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INNOVATION REPORT

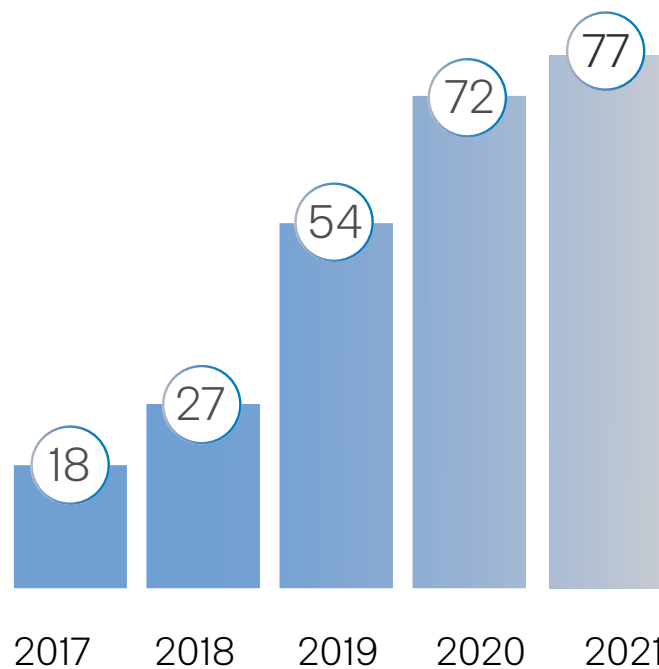


Jersey Financial
Services Commission

Introduction



Our Innovation Hub was established to ensure open and active engagement with businesses innovating within financial services. We do this by providing a direct and dedicated point of contact for all businesses, regardless of whether they are start-ups or incumbents. Through the Innovation Hub, we are able to identify and respond to emerging risks and opportunities for the Island. It also helps us understand developing technologies that are of interest to financial services businesses. We have continued to receive an increase in enquiries year-on-year from all different types and sizes of business.



This report shows:

- What we committed to achieve in 2021;
- An overview of our activity including the rate and nature of enquiries;
- How we provided support;
- Analysis of trends during 2021; and
- How we will continue supporting businesses in 2022.

Review of 2021

2021 continued to present challenges for us all, but also opportunities as evidenced by the continuing growth in enquiries. We met the commitments in our 2020 Innovation Hub Report and remain dedicated to building a sustainable regime for innovative financial services activities in Jersey.

77 enquiries responded to spanning all financial services sectors.

Began exploring the barriers to adoption of Regulatory Technology (RegTech) in Jersey's financial services markets in order to better stimulate and encourage the adoption of RegTech in Jersey.

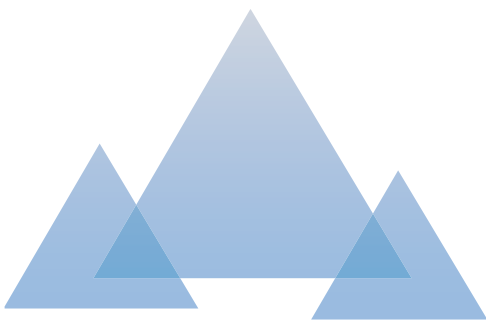
Participated in

62

separate engagements and events focussed on innovation in financial services in Jersey.



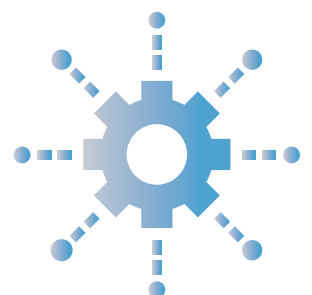
2021



Began developing our in-house knowledge and broader skill sets across our organisation. This included developing how we share and collaborate across all divisions to support innovative products and services.

Continued to monitor the evolving landscape for insights and supported the application process for a number of businesses offering virtual asset services to their clients and investors.

Remained available to Digital Jersey and Jersey Finance members as they collaborated on their journeys toward digitalisation.

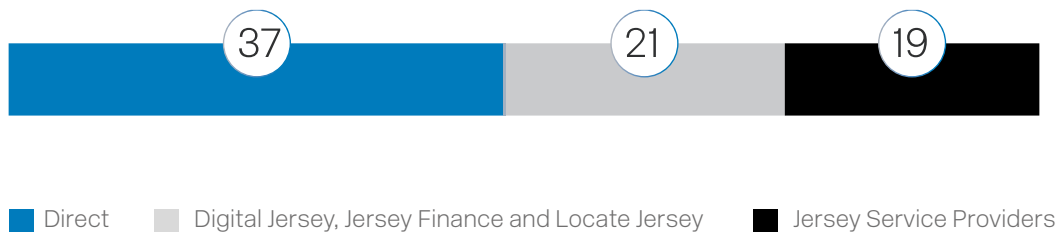


Trends and analysis in 2021

We received 37 direct enquiries to the Innovation Hub with the remainder received from other Jersey-based businesses. We supported 21 referrals from Digital Jersey, Jersey Finance and Locate Jersey.



On average, we responded to each enquiry (provided those enquires were not seeking incorporation and/or a regulatory licence) in less than two calendar days.



2021 vs 2020 enquiries

 We saw a decline from 30% in 2020 to 20% in 2021 in the ratio of enquiries leading to Jersey incorporated structures and/or regulatory licence applications. This is partly due to the nature of queries received (heavily focussed on virtual assets where our regulatory regime is only applicable in certain circumstances). We also saw a rise in enquiries from the funds sector where we note a single enquiry often results in a number of vehicles being established. There were also a number of Reg-Tech enquiries where firms are often not required to go on to hold a regulatory licence.

The chart below shows the percentage of enquiries based on broad themes. "Other" enquiries relate to businesses that approached us to discuss relevant regulatory touch-points, businesses that asked for assistance with the regulatory process, or businesses that wanted to ensure that we were aware of their solutions, particularly if they are actively marketing to the regulated community.

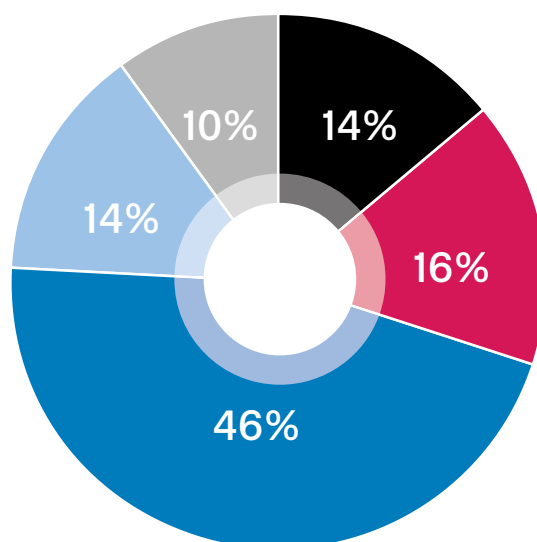
Virtual Asset Services and Issues

Alternative Banking Services and Payments

Regulated Business (Funds and Investment Business)

Other

RegTech



Virtual Asset Services and Issues



Almost half of all enquiries received related to Virtual Asset Services and Issues. These enquiries included those related to Jersey companies issuing tokens, the establishment of e-gaming platforms accepting virtual assets, brokerage services, custody, algorithmic trading, high value dealing in virtual assets and exchange services. We also received a number of enquiries from regulated businesses who wished to understand more about their potential involvement in this asset class and how they might continue to meet their regulatory obligations.

We continue to work with the Government of Jersey and their stakeholders to establish a comprehensive regime for Virtual Asset Service Providers and Issuers and expect to provide further updates in 2022.

Interest in certificates of ownership stored on a blockchain that are typically associated with a digital asset (such as visual art, music or e-gaming collectibles) (NFTs) has increased in the second half of 2021. Unlike other forms of virtual asset, NFTs are unique as they exist as one-of-a-kind items represented only in a virtual world (i.e. they are non-fungible). The creation of NFTs has stimulated the development of new online marketplaces or online auction houses, where NFTs can be bought and sold without an intermediary (typically using virtual assets).

At present, it is likely that NFTs (and their associated marketplaces or auction houses) will fall outside Jersey's regulatory perimeter. As each NFT has bespoke and individual characteristics, we would expect businesses engaged with this type of asset to consider the legal position in relation to their licensing or registration, market communications and exposure to money laundering, proliferation financing, or terrorist financing.

We continue to work with the Government of Jersey and their stakeholders to establish a comprehensive regime for Virtual Asset Service Providers and Issuers and expect to provide further updates in 2022. If you would like to be included on any updates from us, please email innovate@jerseyfsc.org.

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RegTech



As firms continue exploring possibilities of efficiency and cost saving by utilising RegTech applications, we have continued to engage with businesses to understand how their products and services meet our regulatory expectations. Throughout the year, we attended 11 product demonstrations as well as attended events hosted by Digital Jersey and Jersey Finance. The highest concentration of these demonstrations are for anti-financial crime applications, but the category also includes risk analytics, market integrity and compliance management tools which are being actively used by Jersey's regulated community. These types of businesses and their suite of products typically do not need to be registered or regulated by the JFSC.

Using RegTech applications can assist regulated businesses in meeting their regulatory obligations. In 2022 we will continue to explore the barriers for adoption on-Island.

We hope that this work will result in achievable actions for us to be a true enabler in future-proofing our Industry's position as a digital destination of choice.

Alternative banking services and payments

It is unsurprising that the number of enquiries in relation to alternative banking services and payments has continued to grow given the events of the last two years. We have noticed that there is an increase in the number of providers who wish to partner with local businesses regulated under the Banking Business (Jersey) Law 1991, to provide electronic money institution-like services and engagement with customers. We continue exploring how these new relationships can be supported on Island in a way which is compatible with international standards.

Funds

We have received applications for both public and private funds which have innovative underlying investment strategies. These investments typically include exposure either directly or indirectly into technology projects or initiatives, distributed ledger technology, de-centralised finance applications, smart contracts or virtual assets (or derivatives thereof) and are marketed to only professional or eligible investors.

Applications with this type of exposure are subject to an enhanced authorisation review, often resulting in questions between our authorisation divisions and the applicant. This means this type of authorisation falls outside of our normal indicative service level agreements. We may also request status checks from overseas regulators if necessary. During the first half of 2022, we will develop further guidance for market participants which will assist our teams to review all relevant information at the right time and which will allow for advisers to manage their client's expectations accordingly.

A number of virtual asset themed "exchange traded product" platforms were established during the year and were granted consent under Article 4 of the Control of Borrowing (Jersey) Order 1958. These platforms offer investors the ability to gain economic exposure to underlying pools of various virtual assets, whilst transferring and mitigating the custody risks associated with direct ownership of those assets.

It has been encouraging to see that Jersey has been the jurisdiction of choice for the establishment of these platforms. In granting consent for these applications, we collaborated extensively with the sponsoring parties, demonstrating our commitment to supporting FinTech developments whilst balancing our responsibility to safeguard the Islands' reputation.



Outreach



We have continued to engage with a broad range of innovation enthusiasts around the world, including academics, Industry representative bodies, other regulators, governmental agencies and regulatory groups. On-Island, we have remained available and engaged with businesses who want to engage with the Innovation Hub and have contributed to a number of events and workshops with a Jersey focus. We look forward to building these relationships further in 2022.

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2022 and beyond

Kicking off 2022, we will be conducting research with RegTech Associates on the barriers to adoption of RegTech solutions on Island. We would encourage all regulated businesses that have been sent a questionnaire to respond, as the findings of this work will evidence what areas of regulatory support or clarity can be targeted for the remainder of the year and beyond. This work will support our objectives of being a key enabler of digitalisation, create an environment in which the option of digitalisation does not face unintended regulatory obstacles and support digital adoption.



Internally, we will continue to improve our own digital capability and how we use technology to better focus our finite resources on the highest risks.

We will continue working with the Government of Jersey and other stakeholders to develop an appropriate regulatory regime for virtual asset service providers. This will take into account the work undertaken on the risks involved in this sector in 2021. Given the number and nature of enquires received on this sector, we are committed to providing Industry with regulatory requirements which are clear and unambiguous.

We are also committed to aligning our approach and risk appetite towards FinTech and innovative businesses throughout 2022. This will be aligned with the recommendations arising from our review of our authorisations framework published in 2021.

Our commitment to engaging credibly, listening actively and communicating effectively open and with active engagement with all businesses and stakeholders who are considering operating an innovative business will continue. We are committed to providing clear, timely and high quality guidance of our expectations to firms who need it. We will pro-actively engage with:

- Innovative firms through our Innovation Hub
- Digital Jersey, Jersey Finance, Locate Jersey and the Government of Jersey
- Other like-minded regulators internationally through GFIN and IOSCO.

2021

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