2019

Applications successfully processed

381

Licences and Certified Investment Funds revoked

281

Applications still pending at end of 2019

37



## 04.2

# › Taking action to protect the public →

Protecting consumers is at the heart of our work as the Island's financial services regulator. In part, we do this through supervision, but we have other tools at our disposal including enforcement and education. This section sets out the work we undertook in 2019 in both of these areas.

## Our Enforcement team witnesses first-hand the emotional journey that people go through when they learn that they have lost their money.

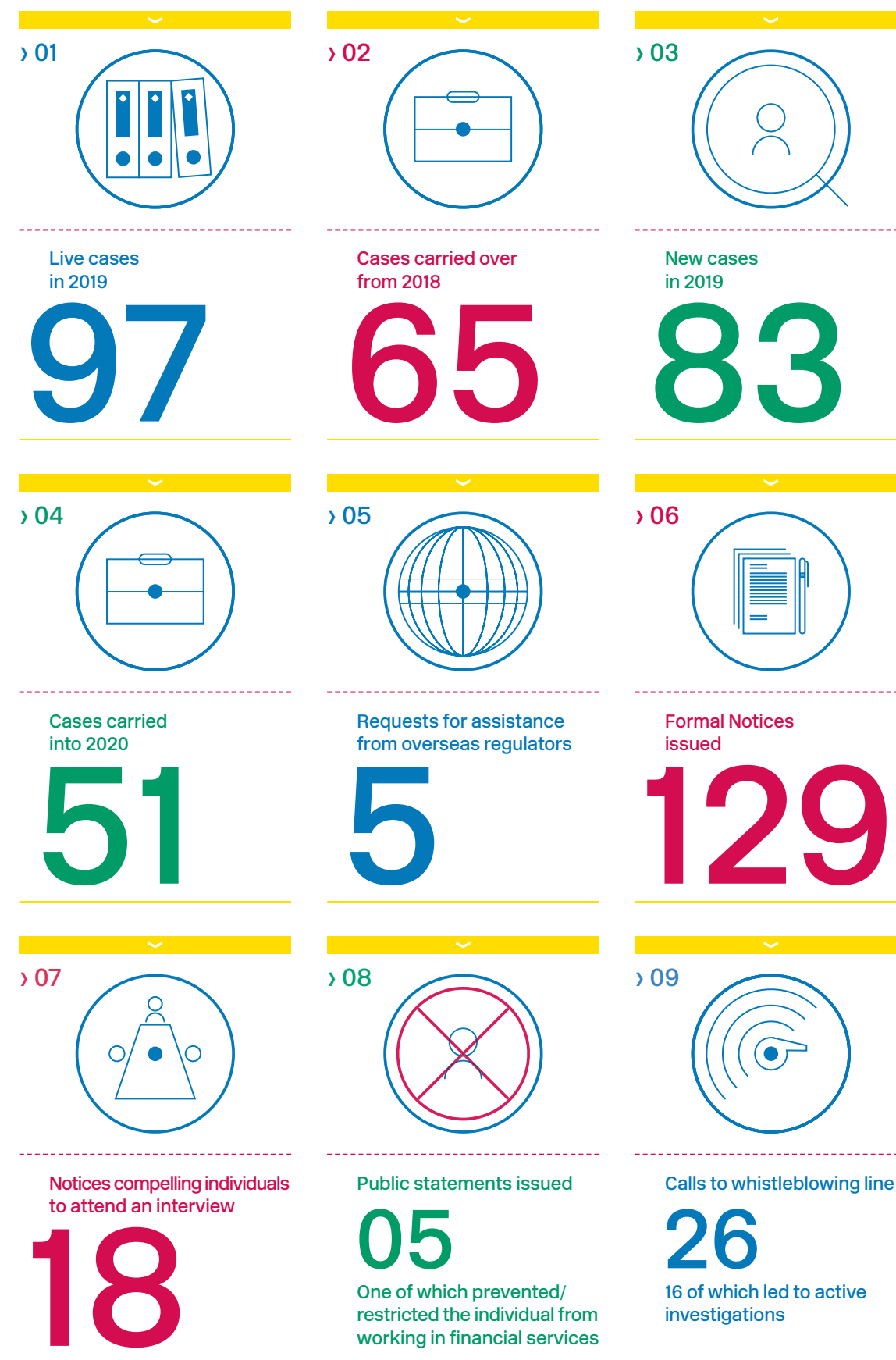
### Targeting financial grooming

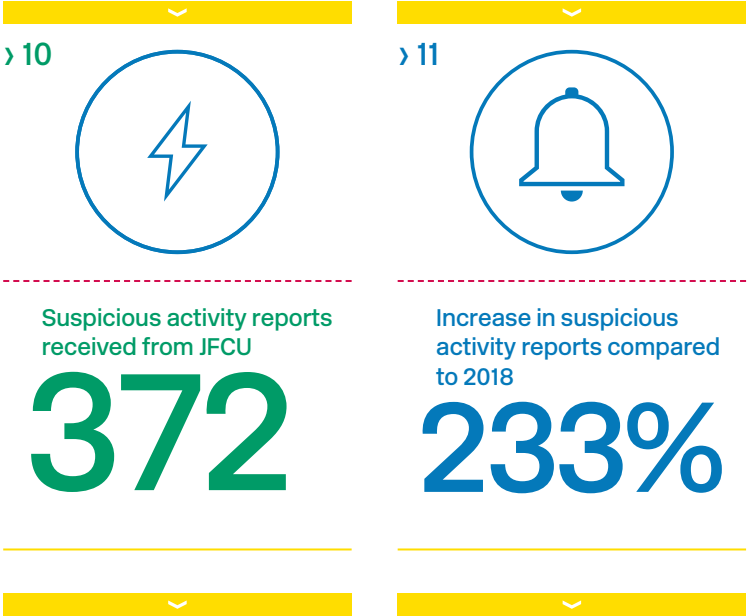
Sadly, the nature of the work we do means that we meet people who have lost some or all of their life savings. These investors have typically been mis-sold high-risk investments by independent financial advisers. In most instances, they are vulnerable, elderly, and alone. The majority are not financially sophisticated consumers, but ordinary people, and the impact of losing their money is life changing; both financially and emotionally.

In 2019, we identified a rogue independent financial adviser and managed to intervene just in time to prevent a pensioner from losing their life savings. Unfortunately, this case is one example of the type of financial grooming that we are increasingly seeing. For us, as the regulator, engaging with victims once they have been skilfully groomed presents unique challenges. Our Enforcement team witnesses first-hand the emotional journey that people go through when they learn that they have lost their money.

Consequently, we have started analysing cases where we identify that an Islander has been financially groomed. We have researched victim and perpetrator profiling, and identified red flags so we can spot this behaviour at its earliest stages.

During 2019, we continued to collaborate with the States of Jersey Police and the Jersey Fraud Prevention Forum to build on our research and we will continue this work in 2020. In particular, we are looking at strengthening our regulatory rules and raising further public awareness, similar to the campaign we did in early 2017 to highlight investment mis-selling.





Taking action against misconduct

In addition to information shared by our supervisors, our intelligence function receives confidential leads from a variety of sources, including suspicious activity reports (SARs) submitted to the States of Jersey Police's Joint Financial Crimes Unit (JFCU).

In 2019, we received and successfully processed 372 SARs from the JFCU, up from 160 in 2018. We attribute this increase primarily to the revamped triage process we now have with the police and this reporting can only put our Supervision and Enforcement teams in a more informed position.

We verify the information we receive and, where appropriate, act upon it. In the most serious cases, vital intelligence has helped us to use our regulatory powers to protect some of the most vulnerable members of our community and to address significant business compliance failings that risk exposing Jersey to money laundering.

Using our powers to protect the public

During 2019, we imposed our first civil financial penalty on a regulated business. The £381,000 fine was for a serious and material contravention of our Codes of Practice, in relation to conflicts of interest, compliance and staff training on money laundering and record keeping. We simultaneously issued a public statement setting out the background to the penalty and sharing the lessons learned from this case.

Over the course of the year, we also issued four directions preventing individuals from fulfilling specific functions and directed a number of businesses to stop taking on any new business while they remediated regulatory shortcomings.

We also issued five public statements and resolved four enforcement cases through settlement agreements, which is a proportionate solution when a regulated business has acknowledged its shortcomings and made binding commitments to resolve them.

Working with other agencies to protect Islanders

Raising awareness is one of the main ways we can help to reduce the risk of members of the public losing money. Our most effective work is in collaboration with other island and overseas agencies.

Through our on-going financial education programme and targeted public awareness campaigns, we already reach a large proportion of the local community and schools.

Jersey Fraud Prevention Forum

Since 2015, we have played a significant role as a member of the Jersey Fraud Prevention Forum; a group of local agencies that have come together with the primary aim of raising awareness about frauds and scams to help protect the public.

In 2019, we issued public warnings in our newsletters and the media after a local man lost £1.2 million in a bitcoin scam and a number of other Islanders were conned out of more than £350,000 in separate cases of romance fraud.

At the end of the year, the Forum secured funding from the Jersey's Criminal Offences Confiscation Fund, which will enable it to continue its valuable work helping to protect the Island community for the next three years.

World Investor Week

For the third year running, we supported IOSCO's Word Investor Week - a week long, global campaign to raise awareness about the importance of investor education and protection.

One of 88 jurisdictions to take part, we arranged an array of activities, including a public drop-in session with the Channel Islands Financial Ombudsman and the Office of the Information Commissioner, and an interactive competition to engage local primary school pupils.



Educating our young people

JFSC schools programme

In addition to our supervisory and enforcement activity, during the year members of staff from across the organisation continued to contribute to our financial education work.

Supplementing the local curriculum, and working with other local agencies, we delivered financial literacy classes to more than 3,000 secondary school pupils over the course of 2019.

Our next step is to adapt and take our programme into primary schools so we engage at an early age with our youngest consumers.



## 04.3

## › Building our understanding of risk



One of our strategic goals is to embed risk-focused choices in our work and, during 2019, we increased our focus in this area.

In the Governance section of this annual report, we set out the governance changes the Board made during the year. In addition and as a precursor to risk-based supervision, we developed and launched a new risk model, which will help us assess where we should focus our supervisory resources.

We will use information from the National Risk Assessment and other supervisory data to drive our risk model.

### Developing our risk-based approach

In order to deliver on our key purpose and aims, we have developed an enterprise risk management framework, which covers the key risks around the macro-environment in which we operate, the businesses we regulate and our operations. This risk framework helps us allocate our finite resources to the highest areas of risk, balancing protecting the public and the reputation of Jersey as a financial centre with the creation of a regulatory framework that facilitates the economic well-being of the Island.

Our risk-based approach informs how we allocate resources to:

- › **develop and maintain a regulatory framework for financial services activity**
- › **supervise regulated businesses to assess compliance with the regulatory framework**
- › **take appropriate enforcement action where our requirements have been breached**
- › **operate the Registry.**

### Re-evaluating our own risk

As risk is a considerable component of our overall strategy, it was a natural step for us to establish a Risk Committee in 2019, chaired initially by Mark Hoban and now by Tracy Garrad. This committee has oversight of the JFSC's enterprise risk management framework and, during the course of the year, played a key governance role for the launch of our risk model and the general enhancements we made to our internal risk reporting.

The Committee also undertook a full risk stocktake, simplified our enterprise risk management framework with revised risk taxonomy, reporting format and engagement cycle, and reviewed macro-environmental and emerging risks to produce a consolidated list of risks that include operational and regulatory risks.

## › Our risk-based approach informs how we allocate our finite resources

### 2019: Risk reports

Risk reports captured by our Supervision division

611

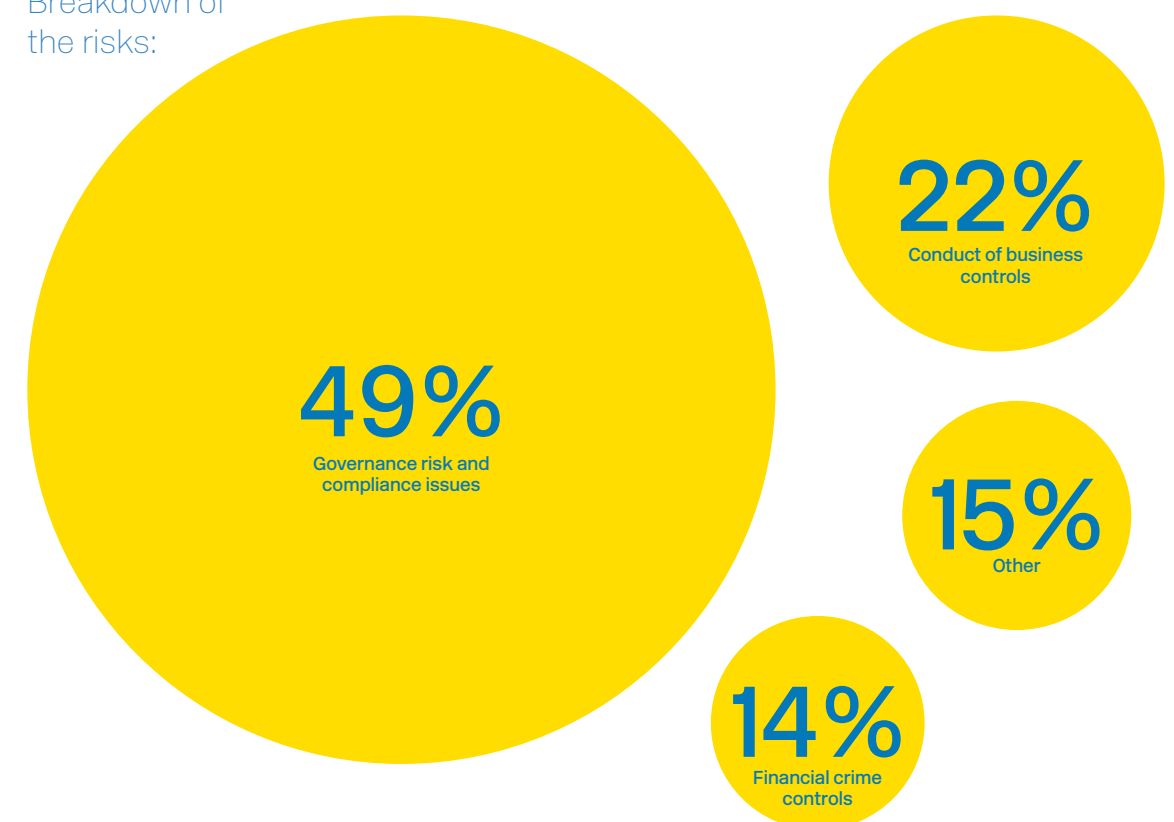
Breaches of the regulatory framework

245

Serious issues (unauthorised business and client money in jeopardy)

29

Breakdown of the risks:



04.3

Developing our risk model

In 2019 we developed and launched the new risk model; a tool to help us prioritise where to deploy our limited supervisory resources and demonstrate a risk-based approach to supervising the financial services industry in Jersey.

When developing the model, we took into account the current thinking on international standards, particularly those relevant to the fight against financial crime. This is paramount if Jersey is to maintain its reputation as a well-regulated international finance centre.

By using the risk model to ensure that we deploy our resources to the areas of greatest risk, we can regulate in a proportionate way. This will

allow good businesses to flourish while we can better identify those firms with poor compliance at an earlier stage. This demonstrates effective remediation to improve standards overall.

With the risk model now a tool for supervisors to use on a daily basis, we can put individual events into the context of everything else we know about a business and consistently assess them against our risk appetite.

Using data to drive our work

The National Risk Assessment and our own supervisory risk data collection exercises have been substantive undertakings for both the regulated community and ourselves. The data we have and continue to collect is vital for informing our approach to risk-based supervision and our financial crime examination process. We will use it to feed our risk model, which will allow us to build a better understanding of the Industry we regulate.





04.3

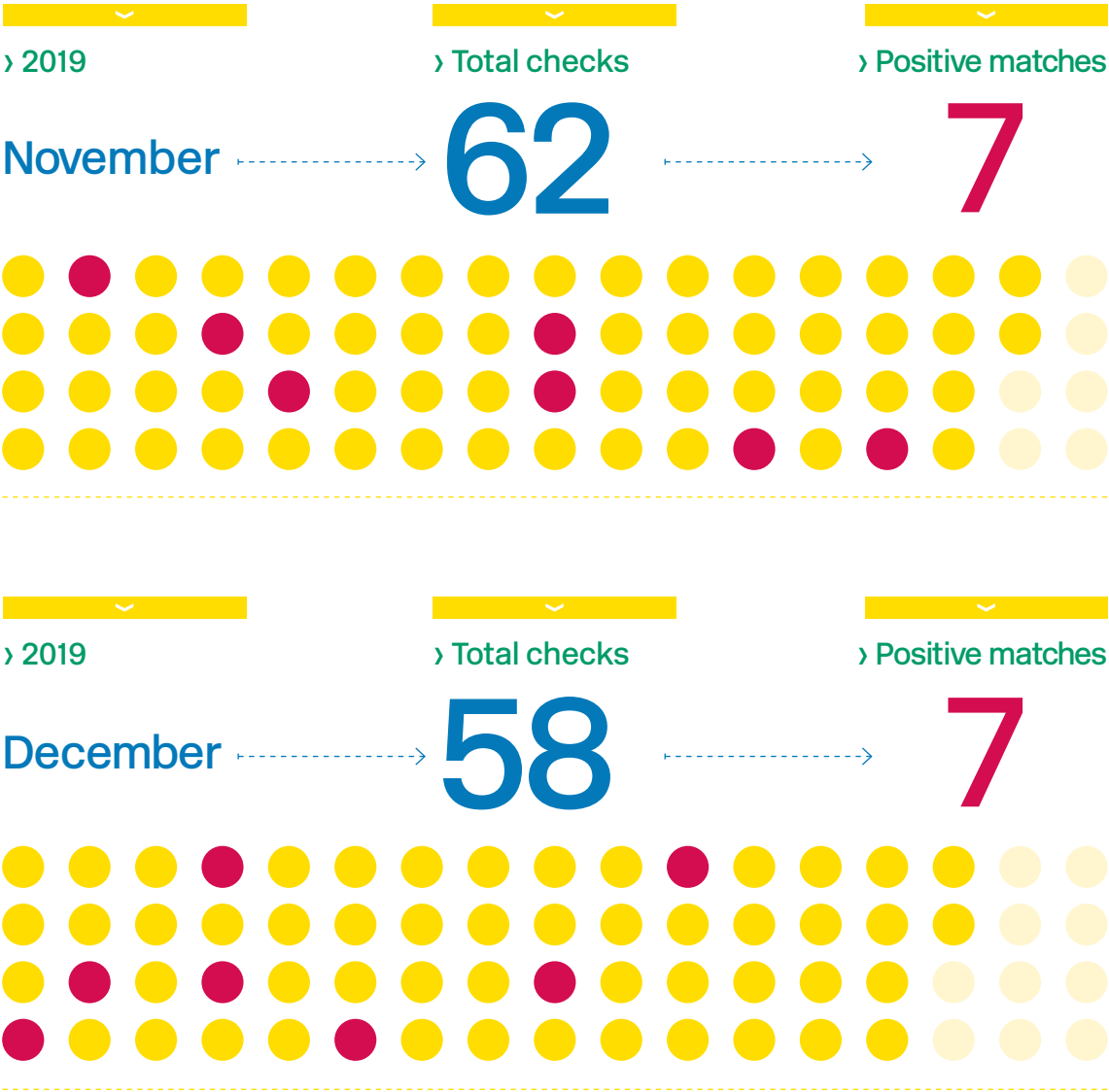
Police National Computer

A significant and successful piece of work was securing access to the Police National Computer in November 2019. This allows us to carry out background checks to identify and prevent individuals, with certain criminal convictions, from entering or continuing to work in Jersey’s finance industry.

Having direct access to this database will allow us to speed up our processing of principal and key person applications and conduct additional checks.

This is a real achievement for the JFSC as it demonstrates our commitment to meeting international standards and good practices such as those set by the Financial Action Task Force and the Group of International Finance Centre Supervisors.

Background checks using Police National Computer

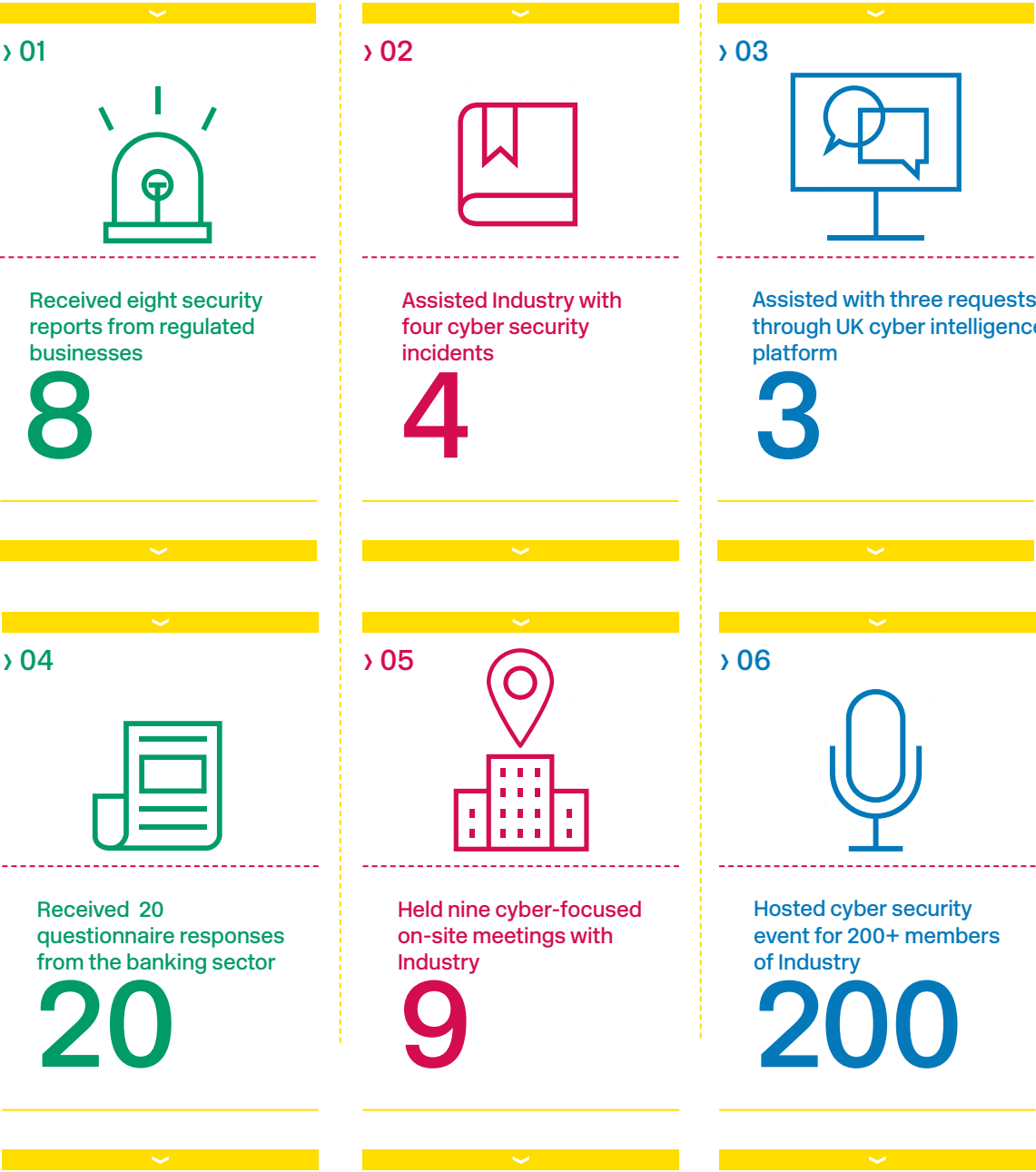


Sharing risk insights

High-profile cyber security breaches occur seemingly daily with corporations' reputations being seriously harmed and customers becoming increasingly untrusting. We are all on the front line and Jersey is no exception.

We do what we can to raise awareness among our regulated community about cyber and information security. In November, we hosted our second cyber security masterclass, in partnership with the Security Awareness Special Interest Group (SASIG), to brief local business leaders about the real nature of cyber threat. International experts from the National Cyber Security Centre (NCSC), the National Police Chiefs' Council (NPCC), and the International Airlines Group were among the guest speakers at the event.

Cyber security





# Helping to build regulatory and registry standards

## Leading the way

In 2019, the JFSC was recognised for setting the standard for international finance centre regulation. In the first evaluation of its kind by the Group of International Finance Centre Supervisors (GIFCS), we were awarded the top ratings for our trust company regulation.

As a founder member of the GIFCS, we felt it was important to lead the way and help set a standard for future evaluations. Other jurisdictions are now able to use our evaluation to make changes to their own regimes, which can only lead to higher standards of international regulation among other finance centres. We are committed to working with other jurisdictions to achieve this.

## Focusing on fighting financial crime

As we have already highlighted in this annual report, we have renewed focus on countering the financial crime threat, particularly as we embark on our four-year strategic roadmap.

During 2019, in preparation for the Island's forthcoming assessment of its compliance with the 40 FATF Recommendations and 11 Immediate Outcomes, we continued to devote substantial resources to the National Risk Assessment, providing aggregated industry data to all the 14 project teams, chairing 11 of them and significantly contributing to the work of the other three. We also played a key role in supporting the Government with its project governance culminating with us planning and overseeing the World Bank Workshops in November. Overall, our work in this area has been an impressive achievement for the whole organisation. We received positive feedback from the World Bank on our role.

As we seek to further enhance our supervisory approach to anti-money laundering and fighting financial crime, during 2019 we continued to make valued contributions to international standard setting. Particular accomplishments included receiving positive references in a FATF beneficial ownership best practice paper and undertaking considerable work at and for the MONEYVAL plenaries. This included our Chief Adviser for Financial Crime participating in MONEYVAL's evaluation of Malta's AML/CFT regime.

Many of our enforcement investigations have connections to other jurisdictions so effective collaboration with international regulators and law enforcement agencies is a critical component of our work. In 2019, we attended the first Crown Dependencies Enforcement meeting and cooperated with other international enforcement divisions on their investigations.

## Engaging internationally

Our Director General, Martin Moloney, represented Jersey and the JFSC on the international stage at IOSCO, working as Chairman of a special working group on the market risks arising in relation to Exchange Traded Funds. He led a hugely successful workshop hosted by the Securities and Exchange Commission in Washington where industry, financial economists and regulators got together to analyse the risks and how best to manage them. This IOSCO work is on-going and is a key part of a wider IOSCO agenda to develop its standards and supporting guidance to respond to growth and change in the funds industry across the globe. This is an example of where we are contributing to developing global standards.

Speaking on emerging risks, our Director General also took part in other events such as a closed-door workshop on emerging risks organised by Harvard University, with key US and European regulators and asset management industry leaders. He was also a member of the MONEYVAL Strategy Review Group that worked out the approach the FATF-Style Regional Body/ Assessment Body will now take to expanding its critically important work over the next period.

Our Chief Adviser of Financial Crime, Hamish Armstrong, took a leading role in the inaugural FATF Supervisors' Forum, which aimed to identify challenges and propose projects for the FATF to deliver in relation to AML/CFT supervision held by the new Chinese Presidency of FATF in Sanya, China. Subsequently Hamish was asked to co-chair the FATF working group to develop new guidance for supervisors in this key area. When the well-known Toronto Centre in Canada recently compiled guidance for regulators across the globe on how to do risk-based supervision, it singled out the JFSC as an example of good practice.

As an organisation, we participated in four GIFCS regulatory colleges in relation to trust company businesses with a multi-jurisdictional presence

and we took part in seven banking colleges where businesses' home regulators are in the UK, Switzerland and South Africa.

### Registry

We have an international reputation for being a centre of excellence for our registries.

Global standard setters and the international registry community consider Jersey to be in a leading position for our central register of beneficial ownership and control. During 2019, FATF explicitly recognised this in its newly published guidance, highlighting the work of the JFSC to develop good practices in this area.

We have worked tirelessly to uphold that standard, in particular by satisfying the Exchange of Notes signed between the Jersey and UK Governments in 2016. This agreement is in place to ensure that we keep our register accurate and up-to-date, and that we share highly sensitive information with trusted international law enforcement agencies and tax authorities on request. Following the first mutual review of the Notes, we achieved a positive review in 2019, demonstrating that we are maintaining our exemplary standards.

In late 2019, members of our Registry team attended a workshop in Rome, Italy, on beneficial ownership and control.

Our Registrar Julian Lamb is highly respected in registry circles and is a member of a number of Boards, including the International Association of Commercial Administrators (IACA) and the European Business Registry Association (EBRA). Ensuring the Island is benchmarked and positioned correctly, Julian represented Jersey at other fora during the year.

## Connecting with our domestic stakeholders

Closer to home, and in September 2019 we hosted three seminars in one day for circa 900 industry practitioners to update them on our supervision and registry activities. The supervisory outreach had a particular focus on fighting financial crime and our new Financial Crime Examination Unit, while our Registry event, co-hosted with the Government of Jersey, outlined the new Registry Law and associated processes for Registry customers.

Every year we engage with the local trade associations and Jersey Finance to update and raise awareness of key regulatory matters. 2019 was no exception with members of JFSC staff presenting at events held by STEP, the Jersey Compliance Officers Association, the Jersey Association of Directors and Officers, the Jersey Association of Trust Companies and Jersey Finance.



04.4

We equally engaged regularly with the Jersey Bankers Association, Jersey Law Society, the Jersey Funds Association and the Jersey Gambling Association. We also presented at numerous events arranged by Jersey law firms and attended a number of 'round- table' and panel discussions arranged by regulatory consultancy firms.

We held regular meetings with the Channel Islands Financial Ombudsman and, through the Jersey Consumer Council, we delivered several lunchtime talks to members of the public about what good financial advice looks like.

We also further developed our working relationship with the Government of Jersey so that we could complete the development of the Registry Law and Limited Liability Companies legislative packs.

During the year, a Registry Law Working Group was established with JFSC-wide representation. Heading into 2020, the group had produced the third version of the law drafting for review, which was ready for the launch of the Government's public consultation.

Collaborating on innovation

The work we do in the Fintech space really gained momentum in 2019, as we started to take an even more proactive approach to working with local agencies and innovators. Consequently, we saw the number of Fintech related enquiries we received during the year double, compared to 2018, and triple from 2016.

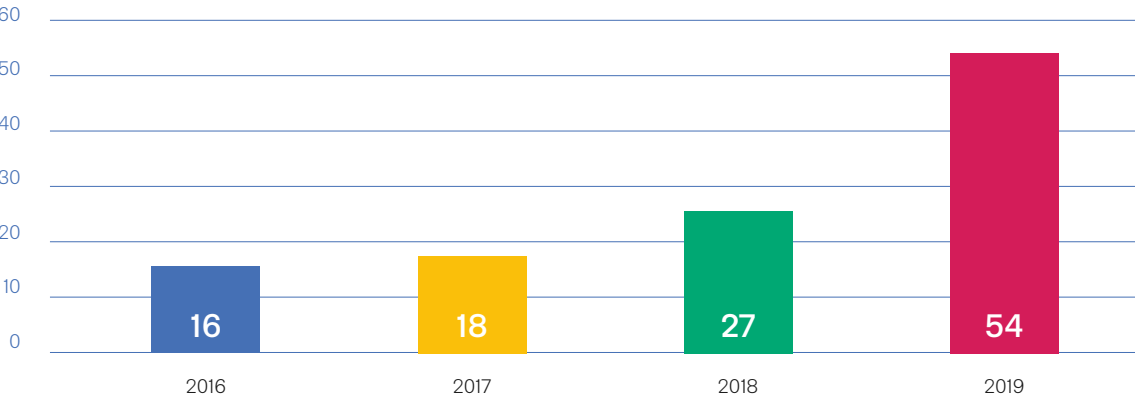
Innovators continue to face challenges in gaining traction in this globally regulated and complex sector and we are strongly committed to working with them to roll out viable and internationally credible products.

Having launched our dedicated Innovation Hub in 2014, we increased our activities during 2019 by starting to engage with businesses at an earlier stage and working more closely with the Government, Digital Jersey and Jersey Finance on emerging technologies. We helped to develop the Island's first Fintech roadmap and our Fintech lead started to base herself at Digital Jersey for one day a month to offer on-hand informal support to start-up businesses. This type of activity will continue in 2020 and beyond.

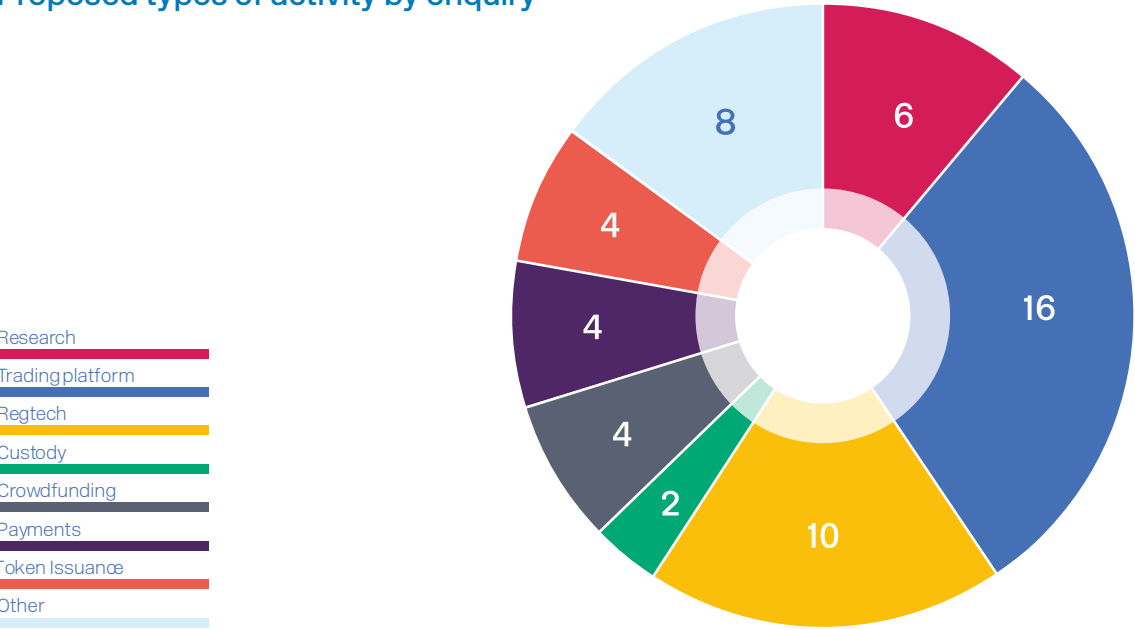
On the international stage, we joined the Global Financial Innovation Network, a group of 57 regulators and observers from around the world who are focussing on cross-border testing, regulatory technology and collaboration. 2019 saw us participate in a pilot for cross-border testing.

We continued to be involved in the IOSCO groups for Fintech and Initial Coin Offerings, having attended two Fintech conferences and one Hackathon.

JFSC Innovation Hub unique enquiries



Proposed types of activity by enquiry



# » Building better processes

Our five-year change programme officially came to an end in 2019. One of its main objectives was for the JFSC to become more e-enabled and achieve enhanced information management by overhauling our processes.

We have made significant progress and laid some strong foundations so we can continue to improve our operations and make it easier for all our stakeholders to interact with us. Modernising our systems and digital capabilities was a key driver for this and 2019 was the culmination of a number of large projects designed to automate and update our infrastructure.

We reviewed our effectiveness in rolling out technology over the period of our change programme. It is now evident that the capacity to implement and constantly develop technologically-enabled processes is a core skill for any regulator and we are committed to using our recent experience to get even better, as we move on to the next stage of our evolution.

## Accepting documents online

During the year, we successfully moved more of our registry and regulated operations online. By using our portal, certain regulated businesses can now provide us with their audited financial statements online and registered trust companies can submit applications for non-domiciled non-fund structures or non-fund Jersey unit trusts. Equally, banks were able to send us their Basel III updated prudential reporting through the portal in 2019.

## Launching our risk model

As covered earlier in this annual report, we successfully launched the first iteration of our risk model in late 2019. Following extensive scoping, planning, development and testing, its delivery was a considerable milestone and will shape the way we supervise moving forward, broadening our understanding of risk and allowing us to apply our finite resources where they are needed most.

## Going live with our new website

Our previous website was 20 years old so its replacement was somewhat overdue. Redesigning and building our new website was a substantial project, which required expertise from inside and outside the organisation.

Delivered in December 2019, the new website is responsive on all modern devices, easy to navigate with optimised search functionality, and properly integrated with our other JFSC systems.

Before designing and launching the site, we engaged heavily with our stakeholders to get their feedback. We will continue to interact with all users of the site and test new functionality with them to make sure we are continuously improving the website to meet their needs.

## Handling data

Due to our commitments to support the National Risk Assessment and to undertake our own annual data collection exercises, we now handle large volumes of data, in addition to the information housed in our various registers.

## Modernising our Registry

At the time of compiling this report, our Registry had made the recent move to completely digital operations. This transition would not have been possible without the foundations we had laid in previous years, and in particular during 2019.

By the end of year, we had digitised 99% of all our outgoing transactions, such as certificates, correspondence and search results, and 90% of all incoming submissions such as forms and document searches.

We handle huge volumes of data through the Registry, particularly for beneficial ownership and control information. In 2018 we held more than 380,000 records – which rose to in excess of 410,000 in 2019. On average, our small team processes nearly 1,000 transactions per week for changes in owner and controller details.

To ease the manual burden until we implement completely new systems, we made further enhancements to our systems in 2019. We also completed a large data remediation project to verify administrating trust companies based on

Registered Office. This covered some 35,000 businesses and means that our data is accurate and up-to-date.

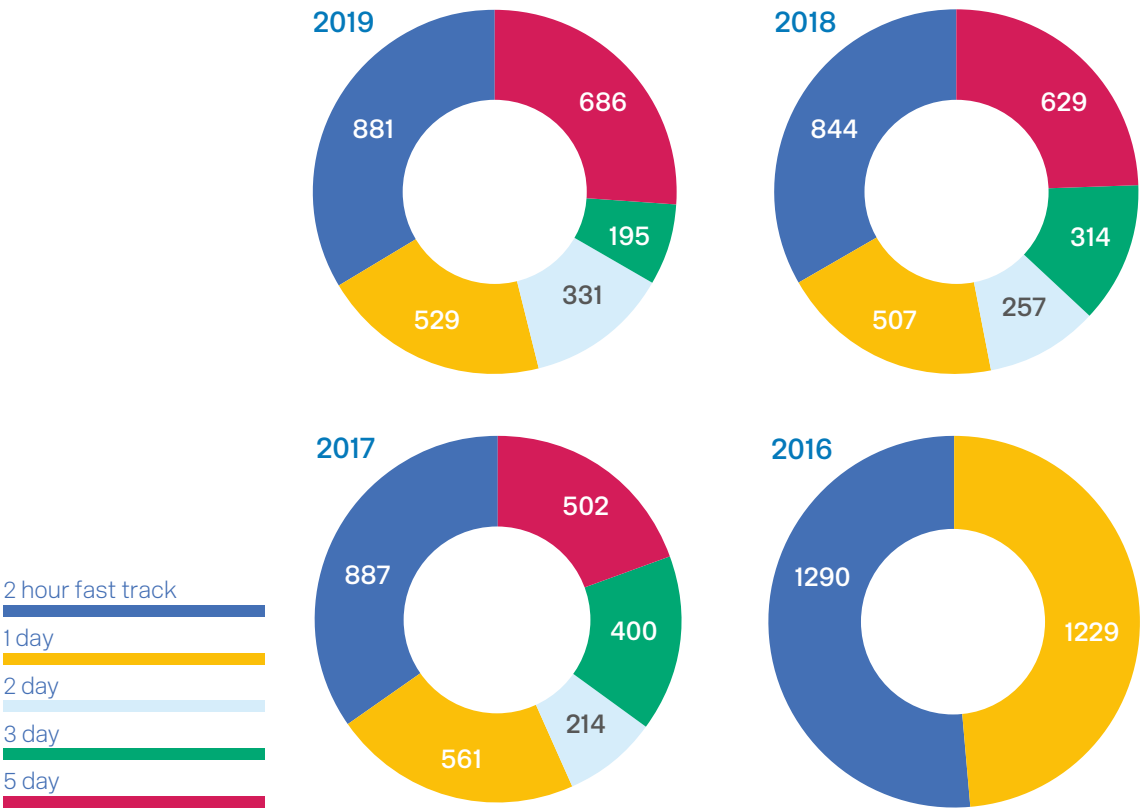
Behind the scenes, we began the long-term work to improve customer access and experience through our portal and the scoping process to comprehensively overhaul our services, which will start to take shape in 2020 and beyond.

Preparing for our 2020 Registry Programme of Work, we also did the groundwork in 2019 for the Register of Directors, Accuracy and Integrity, and the Limited Liability Companies Register, which places us in a good position to deliver our new registry systems in the latter half of 2020.



04.5

Companies incorporated



Types of enquiries

Period	2018	2019
› Companies incorporated	2,551	2,622
› Companies dissolved	2,736	2,370
› Total live entities	56,126	57,062
› Total registrations	3,400	3,508
› Total dissolutions	3,147	2,617
› Changes on beneficial owners/controllers	43,792	47,819
› Beneficial owners/controllers records	382,920	410,930
› Total actions	395,000	407,298



05.

# › Developing our people



— 05



05.

# › Developing our people

## Attracting and fostering talent

We are a highly specialised organisation that requires distinct skill sets among our workforce. Recognising that it is sometimes difficult to find the very specific skills we need, we have adopted a 'grow our own' approach, and are building on our existing pool of expertise.

In 2019, we conducted 110 interviews for 40 vacancies

New joiners

27

Long service milestones  
(15-25 years)

6

Internal  
promotions

20

Qualifications  
achieved

41



Average headcount across departments

› Supervision

58.5

› Enforcement

13.6

› Registry

14.5

› Policy & Risk

16.8

› Operations

41.1

Total average  
144.5





05.

Focusing on learning and development

Over the year, we focused heavily on our own learning and development programme in order to satisfy our growing skills requirements and to invest further in the professional development of our people.

To improve our leadership and management, we have embedded a coaching culture across the JFSC, cemented by the organisation becoming an accredited Institute of Leadership and Management (ILM) centre. We have successfully put a number of staff through leadership and coaching programmes / qualifications and we have also launched our own in-house Manager's Toolkit course to support our managers.

Our dedicated Learning and Development Manager revamped our structured training programme for new joiners and introduced bespoke development days to encourage employees to further their professional qualifications.

Our next focus is to consolidate all our learning and development activities into the JFSC Academy. This will allow us to keep prioritising our staff's

development needs while helping them to achieve their full potential through on-the-job training, relevant courses and qualifications, and internal and external secondments.

Career development

During 2019, we reviewed how we help staff to develop their own skills and meet their own ambitions. Having rolled out a comprehensive Learning and Development framework, we asked ourselves if we needed to go further. We decided to set out a completely new career development framework that we will apply for the first time in 2020.

This allows members of our staff to work out a plan with us to develop their own skills and have their achievements acknowledged by us as an employer. We are turning the JFSC into not only a place to work but a place to develop. We want to be an influence for good on the lives of our staff.

Giving staff the opportunity to commit to and fulfil their career ambitions in a structured and supported way

Learning and Development: 2019 highlights

- Effective workplace coaching**  
Introduced programme to train in-house coaches
- Exam success**  
Staff achieved more than 40 qualifications. Seven completed the ICSA regulatory qualification
- Essential leadership skills**  
Ran in-house programme with 11 managers achieving leadership qualification
- Soft skills workshop**  
Delivered in-house sessions on handling difficult conversations, giving feedback, developing high performing teams and recruiting excellence
- ILM Centre**  
Became an accredited Institute of Leadership and Management centre
- Bespoke training**  
Delivered workshops on PEACE interviewing, presenting skills, and report writing
- CIPD Awards**  
Shortlisted for Best Learning and Development Strategy
- Technical learning programme**  
In-house subject matter experts delivered 18 bite-size briefings, 12 foundation modules and seven masterclass training sessions for colleagues
- Health and well-being**  
Scheduled regular talks, activities and fitness classes for staff.

05.

Promoting diversity and inclusion

Having established a dedicated forum in 2018, we were able to further prioritise and promote equality, diversity and inclusion in our workplace and culture. In 2019, we undertook a number of proactive and positive activities, including supporting International Diversity and Inclusion Week, carrying out a disability audit, hosting a topical staff briefing presented by our Director General and hearing from Commissioner Monique O’Keefe about women in leadership. We also produced a detailed calendar of events for 2020 to promote diversity and inclusion.

It has become very clear that to recruit, retain and develop good staff, an organisation like ours needs a strongly inclusive culture, where there is a focus on giving everyone the space to contribute. This is a relentless focus of how we think about our work environment, for example facilitating charitable initiatives and encouraging staff to support each other, while making sure we leave no space for old prejudices that might have the opposite impact.



Prioritising health, well-being and the environment

We value our people’s views, particularly when it comes to what we are doing right and how we can improve. During 2019, we held dedicated workshops to get staff input and feedback to help develop our People Strategy.

A key area of focus for us is the health and well-being of our workforce and, as we strive to be an employer of choice, we endeavour to do all we can to ensure our employees are happy and healthy.

Over the course of the year, we offered free health checks for all staff, arranged talks with guest speakers on well-being, and trained up members of staff as mental health first aiders.

Our team of Staff Forum volunteers continued to be the voice of the workforce, collectively contributing ideas and planning activities and campaigns.

Celebrating success

Qualifications

Over the course of 2019, 40 members of our staff successfully achieved qualifications. This included exam success for seven employees who achieved the new regulatory qualification, the International Certificate in Financial Services Regulation, awarded by ICSA: The Governance Institute.

Mike Jones, our Director of Policy and Risk, completed the Harvard Business School General Management Programme and Tony Shiplee, one of our Heads of Unit in Supervision won the top student award for the STEP Certificate in International Trust Management.

Recognition

2019 was a positive year for the organisation as we were recognised for our continued efforts in championing well-being, learning and development, and diversity and inclusion.

We were shortlisted for the Chartered Institute of Professional Development’s award for Best Learning and Development Strategy and we were delighted to receive a commendation in the 2019 Leaders in Wellbeing Awards for Best Workplace Culture, Caring Employer of the Year, and Healthiest Workplace. Our Head of Human Resources, Susan Russell, was also recognised as our Wellbeing Ambassador.

Early in the year, one of our Commissioners, Annamaria Koerling, collected a silver award

at the Citywealth Powerwomen Awards for 2019 in the Government, Regulatory and Non-Profit Organisations category. Then in December, we received the fantastic news that the JFSC had been shortlisted for the 2020 awards for Company of the Year for female leadership and our Director of Supervision, Jill Britton, had been nominated for Woman of the Year. We are delighted to report that in March 2020 Jill won and the organisation picked up silver in the Government, Regulatory and Non-Profit Organisations categories.

Making a difference

A very strong aspect of the JFSC culture is our commitment to making a positive contribution to our community and the environment.

2019 exceeded all our expectations for fundraising. We raised more than £15,000 over the course of the year, smashing previous years’ totals, with money going to the JSPCA, Jersey Hospice Care, Jersey Mencap and other charitable causes.

We actively encourage our staff to support charities and eco initiatives, and we facilitate this through our corporate social responsibility policy, which gives staff paid time off (up to two days each year) to dedicate to their chosen cause. We have dedicated volunteers on our Staff Forum and Green Team who drive forward our fundraising initiatives and environmental projects.

Whether donating their time or their money, the goodwill of our staff never ceases to impress; it equally engenders a sense of unity and teamwork across the organisation.



£15k   
Raised for charity



06.

# › Finance and resources





# Finance and resources

In 2019, we recorded a surplus of £338,000 (2018: £843,000) compared to a break even budget. Our reserves increased to £6.7 million, still significantly short of our target level.

Our finances remain under pressure, with a challenging period ahead of us, as set out in our 2020 Business Plan. The surplus against budget arose principally from litigation and investigation costs being lower than budget by £385,000.

Regulatory fee income increased by 4% year on year due to inflation and stronger than expected funds sector applications. Registry fee income was similar to 2018 as the number of registered entities was largely unchanged from previous years.

Total expenditure for the year was above budget, and 2018, predominantly due to increased staff numbers and professional services costs. Staff numbers increased as we resourced the new Financial Crime Examination Unit, whilst higher professional services costs were mostly related to the upgrade of the registry systems.

We continued to make significant investments in our information systems as we sought to modernise and improve digital capabilities both internally and for the benefit of external stakeholders. The net book value of fixed assets increased to £6.9 million by year-end (2018: £5.3 million) with annual depreciation and amortisation increasing to £1.4m (2018: £0.9m).

## Income

Regulatory income reached £18.9 million (2018: £18.2 million) following increases in both supervisory and registry fee income.

Supervisory fee income rose by £0.6 million compared with 2018. Registry fee income increased more moderately, taking into account

that the number of annual returns processed in 2019 increased by only 1.4%. The total increase in registry income equated to 0.8%, given an increased ratio of online to paper submissions, with online submissions being at a reduced rate.

## Costs

Total expenditure increased by 8% to £19.0 million (2018: £17.6 million).

Staff costs are the most significant item of expenditure with the average number of full-time employees increasing during 2019, giving rise to a year on year cost increase of 8% including inflation. The headcount increase was due principally to the creation of our new Financial Crime Examination Unit.

The continued trend of increasing computer systems costs, combined with depreciation and amortisation costs, is due to the investments in digital and automated processes. This necessitates the use of leading technology including state of the art cyber defences given the sensitive nature of the data we hold.

Professional services costs principally comprised IT technical specialists. This resource was primarily of a temporary nature and involved in the design and development of new registry systems to deliver the Island’s commitment to increased public access to registry data.

Investigation and litigation costs were below the historical average. A number of regulatory enforcement cases are in hand but did not necessitate significant third party costs during the year.

## Financial position and forward look

Financial reserves improved during 2019 to £6.7 million (2018 £6.4 million). However, they remain materially below our target level of £10 million, being six month expenses and one year of average litigation costs

Our overall financial position remains under pressure and we expect this to continue as set out in our 2020 Business Plan and our strategic roadmap.

The scope of our activities is ever-increasing and can involve, for example, enhancing our supervisory capabilities to tackle the ever-evolving threat of money laundering or taking on new regulatory roles, such as potential roles in relation to the resolution of financial institutions, the regulation of lenders and pension providers.

Whilst such potential new activities may be funded by additional income streams, they can attract significant upfront cost in advance of these additional income streams and where our supervisory capabilities have to be enhanced, this does involve significant increased costs.

Our costs structures are also changing as we make necessary and planned investments in capital intensive undertakings to enhance our registry systems and implement industry portals. Both of these projects will bring substantial benefits to all stakeholders who interact digitally with us but initially require significant investment of time and funds.

As set out in our strategic roadmap, the fees needed to fund our 2020 programme of work are in place. However, we plan to consult more widely on the structure of our fees base and ensure that it is sustainable as it can be in the face of changing and competitive markets and that we have sufficient resilience to deliver on our mission and objectives in the medium term.



07.

# › Governance

07





# 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 Minister of External Relations and the Government 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 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 (BO) agreement with the UK to be implemented to allow the Island's Joint Financial Crimes Unit (JFCU) to access 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 high-level principles in the Code. For example, we ensure there is a clear division of responsibility between the Chair 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.

## Engagement with our workforce

The JFSC continues to observe the Corporate Governance Code issued by the UK and notes the changes regarding improving stakeholder engagement, including that of the workforce. We are considering ways in which we can incorporate these changes into our governance structure.

Several Commissioners spent time engaging with the JFSC workforce during 2019, including Commissioner O'Keefe who held a panel session regarding her experience of, and in, the finance industry.

## Delegation of powers

Our Board delegates its powers to the Director General and the Executive where possible to ensure that the JFSC can act and respond without undue delay. However, in some areas, the power of the Commissioners to delegate is restricted by legislation. For example, our Board acts in a similar manner to a tribunal for contested enforcement cases. Consequently our Board is more involved in some areas of detail than the Board of a listed or private company. You can find a full explanation about our 'Delegation of Powers' on our website.

## Composition of the Board and appointment of Commissioners

Our Board currently consists of the Chair, Deputy Chair and eight other Commissioners, including the Director General. All of the Commissioners are considered to be independent with the exception of the Director General. A chart of our current Commissioners is set out on pages 90-91 of this annual report and you can find further information on their skills, knowledge and experience on our website.





## Board activities

The majority of our Board’s time in 2019 was spent on succession planning, strategy, recruitment, MONEYVAL and enforcement matters.

### Recruitment of Chair

In mid-2018, our Board reviewed and reconfirmed the requirements for the role of Chair, in particular the continued necessity to appoint a Chair with strong links to UK and EU financial services policy makers at both political and executive levels.

Working with the Government and the Jersey Appointments Commission, it was agreed that we would search for a new off-island Commissioner who could be appointed future Chair, if supported by the Board, without incurring the costs of a further recruitment exercise.

Our Board was pleased to appoint Mark Hoban as Commissioner in late 2018 and delighted that in October 2019 the Commissioners were able to unanimously recommend to the Minister his appointment to replace Lord Eatwell, whose fixed term of office ended in April 2020.

Mark’s first Chair’s statement is set out on pages 08-09.

### Recruitment of other Commissioners

Commissioners Ruetimann and Whelan complete their fixed terms in 2020. Our Board is seeking to recruit new Commissioners with the necessary skills and experience to complement those of the current Commissioners.

Commissioners Morris and Pichler were re-appointed for a final four-year term on 21 January 2020.

### Recruitment of new Director General

Our Board spent significant time during the latter part of 2018 and early 2019 clarifying the role of the Director General, refining the job description and then conducting a search. Martin Moloney was appointed as our new Director General and an ex-officio Commissioner in February 2019. His Director General’s report is set out on pages 12-13.

### Strategy

Our Board, Director General and senior executives reconsidered the organisation’s long-term strategy at an annual away day. We undertook a lot of work to understand our true capacity and what we could realistically undertake year on year. We published our four-year strategy as a formal document and presented it, with our annual business plan, to Industry in February 2020. Feedback received at our annual business plan event was positive.



07.

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Responding to MONEYVAL

Planning for Jersey’s next MONEYVAL evaluation dominated many of the Board meetings during the year. The Island has historically been successful in implementing the FATF Recommendations as they have been developed. However, these FATF Recommendations and associated compliance assessment methodology have been revised, necessitating difficult decisions about the extent and cost of resources necessarily devoted to anti-money laundering and countering the financing of terrorism. Our Board reaffirmed its commitment to being ‘best in class’ in meeting the demands of the FATF Recommendations and the next assessment, recognising that the consequent staff and IT costs will be a significant additional burden.

Enforcement matters

Our Board spent significant time developing, consulting and implementing its methodology for determining the amount of civil penalties that it may apply for significant and material contraventions of the Codes of Practice. The principles are established in Law, but the methodology sets out how the JFSC plans to interpret those requirements to ensure that final amounts are proportionate and replicable on a consistent basis. Our Board has reserved the right to agree the amount of any penalty and has spent time considering the facts and then applying the principles to a significant case.

Our Board also spent significant time on a number of enforcement matters that arose through the application of the JFSC’s Decision Making Process. These cases tend to be highly complex and involve the actions of regulated persons over a considerable period.

The Commissioners also focused their attention on improving the Board's consistency for dealing with applications to vary directions. From time to time, our Board issues directions on regulated businesses and individuals, which may restrict their activities or ability to apply for a job in the finance industry without our prior permission. Such individuals retain the right at any time to apply to the Board for a variation in those directions, for example where they have conducted a period of retraining or heightened supervision.

Activities of the Board Committees

Our Board delegates certain areas to Board Committees. During the year, the Commissioners agreed to the creation of a Risk Committee to increase the focus and support on the JFSC's risk management function.

No significant changes were made to the terms of reference of the Audit, Legal Proceedings, and Remuneration Committees.

Audit Committee

The Terms of Reference for the Audit Committee are available on our website. Its principal activities are to monitor the Internal Control Systems and work with the Executive and the External Auditors to ensure the quality of the management financial reports and the annual accounts.

In 2019, Commissioner Wright chaired the committee with members Crown Advocate Cyril Whelan and Peter Pichler.

The committee has appropriate financial and other experience. Ian Wright is a Qualified chartered accountant (FCA) and a former Senior Partner of PricewaterhouseCoopers. Cyril Whelan is a Crown Advocate and currently Senior Consultant at Baker & Partners, Peter Pichler is a Qualified chartered accountant (FCA) and a former Finance Director.

The committee met three times during 2019 and all members were present, in person or by telephone, for each meeting. The committee reviewed the management accounts, the annual capital and revenue budgets, and the draft annual reports and accounts. It recommended the annual report and accounts and the auditors letter of representation to the Board for approval. It reconsidered the appointment and independence of the auditors and reviewed their reports at the completion of their audit work. The committee also discussed in detail a number of accounting issues including sums retained from the annual return fees not claimed by the Government.

Legal Proceedings Committee

The Legal Proceedings Committee terms of reference are set out on our website. Its role is to bring skills and experience to legal matters and potential litigation arising from enforcement cases. The committee considers whether the JFSC will initiate or defend any legal proceedings arising from any law under which the JFSC has statutory powers. The committee takes into account potential legal costs when making decisions.

In 2019, the committee was Chaired by Lord Eatwell and its members comprised Cyril Whelan who is a Crown Advocate and Monique O’Keefe who previously practiced as a solicitor in England and Australia.

The committee met once during 2019 and considered issues arising from a significant enforcement case. All members were present for each meeting.

Remuneration Committee

The committee's Terms of Reference are available on our website. The committee's remit includes keeping under review the fees paid to the Chair and other commissioners and the pay and bonus arrangements for the Director General and Commission staff. Consistent with the UK Corporate Governance Code, the remit has extended in recent years to staff working conditions and welfare. Commissioner Annamaria Koerling is Chair of the Remuneration Committee, she is joined by Monique O’Keefe and Markus Ruetimann as members of the committee.

The committee met on four occasions during the year and all committee members attended the scheduled meetings, apart from one member being unavailable for one meeting. Certain members of the Executive and the Head of Human Resources attended the meetings as required. The remit of the committee, being broad, encompasses a wide range of remuneration and Human Resources functions and regular discussions were had regarding remuneration strategy.

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 2019. Remuneration and bonus payments are awarded strictly by reference to performance and the committee was pleased to note high performance ratings for several individuals.

Risk Committee

During 2019, the Chair identified that insufficient progress was being made with the development of our thinking on risk and risk management. As a result, the Board agreed to form a Risk Committee. The terms of reference of the Risk Committee are published on our website.

Responsibility for risk and risk management remains with the full Board but the Risk Committee will oversee and guide the Executive risk unit as the organisation develops its risk-based supervision strategy. The Risk Committee advises and partners with the Executive to fulfil the Executive’s accountability to the Board regarding risk management.

The committee was chaired initially by Mark Hoban and its members include Peter Pichler and Tracy Garrad, all with a wealth of experience in risk management. From 23 April 2020, the Committee has been chaired by Tracy Garrad.

The Risk Committee met five times in 2019 and consolidated the existing risk management framework, setting a strategic direction for the risk function, and working with the Executive on the governance and development of the new risk model.

Board meetings and attendance

Commissioners	Board	Audit	Remuneration	Risk	LP**
› Lord Eatwell (Chair) – retired April 2020	7/7				1/1
› Ian Wright (Deputy Chair)	6/7	3/3			
› Tracy Garrad*	6/7*			5/5	
› Annamaria Koerling	6/7		4/4		
› Mark Hoban	7/7			5/5	
› Simon Morris	7/7				
› Monique O’Keefe	6/7		4/4		1/1
› Peter Pichler	7/7	3/3		5/5	1/1
› Markus Ruetimann	6/7		3/4		
› Cyril Whelan	7/7	3/3			1/1
› Martin Moloney (Director General)*	7/7*	3/3	4/4*	4/5	1/1

\* Note – Tracy Garrad and Martin Moloney attended February 2019 Board meetings as observers only – pending their appointments as Commissioner and Director General respectively  
\*\* Legal Proceedings

Our Board met seven times during 2019 to consider strategy, risk and regular business.

Our Board also met several times in 2019 to review and consider enforcement settlement cases and contested matters. The Commissioners worked closely with the Executive Board on formulating the methodology for civil penalty cases.

In addition, the Board and the Executive met for a strategy day and also participated in events with fellow regulators, industry representatives and Government ministers.

Regular discussions took place over the year with the Government in terms of significant financial services matters, the National Risk Assessment and Brexit preparations.

Board members consider carefully the potential for conflicts of interest to arise and excuse themselves if any perceived or actual conflicts are identified.

Board effectiveness review

The Board is committed to conducting regular Board effectiveness reviews. A review was not conducted during 2019. However, the Board issued a tender in January 2020 for an effectiveness review to be conducted by an external party soon after the appointment of the new Chair. We have awarded the review tender and interviews are underway.

Our Board reaffirmed its commitment to being ‘best in class’ in meeting the demands of the FATF Recommendations



Commissioner remuneration

Commissioners receive a fixed annual amount. No additional amounts are paid for participating or chairing subcommittees, dealing with enforcement cases or attending to other matters. Off-island Commissioners receive an uplift in remuneration to account for additional burden of travel time and taxes.

Fees paid to Commissioners were not increased in 2019. The existing annual amounts will be reviewed following the pending external governance effectiveness review.

2019 was a busy year for Commissioners, several of them were engaged in a number of enforcement and other matters, on behalf of the JFSC. The Board noted, and thanked, Commissioners who had devoted significant time to JFSC matters.

Fees paid to Commissioners during the year

	2019	2018
	£	£
Lord Eatwell of Stratton St. Margaret ( Retired as Chair 22 April 2020)	150,000	150,000
John Harris (Retired 10 July 2018)	-	-
Martin Moloney (Appointed 28 February 2019)	-	-
Cyril Whelan	26,000	26,000
Ian Wright (Appointed Deputy Chair 29 November 2018)	33,350	26,740
Peter Pichler	26,000	26,000
Simon Morris	36,500	36,500
Markus Ruetimann	36,500	36,500
Annamaria Koerling	36,500	36,500
Monique O'Keefe (Appointed 9 November 2018)	26,000	2,167
Mark Hoban (Appointed 9 November 2018 - Assumed role of Chair 22 April 2020)	36,500	3,041
Tracy Garrad (Appointed 8 February 2019)	33,458	
Michael De La Haye (Resigned 31 December 2018)		26,000
Debbie Prosser (Retired as Deputy Chair 29 November 2018)		30,571
	440,809	400,019

Director General remuneration

Martin Moloney was not paid any fees in his capacity as a Commissioner but rather was paid as an Executive Director in his capacity as Director General. During the year, he received pro rata remuneration of £241,324 (fixed remuneration: £257,500, variable remuneration : £23,185).

Auditors

BDO LLP (the auditors) undertook the annual audit as approved by the Audit Committee in November 2019.

The audit partner met with the Audit Committee at the planning stage of the 2019 audit to agree scope and areas of focus, and at completion stage to discuss audit findings.

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 (FRS102); 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.

The Board has reviewed the effectiveness of the principal financial controls over its financial accounting systems with the external auditors.

The Commissioners have considered the financial statements on pages 70-87 and are satisfied that they show a true and fair view of the surplus for the year and the financial position of the JFSC at 31 December 2019.

The Commissioners have considered the annual report and, taken as a whole, confirm that they believe it to be fair, balanced and understandable.

For and on behalf of the Board of Commissioners

L Roe  
Commission Secretary  
5 June 2020

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

08.

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



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

### Opinion

We have audited the financial statements of the Jersey Financial Services Commission (the JFSC) for the year ended 31 December 2019 which comprise the income and expenditure account, the statement of financial position, 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 applicable law 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 JFSC's affairs as at 31 December 2019 and of its surplus for the year then ended;
- › have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- › have been prepared in accordance with the 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 JFSC 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 JFSC'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 judgement, 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

Revenue consists of regulatory and registry fees, for which annual fees run from different dates throughout the year depending on the specific fee. Because there is a judgment involved in the timing of recognition and the amount to recognise 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 and details of regulatory and registry fee income are given in notes 4 and 5 to the financial statements respectively.

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 walk-throughs of the relevant systems.

We also tested on a sample basis that regulatory fees had been calculated in accordance with fee notices published by the JFSC, agreed to payment received, and was recognised in the appropriate period.

We recalculated deferred income to check it had been correctly accounted for in accordance with the JFSC's accounting policies, and that the appropriate proportion of fees had been deferred in accordance with those policies.

For registry fees, we tested on a sample basis that fees had been calculated in accordance with fee notices published by the JFSC and agreed to payment received.

We recalculated annual return income based on the number of registered companies, by reference to published annual return rates and the number of registered entities.

We tested a sample of registry fee invoices and receipts processed specifically around year- end to check the related income had been recognised in the appropriate period.

**Key observation:**  
Based on the work performed, nothing has come to our attention which would suggest that revenue has been recognised inappropriately or that it has not been presented in accordance with the JFSC's revenue recognition accounting policy and the accounting standards.



## 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 and details of regulatory and registry fee income are given in notes 4 and 5 to the financial statements respectively.

We tested the completeness of regulatory and registry income throughout the year by selecting a sample of businesses from the regulatory and registry department systems, independent of the finance function, and agreeing these to supporting fee income, checking that the fees had been recognised in the appropriate period.

We checked 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 check that the related income had been recognised in the appropriate period.

**Key observation:**

Based on the work performed, nothing has come to our attention which would suggest that revenue has been recognised inappropriately or that it has not been presented in accordance with the JFSC's revenue recognition accounting policy and the accounting standards.

## Annual return fee surplus

During the year ended 31 December 2017, an increase in the annual return fee per entity led to surplus funds being received by the JFSC. This continued throughout 2018 and 2019. The surplus funds have, on agreement with the States of Jersey, been retained by the JFSC, partly as an agreed recurring uplift in the JFSC'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 Government 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 considered the JFSC's paper on the accounting treatment of the surplus to check that the treatment adopted is in accordance with applicable accounting standards.

We reviewed correspondence on this matter, including independent 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 independent expectations based on available and applicable supporting documentation.

Key observation:

Based on the work performed, nothing has come to our attention which would suggest that the Annual return fee surplus has been recognised inappropriately or that it has not been presented in accordance with the JFSC's relevant accounting policy and the accounting standards.

## 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 £315,000 (2018: £290,000). 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 £230,000 (2018: £211,700). In determining this, we based our assessment on a level of 73% (2018: 73%) 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 £16,000 (2018: £14,500) 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 JFSC was undertaken to the materiality level specified above and was performed partly at the JFSC's office in Jersey and partly remotely due to the restrictions imposed as a result of the Covid-19 virus.

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

## 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 Responsibility for annual report and accounts paragraph in the Annual Report, 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 JFSC'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 JFSC 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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.

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 JFSC 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

11 June 2020  
  
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



09.

# › Financial statements



09



# Financial statements

Income and expenditure account  
For the year ended 31 December 2019

		2019	2018
	Note	£'000	£'000
Regulatory income			
Regulatory fee income	4	14,428	13,815
Registry fee income	5	4,429	4,396
Total regulatory income		18,857	18,211
Other income	6	447	194
Interest income		60	41
Total income		19,364	18,446
Expenses			
Staff costs	7	(12,811)	(11,837)
Computer systems		(1,498)	(1,549)
Premises costs		(869)	(845)
Professional services		(937)	(956)
Investigation and litigation		(215)	(373)
Other operating costs		(822)	(730)
Depreciation, amortisation and impairments		(1,356)	(887)
Staff learning and development		(275)	(247)
Travel costs		(243)	(179)
Total expenses		(19,026)	(17,603)
Surplus/(Deficit) for the year	8	338	843

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 75 to 87 form an integral part of the financial statements.

Statement of financial position as at 31 December 2019

		2019	2019	2018	2018
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9	6,086		4,697	
Tangible fixed assets	10	844		621	
			6,930		5,318
Current assets					
Trade receivables		417		322	
Sundry debtors		52		181	
Prepayments		1,128		1,087	
Cash and bank balances	11	11,404		9,515	
			13,001		11,105
Total assets			19,931		16,423
Creditors - amounts falling due within one year					
Fee income received in advance		6,583		5,903	
Creditors	12	6,133		3,656	
Provisions	13	157		183	
			12,873		9,742
Total assets less current liabilities			7,058		6,681
Creditors - amounts falling due after one year					
Provisions	13		366		327
Total assets less total liabilities			6,692		6,354
Represented by					
Accumulated reserves			6,692		6,354

The notes on pages 75 to 87 form an integral part of the financial statements.

The financial statements on pages 70 to 87 were approved by the Board of Commissioners on 5 June 2020, and signed on its behalf by:

Mark Hoban  
Chair

Martin Moloney  
Director General

Statement of changes in accumulated reserves

		Accumulated reserves
		£'000
Balance at 1 January 2018		5,511
Deficit for the year		843
Balance at 31 December 2018		6,354
Balance at 1 January 2019		6,354
Surplus for the year		338
Balance at 31 December 2019		6,692

Statement of cash flows

For the year ended 31 December 2019

		2019	2018
	Note	£'000	£'000
Cash flows from operating activities			
Surplus for the year		338	843
Interest receivable		(60)	(41)
Depreciation, amortisation and impairment charges	9,10	1,356	887
Utilisation of provision		(62)	(111)
Movements in provisions		75	108
Deferred rental incentive		(26)	6
(Increase)/decrease in debtors and prepayments		(7)	204
Increase in income received in advance		680	462
Increase in creditors		2,503	23
Net cash generated from operating activities		4,797	2,381
Cash flow from investing activities			
Interest received		60	41
Purchases of tangible and intangible fixed assets	9,10	(2,968)	(1,793)
Net cash used in investing activities		(2,908)	(1,752)
Net increase in cash and bank equivalents		1,889	629
Cash and bank equivalents at 1 January		9,515	8,886
Cash and bank equivalents at 31 December	11	11,404	9,515
Cash and bank balances consist of:			
Cash at bank and in hand		297	283
Short term deposits		11,107	9,232
Cash and bank balances	11	11,404	9,515

The notes on pages 75 to 87 form an integral part of the financial statements.

»

# Notes to the Financial Statements

## For the year ended 31 December 2019

» 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. As set out in note 2(b) the board has given additional consideration to the use of the going concern basis given the impact of COVID 19.

The principal significant accounting policies applied in the preparation of the financial

statements are set out below. These policies have been consistently applied to both accounting 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. The JFSC is exempt from the requirement to prepare consolidated financial statements because the inclusion of its 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 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 that income attributable to the JFSC.

Annual return fees are deferred in the first instance where the JFSC has agreed with the Government of Jersey that amounts received are to be segregated and to be applied to specific Registry or MONEYVAL AML projects. Amounts deferred are released to income in the period in which the related costs are incurred or in the periods in which any related fixed asset is depreciated or impaired.

Revenue from the rendering of services, including the design, development and operation of the 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.

Amounts received from the Government of Jersey in the form of grants and other financial

assistance are recognised when the JFSC has satisfied all of the conditions necessary for the funds to be released. Amounts received are recognised as income in the period in which the related costs are incurred or in the periods in which any related fixed asset is depreciated or impaired.

Civil penalties are recognised when the penalty has been agreed with the regulated entity and where it has the ability to settle the amount involved. Income from civil penalties is deferred and is released to income in the year in which the amount of fees to be paid by Industry is reduced due to the penalty having been received.

Recoveries of enforcement costs are accounted for only when they have been agreed with the regulated entity or awarded by the Royal Court 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.

09.

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Expenses

All expenses are accounted for on an accruals basis.

Foreign currency

Foreign currency balances are translated to Sterling at the rate of exchange ruling on the last business day in the financial period.

date of the transaction. Profits and losses on foreign exchange are included in the income and expenditure account.

Foreign currency transactions are translated into Sterling at the rate of exchange ruling on the

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 accruals 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.

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. Cash flows from registry

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 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.

and supervisory income are separately identifiable and assets are allocated between these cash flows 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.

The JFSC has 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.



09.



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 the JFSC is 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 the employment of the JFSC. The provision is discounted if the effect would be material.

Provision for premises reinstatement

Provision is made for the expected costs of reinstating office premises to their original condition upon the 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

costs of reinstatement and discount rates where applicable. The provision will be reduced when related costs are incurred in future periods. Provisions for premises reinstatement costs are discounted if the effect would be material.

› 02. a) 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 next.

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 expected 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.

b) Going concern

Governments and corporates have been taking extraordinary measures to deal with the threat to life posed by COVID 19. Governments have found it necessary to provide finance for a wide range of businesses that have ceased trading or had their trading prospects significantly impaired. Many businesses have closed and may not be capable of being restarted leading to impairments and write offs. The JFSC has to keep operating, subject to constraints, including staff working from home.

The Board has reviewed in detail the plans put into place by the executive to manage current operations and revised forecasts for 2020 and 2021 using a base and a stressed case. Under the base case income for 2021 would be reduced on average by 10%, and under the stressed case by on average 20%, due to business and funds that may close together with further industry consolidation reducing the number of regulated entities. Should such circumstances arise the revised forecast for 2020 and 2021 envisages a balanced budget can be achieved through a planned reduction in activity and deferral of projects.

The Board has therefore concluded that the JFSC should be able to continue as a going concern and that it is appropriate to prepare the financial statements on that basis.

› 03. Taxation

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

09.

› 04.

Regulatory fee income

	2019	2018
	£'000	£'000
Banking	1,817	1,775
Funds	6,499	6,130
Insurance Companies	863	908
General Insurance Mediation	149	148
Investment Business	1,404	1,337
Trust Companies	2,935	2,788
Designated Non-Financial Businesses and Professions	711	675
Recognised Auditors	30	33
Money Service Business	20	21
	14,428	13,815

› 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 includes amounts collected on behalf of and remitted to the Government of Jersey.

	2019	2018
	£'000	£'000
Total annual returns fee income	7,004	6,905
This is apportioned as follows:		
Collected on behalf of Government of Jersey	3,889	3,838
Collected by the JFSC	2,011	1,993
Segregated portion as agreed with the Government of Jersey*	1,104	1,074
	7,004	6,905
Annual return fee income collected by the JFSC	2,011	1,993
Other Registry income	2,418	2,403
Total Registry income	4,429	4,396
The number of annual returns received during the year was:		
Annual returns received	33,818	33,373

\* See note 12 for further information

› 06.

Other income

	2019	2018
	£'000	£'000
Investigation and litigation recoveries*	240	-
Financial contribution income	195	185
Sundry income	12	9
	447	194

\* As part of its regulatory responsibilities, the JFSC carries out investigations and enters into legal actions from time to time, the costs of which may be significant. In a few cases, some or all of the JFSC's costs may be recoverable.

› 07.

Staff costs

	2019	2018
	£'000	£'000
Staff salaries	10,453	9,653
Commissioners' fees	404	400
Social security contributions	503	447
Pension contributions	837	771
Permanent health and medical insurance	422	360
Other staff costs	152	135
Long leave provision	32	57
Annual leave pay accrual	8	14
	12,811	11,837

Contributions to staff pension schemes are payable monthly to pension scheme administrators. No contributions (2018: £NIL) were payable to the schemes at year end. The average number of staff employed during the year was 144 (2018: 131).

› 08.

Surplus for the year

Surplus for the year is stated after including the below:

	2019	2018
	£'000	£'000
Depreciation of tangible fixed assets (note 10)	(272)	(273)
Amortisation of intangible assets (note 9)	(1,083)	(614)
Foreign exchange differences	15	7
Contributions to employee pension schemes (refer to note 16)	(837)	(771)
Operating lease expenditure	(566)	(566)
Audit fees *	(45)	(32)
Internal Audit fees*	(4)	-

\* Total fees paid to the JFSC's auditors include Audit fees and Internal Audit fees only.

09.

› 09.



Intangible assets

	Computer systems under development	Computer systems	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2019	1,193	7,424	8,617
Additions	2,632	-	2,632
Completed computer systems	(1,875)	1,875	-
Transfer to tangible fixed assets	-	(160)	(160)
Disposals	-	-	-
At 31 December 2019	1,950	9,139	11,089
Amortisation			
Balance at 1 January 2019	-	(3,920)	(3,920)
Charge for the year	-	(1,083)	(1,083)
Disposals	-	-	-
At 31 December 2019	-	(5,003)	(5,003)
Net book value at 31 December 2019	1,950	4,136	6,086
Net book value at 31 December 2018	1,193	3,504	4,697

The principal expenditure during the year related to core information systems replacements and upgrades and further development of the relationship management system related to risk based supervision and expansion of services which will become accessible through the JFSC portal.

› 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 2019	607	311	1,375	13	2,306
Additions	33	-	303	-	336
Transfer from intangible assets	-	-	160	-	160
Disposals	-	-	-	-	-
At 31 December 2019	640	311	1,838	13	2,802
Accumulated depreciation					
Balance at 1 January 2019	(556)	(103)	(1,020)	(7)	(1,686)
Charge for the year	(25)	(60)	(183)	(4)	(273)
Disposals	-	-	-	-	-
At 31 December 2019	(581)	(163)	(1,203)	(11)	(1,958)
Net book value at 31 December 2019	59	148	635	2	844
Net book value at 31 December 2018	51	209	355	6	621

› 11.

Cash and bank balances

	2019	2018
	£'000	£'000
Current accounts	296	281
Deposit accounts	11,107	9,232
Petty cash	1	2
Cash and cash equivalents at bank	11,404	9,515

The JFSC's 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 £2,822,665 (2018: £1,718,565) which have been identified as relating to deferred registry fees (see note 12).

› 12.

Creditors

	2019	2018
	£'000	£'000
Trade creditors	1,640	391
Accruals	787	958
Deferred rental incentive	62	88
Financial contributions	162	358
Deferred Registry fees*	2,823	1,719
Deferred Industry fees**	381	-
Sundry creditors	278	142
	6,133	3,656

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

If the amounts are not used for this purpose they are likely to become payable to the Government by way of adjustment to the Companies (Annual Returns – Additional Charge) (Jersey) Regulations 2008 or similar arrangements.

Subsequent to the year end, it was further agreed with the Government of Jersey that the amount segregated may be utilised for 2020 Registry projects and for start-up costs of the Financial Crime Examination Unit.

\*\* Deferred Industry fees arise from civil penalties received during the year. The Law requires the amount to be credited to Industry by way of reductions in Industry fees that would otherwise be charged in future years.





Provisions

	Provision for long leave	Reinstatement Provision	Total
	£'000	£'000	£'000
Balance at 1 January 2018	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
Amounts provided for during the year	51	44	95
Reversal of unused provision	(20)	-	(20)
Utilised during the year	(62)	-	(62)
Balance at 31 December 2019	198	325	523
Falling due within one year	157	-	157
Falling due after one year	41	325	366
	198	325	523

Provision for long leave

The provision for long leave relates to the expected cost of long leave entitlements that have accrued up to the date of the statement of financial position. 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 costs 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 £16 per square foot (2018: £13.80 per square foot) as determined by the Royal Institute of Chartered Surveyors. The provision is adjusted annually based on movements in the guideline rate.

Commitments under operating leases

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

	2019	2018
	£'000	£'000
Not later than 1 year	592	592
Later than 1 year but not later than 5 years	834	1,422
	1,426	2,014

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 and the resulting rental increase was effective from May 2016. The next rent review is due to commence in 2020.

Financial instruments

Our financial instruments are analysed as follows:

	2019	2018
	£'000	£'000
<b>Financial assets</b>		
Financial assets measured at amortised cost	11,873	10,018
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	(2,080)	(891)

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.

Pension costs

JFSC 2012 Staff Pension Scheme

In 2012, the JFSC 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 by the JFSC 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 £809,501 (2018: £746,070). Contribution rates have remained unchanged. Aggregate contributions increased due to changes in membership numbers, ages and employment grades.

Public Employees Contributory Retirement Scheme

Staff employed by the JFSC 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.

Pension contributions for staff to this scheme amounted to £27,054 (2018: £24,807). The average contribution rate paid by the JFSC during the year was 14.4% (2018: 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.

The JFSC is unable to identify its share of the underlying assets and liabilities of PECRS in accordance with FRS 102 (Section 28) and accordingly accounts for contributions to the scheme as contributions to a defined contribution scheme.

The most recent published actuarial valuation was as at 31 December 2018, which reported a deficit of £1.1 million. 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 Government of Jersey, may be obtained from the Treasury and Exchequer, 19-21 Broad Street, St Helier, JE2 3RR.

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 Government of Jersey is not a related party.

Remuneration of key management personnel

Key management personnel includes the Commissioners, the Director General and Executive Directors who together have authority and responsibility for planning, directing and controlling the activities of the JFSC. Total remuneration paid to members of key management personnel during the year was £1.9 million (2018: £2.4 million).

Remuneration of Commissioners

Remuneration of the Commissioners and the Director General is set out on page 60 of this annual report. There were no other transactions with key management personnel other than reimbursement of expenses incurred for JFSC purposes.

Subsidiary undertakings

At 31 December 2019, the JFSC had an interest in one wholly owned subsidiary company. Further details are outlined below:

JFSC Property Holdings No.1 Limited	
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 behalf of the JFSC 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.

Changes in estimates of useful lives of intangible assets

During the 2019 financial year, the useful lives of certain assets were assessed to be shorter than originally expected. A change in the useful lives of these intangible assets has therefore been accounted for prospectively by amortising their respective net book values to nil using the straight line method over the shorter remaining useful lives.

The change in estimate has affected assets for which financial contributions were received. As such the financial contributions will be recognised prospectively as income over the revised remaining useful lives of the related assets.

The financial effect of these changes in accounting estimates on the financial statements is as follows:

Effect on income and expenditure account	
	2019
	£'000
Increase in other income (recognised financial contribution income)	130
Increase in amortisation charges	(130)
Net effect on the surplus for the year	-
Effect on statement of financial position as at 31 December 2019	
	2019
	£'000
Effect on assets	
Increase in cumulative amortisation and net book value of intangible assets	(130)
Effect on liabilities	
Decrease in balance of financial contributions	130
Net effect on accumulated reserves	-

10.

## » Appendices



10





# Appendices<sup>01</sup>

## Commissioners

As at 31 May 2020



Mark Hoban  
Chair



Ian Wright  
Deputy Chair



Tracy Garrad  
Commissioner



Annamaria Koerling  
Commissioner



Martin Moloney  
Director General



Simon Morris  
Commissioner



Monique O'Keefe  
Commissioner



Peter Pichler  
Commissioner



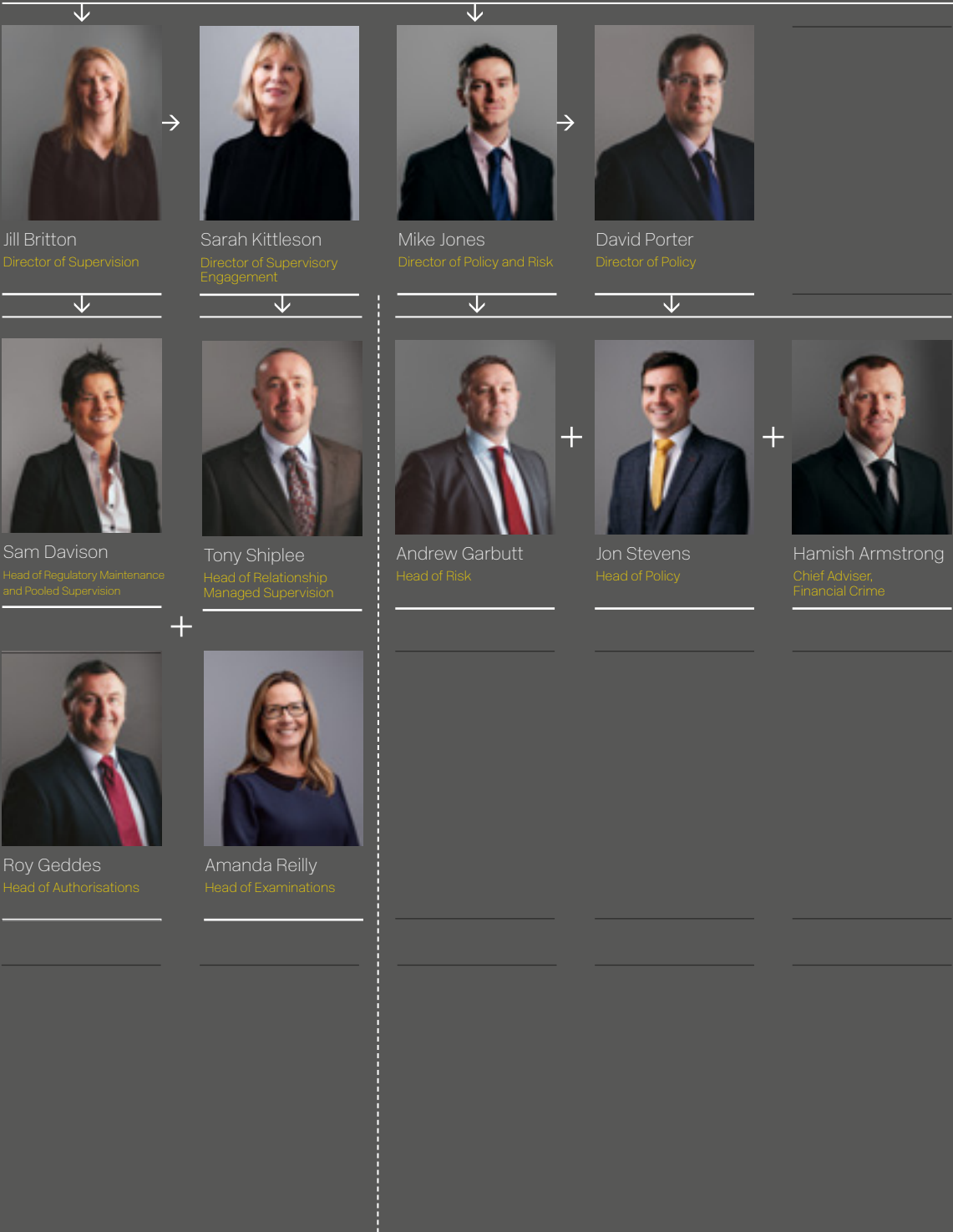
Markus Ruetimann  
Commissioner



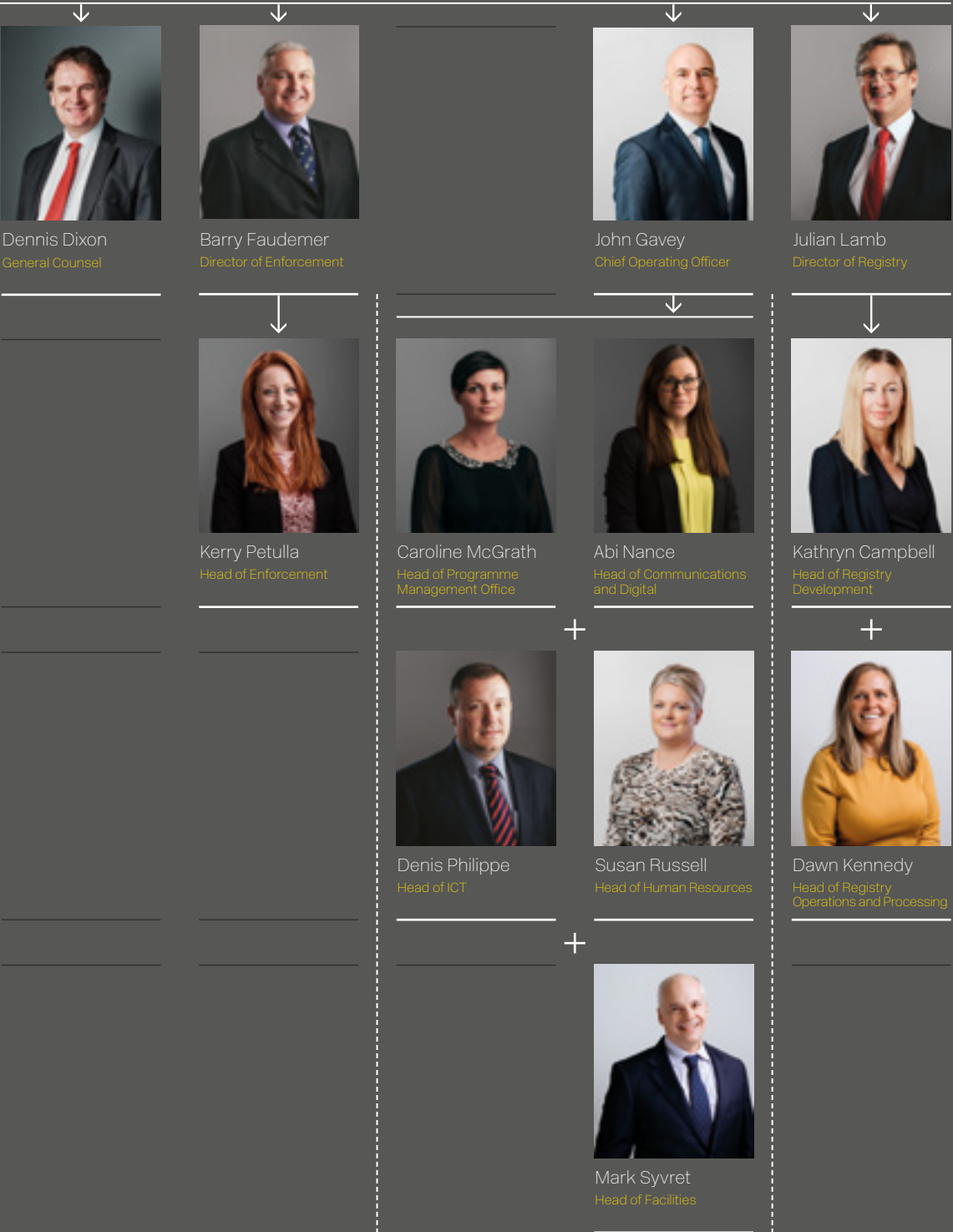
Cyril Whelan  
Commissioner

› Appendices /<sup>02</sup>  
Executives & Heads  
of Unit

As at 31 May 2020



Martin Moloney  
Director General



# 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 (IAIS)

## › 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).

› Delivering  
a first-class  
public service  
to both  
Industry  
and the  
Island.





› Jersey Financial Services Commission

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