



# Business Plan 2018

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# › Introduction

This Business Plan and Budget for 2018 sets out the Jersey Financial Services Commission’s (JFSC) objectives and priorities for the coming year, which culminates in our 20th anniversary. The document aims to help Islanders, the local financial services industry (Industry) and the Government of Jersey assess how we plan to address current challenges, while continuing with business-as-usual activities.

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

# › Chairman’s Statement



## Visible change

This Business Plan outlines our goals for the next year and beyond. But, in an important sense, it presents a continuing story of our activities over the past three years. In that time we have undertaken a significant Change Programme that has not only changed the technology with which we work, but also how we go about achieving our statutory objectives. Relating to the latter, the most visible change is the on-going development of risk-based supervision.

## New products & policy

The huge effort put into the Change Programme has not reduced the focus on other developments. The past year has seen the delivery of the enhanced Beneficial Ownership register, undoubtedly the most comprehensive verified register in any major financial jurisdiction. New products have been introduced, such as the Jersey Private Fund, as well as a new policy on outsourcing and a revised AML/CFT handbook. An innovative campaign to raise awareness about investment mis-selling was launched last January in association with the Personal Finance Society - an important component of our commitment to investor education. And then there has been business-as-usual and occasional surprises. In both cases, but especially in dealing with the latter, we will, I am sure, continue to enjoy cooperation from Government and Industry that is a necessary part of the JFSC serving the best economic interests of the Island.

## Investor education

## Agile & listening regulator

This next year will see the JFSC advance further along the path to becoming an agile, flexible and listening regulator. This is the year in which we look to improve internal procedures and begin to bear fruit in a reformed approach to regulation.

## Risk-based supervision

Risk-based supervision depends upon a comprehensive information management system. To be truly efficient we will need more information from Industry, indeed the consultation on data collection has already begun. Over the next 12 to 15 months that information will provide the quantitative foundation of our risk model.>>>

**Deliver thorough supervision**

The resulting achievement of the goal of streamlined and targeted supervision depends on the delivery of a number of inter-related projects: a portal to collect information, a risk model to process and analyse the information, supervisory process improvements that enable the information to be collected and analysed automatically, and last, but most important of all, the development of our first class supervisory team to ensure that the new information base is used effectively and efficiently. Combined this will deliver the thorough supervision that Industry expects, whilst containing costs.

**Target the greatest risks**

Improved risk assessment will allow us to target our supervisory efforts on the greatest risks. And it will reduce the need for those frustrating ad-hoc data requests for Industry.

The Change Programme has necessitated significant increases in capital expenditure that have strained our reserves. The sustainability of the JFSC requires there to be a benefit for the regulator and for Industry.

**Confer on legislative issues**

The JFSC is an independent regulator, but we of course rely on the framework of law. We can identify risks, but a crucial part of our toolkit to manage risks depends on legislation. The introduction of Jersey Private Funds required improvements to the Control of Borrowing Law and Order (COBO). Similarly the enhanced Beneficial Ownership regime will require, in due course, an updated Registry Law, and legislative support will also be needed for changes required by MONEYVAL and for development of civil penalties. As well as conferring on these legislative issues, in the year ahead we will also be playing a major role in assisting the Government to deliver the National Risk Assessment. We will also be working closely with the Attorney General and the States of Jersey Police in furthering the prosecution of financial crime.

**Work closely with local agencies & Industry**

Efficient regulation must be regulation by consent. The financial services industry in Jersey plays a vital role in maintaining regulatory standards, both by talking to the JFSC (the regulator can only listen if Industry speaks) and by developing a culture of prudent conduct of business and risk management. The JFSC and Industry will be working together to protect the integrity of financial services in the Island against the growing risk of cyber-crime.

**Maintain regulatory standards**

It is impossible to think about the year ahead without speculating on the consequences for Jersey of the UK leaving the European Union (EU). Unfortunately we can only speculate. The content of that exit, in terms of trading relationships and market access, is, at the time of writing, unknown. What we do know is that Jersey's past input to EU decision-making via the UK will cease. Alternative routes must be sought.>>>

**Build new links**

The JFSC has excellent relationships with most national regulators within the EU and will be working hard to build new links, including with EU regulatory institutions. But there is only so much we can do within the political environment of EU decision-making.

2018 marks the 20th anniversary of the Jersey Law that established the Financial Services Commission. Moreover, the Control of Borrowing Law – a part of the legal framework within which the JFSC operates – dates back 70 years!

**Manage challenges**

The landscape of international financial regulation has changed immeasurably since 1998, particularly, but not exclusively, in the wake of the financial crisis of 2007-2008. Legislative requirements inspired by the G20 now come thick and fast. For Jersey, keeping up has been a great challenge.

**Ensure a consistent approach**

Given the necessity in these circumstances of maintaining a regulatory practice that maximises access for Industry, the existence of multiple laws relevant to financial services creates complexity and unnecessary work for regulated firms, Government and the JFSC. We are all trying to understand, operate and amend an overly complex legal framework to ensure a consistent approach across industry sectors.

**Meet new challenges**

Over the next year we will begin to consider whether a simplification and rationalisation of financial services law may be accomplished without excessive strain on resources. Proposals will, of course, be shared with Government and Industry.

The JFSC and, more importantly, Industry have come a long way since 1998. Undoubtedly, there are new challenges ahead. However, I am confident we can meet them.

**John Eatwell  
Chairman**

## › About the JFSC

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

To meet these requirements, we must pay particular attention to our Guiding Principles:

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

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

In order to achieve this and to ensure that we continue to satisfy our responsibilities, we have identified the following strategic objectives for 2018:

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

## › Strategic Objectives & Key Priorities for 2018

This diagram shows our key priorities for 2018 and we consider our focus on them will contribute to achieving our strategic objectives and to meeting our statutory responsibilities and guiding principles.



\* For reference purposes - not covered by this Business Plan document but additional priority items

The following pages provide further information about our strategic objectives and key priorities. However, it is important to recognise that the majority of the JFSC's resources will continue to be focused on the essential day-to-day activity of the regulator. This includes authorisation, supervision, enforcement, international engagement, and efforts to maintain and develop successful relationships with relevant stakeholders, including Government, Industry and international standard setters and assessment bodies.

More detail on these activities will be included in the JFSC's 2017 Annual Report. Some of the major projects set out in this document are specifically intended to improve the efficiency and effectiveness of the JFSC's business-as-usual activities.>>>



## Focus the regulation of Jersey's financial services on where the greatest perceived risks lie

The JFSC is committed to enhancing its risk-based approach to supervision. This process is already well underway: in 2016 we issued a paper outlining our conceptual approach to this issue and developed a better understanding of the scale of the impact posed by different types of threats. >>>

This information has been used to inform the JFSC's existing risk models and supervisory activity.

However, in order to complete the process we need to begin gathering more information about registered persons and the business that they conduct and tie all of this information together in a comprehensive risk model.

### Data for Risk-based Supervision

Throughout 2018, we will continue to focus on enhanced risk-based supervision and collect more data in order to better understand these risks. During 2018 we will:

- > Publish reporting requirements and guidance, following our consultation on Risk Data collection
- > Develop technical solutions for the collection, storage and analysis of data to utilise for risk-based supervision
- > Harness digital technology to take a more efficient approach to handling and processing the information that we receive, particularly for financial statements and authorisation applications.

### Supervision Target Operating Model

As part of the JFSC Change Programme, the JFSC sought to build on its good reputation, efficiency in supervision and registration, and drive better regulatory outcomes for years to come. The introduction of new systems to streamline process and a restructure of Supervision are key to this delivery.

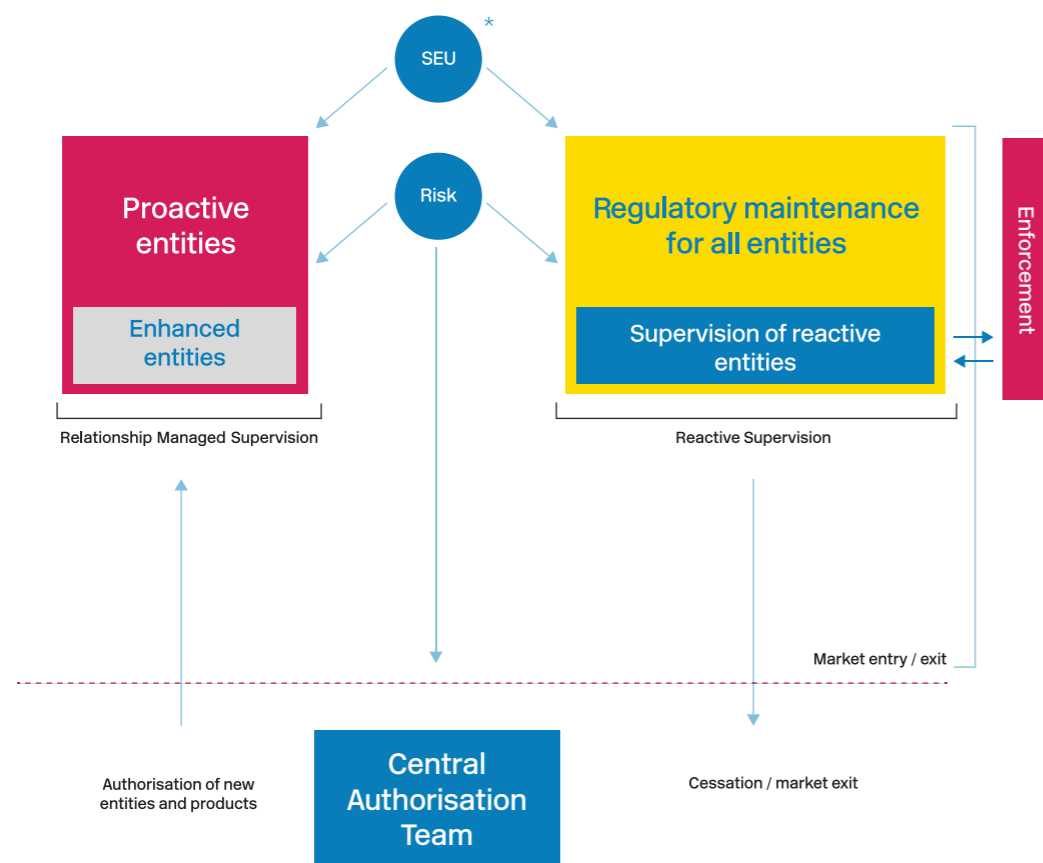
During 2017, key process areas were identified by activity, a new vision created and review of the current structure undertaken which will enable the following:

- > Ability to demonstrate effectiveness – in line with international standards
- > Proportionate supervision based on risk – applying supervisory resources where the risks are highest and removing barriers to active entity supervision
- > Adopting a sustainable model for the future – to secure a pipeline of quality supervisory staff within a concept of 'grow your own' Supervision Managers
- > Maximising new opportunities – being structured to realise the benefits which systems can deliver and be data driven
- > Resourcing to match risk and complexity – regulatory maintenance to be undertaken at a level that is proportionate to the risk and complexity of the tasks.>>>

During 2018 we will:

- › Centralise all authorisation and cessation activities into one team
- › Further centralise regulatory maintenance activities for all categories of entity along with the centralisation of all reactive entities
- › Consolidate enhanced and proactive entities within two relationship managed supervision teams
- › Further develop our system capability in managing all our interactions with our licence holders and greatest use of the JFSC portal.

**Supervision Target Operating Model 2018**



\*SEU - Supervision Examination Unit

**National Risk Assessment (NRA)**

In 2018 the NRA is a priority matter for the Government. The JFSC will play a significant role by providing information and participating in all of the working groups that will analyse the relevant information – this will result in a demand on resources across the JFSC. >>>

Financial crime information collected as part of the enhanced approach to data collection will be provided to the Government on an aggregated basis. During 2018 we will:

- › Collect the necessary information from Industry and submit aggregated data to the Jersey Financial Crime Strategy Group (JFCSG) for use by NRA working groups
- › Contribute to, and lead some, NRA working groups analysing financial crime information.

**Financial Education**

We are committed to maintaining and enhancing the financial education initiatives that we have delivered in recent years and this year will see us:

- › Launch a second public awareness campaign, in conjunction with The Personal Finance Society, to educate Islanders about protecting their personal finances
- › Continue our work with local schools, domestic stakeholders and the International Organisation of Securities Commissions (IOSCO) in order to enhance our financial education programme.

**Make stakeholder interaction with the JFSC as straightforward, effective and fair as possible through continual development of our people and infrastructure**

We are committed to streamlining the way in which we interact both with registered persons from a supervisory perspective and all businesses that use the Registry. Over the past two years, we have built foundations to enable this, including migrating data to a new back-office computer system. Over the next 12 months, we expect to see efficiencies gained through the development of applications that use this new system.>>>



### Registry Developments

Following the successful implementation of the Beneficial Ownership Register in 2017, a number of important and inter-linked registry developments are planned for 2018. We anticipate being tasked by Government to develop other registers in 2018, specifically a Register of Directors and a Register of Charities. Developing new registers is a hugely complex and resource intensive process, which requires a large amount of stakeholder outreach with co-ordinated efforts by the JFSC and Government, with Government leading by defining the criteria for the relevant register and delivering, where necessary, a legal framework that enables the Registry to gather and make available the necessary information.

Delivery of the new registers will depend on the completion of the enhanced registry platform, which was delayed last year due to the work on Beneficial Ownership. This year's theme for the Registry is focussed on data integrity and we plan to:

- › Develop an enhanced registry system platform that is compatible with API (Application Programme Interface) technology
- › Agree with Government the appropriate funding and technical specifications for the Register of Directors and Register of Charities
- › Configure the registers on the new registry platform, ready for launch by Government
- › Continue work with Government on the content of a new Registry Law.

We have no doubt that, subject to the agreement with Government, we are well positioned to deliver this next phase of registry capability, given the success of the Beneficial Ownership regime that put Jersey at the forefront of registries worldwide.

### Digital Channels

Many of the JFSC's key priorities (including data collection and Registry developments) rely heavily on the ability of Industry to exchange information with the JFSC easily and securely. During 2018 we will make improvements to our digital channels to enable these new interactions. In particular we will:

- › Apply the API technology used in the Beneficial Ownership Register to other digital interactions with the JFSC, where appropriate.
- › Enhance the security of the JFSC portal, including the use of multi factor authentication
- › Make substantial progress on the development of a new website to provide enhanced user experience, utilise modern technology, improve navigation, deliver a properly integrated platform with other JFSC systems such as CRM and maximise responsive access on all modern devices; this sub-project was delayed to address other priorities in 2017.

## Facilitate access to key markets by working with all relevant domestic stakeholders, other regulators and international bodies

We have an important role to play in maintaining the reputation of Jersey and facilitating market access. With continuing uncertainty surrounding the UK's exit from the EU and the challenges this may pose for Jersey, it is more important than ever that we continue to build international relationships with both EU and other markets.

In order to help build these relationships, we regularly interact with overseas regulators, governments and other international standard setting bodies, including IOSCO and the Financial Action Task Force (FATF). We have taken specific steps to communicate proactively with overseas agencies that may not be familiar with the mechanisms we offer for international co-operation. We expect to continue developing these important relationships in the future.

### Basel III Delivery

We remain on course to effect local adoption of the Basel III international banking standards. Following consultation in 2017, we will implement strengthened capital quality and liquidity requirements for banks, ensuring that we meet the Basel Committee's deadline of reporting on these areas by 1 January 2019.

These changes will impact on banks' internal monitoring, prudential reporting, and banks' self-assessment of capital and liquidity.

Alongside this, it is intended to issue consultation papers on the remaining elements of Basel III (those relating to the calculation of capital requirements). Some of our key tasks in 2018 are to:

- › Implement a new prudential reporting system for banks
- › Publish revised Codes and guidance relating to the completion of prudential reports
- › Consult on Market Risk assessment under Basel III
- › Consult on Credit Risk and Operational Risk assessment under Basel III, including capital floors (contingent on the Basel Committee issuing expected standards).>>>



### Funds Regime Review

With the launch of the Jersey Private Fund, the first phase of the funds regime is now largely complete and we will be in a position to proceed to the next phase of the review following the conclusion of some outstanding administrative aspects (these are legislative issues being addressed with Government).

Following on from the completion of phase one of the review, 2018 will see us:

- › Working with Government and Industry on Phase 2 initiatives, which will include a review of our regulatory approach to public funds. This work will need to take into account the potential impacts of economic and geopolitical events such as Brexit and the EU's approach to equivalence assessments.

### Implementing 2012 FATF Recommendations

During 2018 we will continue to assist in progressing the multi-agency review of Jersey's AML/CFT framework against the 2012 FATF Recommendations; incorporating, where appropriate, the remaining work outstanding under the MONEYVAL action plan as well as consideration of the 4th Money Laundering Directive of the EU (and any amendments to that Directive).

This will entail:

- › Completion of a technical "gap-analysis" by the Jersey Financial Crime Strategy Group (JFCSG)
- › Consultation and feedback on any resulting legislative amendments by the JFCSG
- › Commencement of drafting and implementation of legislative amendments
- › Commencement in late 2018 of an Island-wide, multi-agency, review of the effectiveness of Jersey's AML/CFT regime.

## Safeguard the sustainability, efficiency and independence of the JFSC

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

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

We have done a considerable amount of work on reviewing and updating fees over the past two years and we have continued to focus on managing our costs whilst still investing in our people: developing a competency matrix for supervisors, investing in training, providing secondment opportunities and ensuring that staff were supported in moving from a licence-based to an entity based supervisory model. We anticipate that further cost control will be one outcome of the change programme, which is nearing fruition.

### Cyber Security

The JFSC remains committed to enhancing our internal protection environment and taking appropriate measures to ensure that industry is protecting itself from cyber risks. During 2018 we will:

- › Embed cyber security considerations within our existing supervisory framework for registered persons
- › Continue to take an active role in the Government Cyber Security Task Force
- › Continue to invest in and evolve the JFSC's technical and people based cyber security defences
- › Work closely with UK government and academic agencies to improve cyber intelligence and threat understanding.

### Civil Penalties

To enhance the effectiveness of the civil financial penalties regime the JFSC will be seeking, with support from Government, legislative amendments that will extend the regime:

- › To enable penalties to be imposed on regulated firms for negligent contraventions of the JFSC's Codes of Practice
- › To enable penalties to be imposed on principal persons where the contravention of a Code was a result of their own poor conduct.

Subject to Government support, the JFSC will issue consultation and feedback papers on the draft legislation at the end of Q2 2018.





# › Budget 2018



## Policy

We manage our finances to provide the resources to deliver our statutory obligations and services to Industry. To achieve this we:

- › Set fees at appropriate levels to carry out our statutory duties
- › Keep regulatory fees to a minimum by maintaining strict cost control
- › Maintain appropriate reserves for the long term replacement of capital assets, to fund the cost of investigations and meet any contingencies.

## 2017 Expected Outturn

The forecasted outturn for 2017 is a deficit of approximately £355,000 compared to the break-even budget that we set this time last year. We experienced significantly higher litigation costs due to an ongoing case and a shortfall in Registry income, partly due to the transition to the new Beneficial Ownership system.

Operational costs were well controlled throughout the year to remain in line with the overall budget. Significant savings were found to offset unexpected one-off costs associated with recruitment, staff and premises. Additional professional service costs were incurred during the year to support transformation across all areas of the organisation.

We managed our cash reserves carefully such that these are forecast to be marginally higher than originally budgeted.›››



## 2018 Budget

Our current financial challenges are expected to continue into 2018.

We plan a substantial further capital investment in our technology to develop our APIs and services to industry, whilst bolstering our cyber defences and ability to demonstrate to international inspectors that our supervision processes are effective. This will give rise to immediate change programme costs and higher depreciation as the new systems become operational.

Overall we forecast a further deficit of £369 thousand for 2018. Financial reserves are expected to be some £4 million and will therefore remain substantially below the target level of £9 million (six months of annual operating expenses plus the 5 year average of annual investigation and litigation expenses).

Fee income is budgeted to increase to £17.0 million. This assumes a 7% increase in regulatory fee income to £12.8 million and a 3% increase in registry fee income to £4.2 million. We believe that these income figures are achievable but income remains sensitive to relatively small changes in the shape and size of the financial services industry and the scope of registry services.

We appreciate the support we have received from industry and Government over recent months for necessary fee increases. However, further industry consolidation remains a key risk reducing our fee base from regulated entities whilst often increasing complexity of these businesses and their international reach. The higher level of expected registry fees is due also to a larger retained share of the Annual Return fees to pay for systems enhancements which has been agreed with Government.

Operating expenditure (excluding investigation and litigation costs) is expected to increase by 7% to £16.9 million. This is due to increases in computer system costs (including cyber security) and depreciation (due to commencement of depreciation on further system developments). Other costs are expected to remain at similar levels to those in 2017 after including an adjustment for inflation.›››

The international scale and complexity of cyber-crime continues to rise with several unprecedented attacks during 2017, which indicates the necessity to develop and maintain appropriate levels of cyber defence for the nature of information that we hold. Cyber-crime poses a significant risk, both now and for the foreseeable future, and we therefore continue to invest in our cyber defences.

Staff costs are expected to increase by 1.3% which is reflective of intense efforts to manage these costs in an inflationary environment. Our plan is that staff costs will increase but at less than inflation in future years through technology based productivity gains, changes in staff mix and lower headcount by natural attrition.

With the increasingly global nature of regulation, we need to participate fully in an increasing number of international regulatory bodies. Travel costs have been actively managed to reduce the impact of these. These costs have been reduced by 17% over the prior 3 years and we remain committed to keeping travel costs to a minimum wherever possible.

Investigation and litigation costs incurred on enforcement cases are budgeted at the running average of costs incurred in recent years. These costs are not possible to estimate and thus are disclosed separately. Current cases may indicate we are experiencing a step change to an increased run rate in the future.

Cash generated by operations is expected to increase to £1 million for the year, compared to a forecast operating cash inflow of £74 thousand in 2017. However, with a budgeted capital expenditure programme of over £3 million being spent on new systems and cyber defences there will be a substantial net cash outflow during 2018. It will be increasingly important to generate cash surpluses in subsequent years to build up resources for the next reinvestment cycle.

We have sustained losses in three of the last four years as we have invested in our people and systems as part of the change programme, whilst simultaneously addressing substantial new threats such as cyber-attacks. To return to the target level of reserves necessary to demonstrate resilience it will be necessary to develop additional sources of income and continue to manage costs very tightly in future years.

## Budget for year ending 31 Dec 2018

	2016 Actual £'000	2017 Forecast £'000	2018 Budget £'000
Regulatory fee income	11,560	12,160	12,804
Registry fee income	3,206	4,200	4,217
Other income	302	48	131
Interest income	43	17	15
<b>Total Income</b>	<b>15,111</b>	<b>16,425</b>	<b>17,168</b>
<b>Expenses</b>			
Staff Costs	(11,102)	(11,590)	(11,955)
Premises Cost	(758)	(822)	(833)
Computer Systems	(1,055)	(1,212)	(1,501)
Professional Services	(676)	(645)	(426)
Business travel	(202)	(197)	(199)
Staff Learning & Development	(217)	(218)	(250)
Operational Costs	(510)	(548)	(789)
Depreciation of Fixed Assets	(484)	(674)	(983)
<b>Total Operating Expenditure</b>	<b>(15,004)</b>	<b>(15,906)</b>	<b>(16,937)</b>
<b>Operational Surplus</b>	<b>107</b>	<b>519</b>	<b>231</b>
Investigation & Litigation	(613)	(874)	(600)
Less cost recovery	76	-	-
<b>Net Investigation &amp; Litigation Costs</b>	<b>(537)</b>	<b>(874)</b>	<b>(600)</b>
<b>Net (deficit)/ surplus</b>	<b>(430)</b>	<b>(355)</b>	<b>(369)</b>
Accumulated reserve brought forward	6,261	5,831	5,476
<b>Accumulated reserve at end of period</b>	<b>5,831</b>	<b>5,476</b>	<b>5,107</b>
<b>Opening Cash Balances</b>	<b>9,958</b>	<b>7,740</b>	<b>6,429</b>
Operating Cashflows	(415)	328	1,119
Investing Cashflows	(1,803)	(1,639)	(2,416)
<b>Closing Cash Balances</b>	<b>7,740</b>	<b>6,429</b>	<b>5,132</b>

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