



# Business Plan 2016

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This Business Plan and Budget 2016 sets out the Commission's objectives and priorities for the coming year, and beyond. The goal is to assist Islanders, the financial services industry (Industry) and Government to assess how the Commission and its staff plan to address current challenges.

The Commission welcomes opportunities to meet Industry participants, members of Government and the public to explain its plans. We would particularly appreciate critical assessment.

# › Chairman's Statement



**Change** I have been Chairman of the Commission for 18 months. Within that period the Commission has embarked on a programme of substantial change; change that will affect the way that regulation is done in Jersey, making it more efficient, flexible and responsive. This programme is not yet complete, but its consequences for the Industry will become evident over the coming year. In addition, change has also been imposed on the Commission by developments in the international regulatory environment, in the UK, the EU and in the global markets. In order to fulfil its commitment to ensuring access for Jersey firms to markets around the world, the Commission must necessarily adapt its procedures to international demands.

**Progress** This Business Plan is focussed on the future. But before looking forward it may be useful to reflect briefly on some of the Commission's most significant achievements over the last 12 months. During this time, in addition to maintaining its day-to-day role of supervising the Industry, the Commission has, amongst other activities, updated its approach to bank licensing, been deeply involved in the MONEYVAL<sup>1</sup> evaluation of Jersey, implemented a civil penalties regime, and contributed to the launch of the Jersey Fraud Prevention Forum. The Commission has also made significant progress in assessing the impact of MiFID II and implementing Basel III.

**More Effective** In addition to this public-facing work, the last 12 months have also seen the Commission embark on an important internal change programme. This change programme derives from my commitment to ensure that the Commission maintains and develops its role as **an accomplished regulator: a regulator that is thinking, agile and inquisitive**. To date, the change programme has largely been about the internal activities of organisation, strategy and planning. Now the full roll-out to Industry begins. >>>

<sup>1</sup> MONEYVAL is the Council of Europe body responsible for evaluating Jersey's anti-money laundering and countering terrorist financing measures.

➤ **The consequent changes will make the Commission more efficient and effective, and will also provide significant benefits to the Industry, and the wider range of organisations that use the Companies Registry.**

## New Approach

Central to the change programme is a fundamental revision of the Commission's approach to supervision. Over the course of 2016 this will result in both a new approach to supervision itself and a wholesale restructuring of the supervision divisions within the Commission. The new supervisory approach will see the Commission embrace an increasingly risk-based methodology and adopt an entity-based, as opposed to licence-based, supervisory model.

## New Risk Unit

The risk-based methodology will result in the Commission allocating its supervisory resources towards areas or firms identified as being of higher risk, picking important problems and, hopefully, fixing them. The success of this risk-based approach will depend on the Commission's ability to understand what risks exist in the financial sector and how best they can be addressed. This key task will be the responsibility of a new Supervisory Risk Unit.

**The switch to entity supervision will make interaction with the Commission easier. Firms with multiple financial service licences will now have just one point of contact at the Commission. Supervisory interactions will be less fragmented and understanding of entity risk enhanced. The supervisory process will be exactly that, a process - flexible and transparent.**

In addition to the supervisory review, the Commission is investing more resources in Information Technology (IT) and Human Resources (HR).

## New Systems

In IT, the Commission must invest to ensure that it can **engage with Industry in an efficient and cost-effective manner - harnessing digital technology where appropriate, safeguarding the important information it holds, and managing its internal operations effectively.** Key developments include electronic payment and data collection, one portal for Industry to communicate electronically with the Commission, new systems in finance and human resources, and enhanced cyber-security measures.

An accomplished regulator needs skilled and experienced staff committed to the work that they do, and it needs the financial resources to be able to attract and retain those staff. This is often a challenge for regulators, who are competing with Industry for compliance staff and other financial services professionals.

➤ As part of the change programme the Commission has reviewed and is updating its HR policies and procedures. The outcomes are more flexible working practices, enhanced performance management, and a more creative recruitment strategy than in the past, as demonstrated in the Commission's first (and very successful) Careers Fair.

## Adapt

These internal changes are taking place not only in the context of a heavy workload to maintain business as usual, but also in the face of a challenging international environment that, given the commitment to sustaining market access, requires the Commission to match changing international standards. The Commission must also adapt to changing legal obligations.

## Protect

Jersey's financial services industry continues to encounter the challenge of increased global regulation aimed at protecting the financial system, regaining investor confidence and enhancing consumer/taxpayer protection. At the same time, innovation in the Industry is creating new opportunities and disrupting existing business models. There has been further consolidation within the trust and corporate services sector and Jersey's banking model will need to adapt in response to changing UK banking regulation. The pace of change is unlikely to slow.

## Innovate

Jersey's success as an international financial centre derives from an ability to respond quickly to opportunities. A key challenge for the Commission is to create a regulatory regime that both enables firms to innovate and to exploit market opportunities, and ensures that they behave responsibly and have effective risk management procedures in place to protect consumers - necessary conditions for the protection of Jersey's reputation.

## Challenge

In a challenging and fast moving business environment, the Commission needs to understand the significance of new developments and implement appropriate, well-founded responses. This Business Plan is a summary of the major projects the Commission has underway to ensure that Jersey continues to be a respected and successful international finance centre.

All in all, it has been a very busy eighteen months and there is a busy year ahead. The plans outlined are necessary to fulfil our statutory responsibilities and safeguard the economic interests of Jersey.

**John Eatwell**  
Chairman

## › About the Commission

The Commission's key responsibilities and objectives are set out in the Financial Services Commission (Jersey) Law 1998.

They require the supervision of financial services and the maintenance of a regulatory framework in a manner that sets high standards and enables Jersey to uphold its position as an international finance centre.

In doing so, the Commission must pay particular attention to its 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.

In summary, the Commission aims to deliver balanced, progressive, risk-based financial regulation for Jersey, built on insight, integrity and expertise.

## › Our major priorities for 2016

In addition to business-as-usual work, the Commission has a number of major projects underway that fit broadly into one of the following four categories (although a number of the key projects contribute to more than one of the categories): facilitating industry market access and other benefits to industry, matching international standards, continuing improvements to the Commission's performance, and meeting legal and other requirements.



### Facilitating industry market access and other benefits to industry

The Commission's work in this area helps to ensure the best economic interests of Jersey and protects and enhances Jersey's reputation.

› MiFID II / MiFIR – During 2015 the Commission, together with Government, conducted extensive Industry analysis and stakeholder consultation on whether Jersey should seek equivalence with this EU legislation. The feedback broadly supported the proposal to seek equivalence. A comparison of the MiFID II regime with that which exists in Jersey at the moment reveals that a considerable amount of work is required to gain equivalence, including new or amended primary legislation and substantial redrafting of one or more of the Commission's codes of practice. The Commission will consult with Industry on these matters shortly.

› Funds regime review – Following discussions with other key stakeholders (Government, Industry and Jersey Finance), it has been decided that, rather than framing an entirely new funds regime, the optimal strategy is to adopt an evolutionary approach. The evolutionary approach will focus on the key individual fund initiatives that have been identified. The Commission and key stakeholders will continue to work together to prioritise and deliver appropriate revisions to the regime. >>>

› Fintech – During 2015, the Commission published a consultation on electronic customer identification and worked with Government to consult on virtual currency regulation. The Commission will continue to monitor the development of financial products and services that use new technologies, and where appropriate to work with other stakeholders to ensure that Jersey is in a position to benefit from this growth area. Related to this, the Commission will communicate with Industry on cyber-security in 2016.



## Matching international standards

Establishing an appropriate response to international standard setters<sup>2</sup> protects and enhances Jersey's reputation, and ensures that Jersey's legislative framework adapts to the changing financial services and risk environment.

- › Basel III implementation – The latest set of international bank prudential standards has a final target implementation date of 1 January 2019. The Commission has worked with its counterparts in the Crown Dependencies to effect local adoption of the standards. Discussion and consultation papers have been issued, addressing capital, liquidity management and systemic issues, with further consultation to follow in 2016.
- › FATF (Financial Action Task Force) implementation – The Commission will be heavily involved in a number of projects, along with other Island agencies, the objective of which is to demonstrate effective implementation of the most recently revised FATF recommendations. This will include taking account of the EU 4th Money Laundering Directive, as it is implemented by individual Member States; the creation of a National Risk Assessment for Jersey; and may require changes to the register of beneficial ownership.
- › MONEYVAL response – The MONEYVAL report on the 'fourth-round' mutual evaluation of Jersey was agreed in 2015 and will be published in the first half of 2016. The Commission, together with other Island agencies, will undertake a detailed review of the report and establish plans to address recommendations.

<sup>2</sup> International standards are set by a number of bodies, including the Basel Committee on Banking Supervision, Financial Action Task Force, Group of International Finance Centre Supervisors, International Association of Insurance Supervisors, the International Organisation of Securities Commissions and the Financial Stability Board.



## Continuing improvements to the Commission's performance

Continual improvement supports the delivery of the Commission's statutory functions and guiding principles.

- › Implementing the supervisory review - In 2015, following a comprehensive review, the Commission laid the groundwork for a more effective approach for supervision. 2016 will see a wholesale restructuring of the Supervision function, allied to a switch to whole entity oversight rather than sector level supervision by licence type, with even greater focus on a risk-based approach, and progress towards digitisation of data interactions between regulated entities and the Commission.
- › Commission change programme – Linked to the supervisory review, the Commission has made considerable progress in undertaking a Commission-wide review of effectiveness and efficiency, ensuring that the organisation becomes more proactive and agile, and delivers value for money for its stakeholders. Examples of some of the projects underway are a Customer Relationship Management system, which will provide Commission staff with ready access to key information, and the redevelopment of the Commission's Internet and Intranet. The Commission has commenced a programme of regular communications to inform Industry about the impact of these changes.
- › Commission funding review - In October 2015, the Commission issued a consultation paper seeking in-principle views on proposals to change the way fees paid by regulated businesses are calculated and levied. In 2016, the Commission will analyse responses to the consultation and will subsequently consult with Industry on new fee arrangements.





## Meeting legal & other requirements

Changes to the laws or regulations by which the activities of the Commission are governed may require substantial changes to the way in which it operates.

- › Registers for Industry and Government – the Commission will continue to work with Government and other stakeholders on the introduction of the Security Interests Register 2 and an electronic aircraft register. The Commission will continue to assess the potential of other registers, such as Global Legal Entity Identifiers and charities registers.



## Business as usual

This document is focused primarily on major priorities for change in 2016 and beyond. But it is important to recognise that the majority of the Commission's resources will continue to be focussed 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 regulatory bodies.

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



# Budget 2016



## Policy

The Commission's current policy with respect to budgeting is to manage its finances so as to be able to meet its key functions as prescribed in the Financial Services Commission (Jersey) Law 1998. To achieve this, the Commission must:

- › Set fees at appropriate levels to cover the costs of regulating the Industry and administering the Registry
- › Keep regulatory fees to a minimum by maintaining strict cost control
- › Maintain appropriate reserves for the long term replacement of capital assets, provide working capital, fund the cost of investigations and litigation, and meet any contingencies relating to enforcement cases.

## Summary

### 2015 Budget & Forecast

The 2015 budget anticipated an operating surplus of £173,000, and a net deficit of £427,000 after investigation and litigation costs were taken into account. Forecast actual performance for 2015 shows an operating deficit of £51,000 and a net deficit of £598,000. The variation from budgeted performance was primarily due to unanticipated non-recurring costs. Total income is forecast to be in line with the 2015 budget. The Commission's reserves will therefore decrease to £6.9m. >>>



Reserves reflected in the financial statements will be further reduced by the effect of transitioning to the new accounting framework applicable in the UK (FRS 102). Adjustments of £452,000 will reduce the forecast reserves balance to £6.5m, as at 31 December 2015.

Whilst total income was in line with the 2015 budget (£67,000 over budget), supervisory fees were lower than budgeted, but significantly higher income from the Security Interests Register and other registers maintained by Registry made up for this.

Operating expenditure (which does not include investigation and litigation costs) in 2015 is forecast at £14.7m against a budget of £14.4m. Once the above mentioned non-recurring costs are taken into account, operating expenditure is broadly in line with budget. Lower than expected costs associated with recruitment, computer systems, public relations and premises have been offset by higher than expected general operating expenses, audit fees, learning and development costs, and the impact of earlier than expected completion of capital projects which resulted in increased depreciation charges during the year.

## Budget 2016

2016 fee income is budgeted to increase by approximately 1% to £14.8m. Marginal fee increases have been necessary to contribute towards general inflationary pressures and the increasing costs of regulation, but are not sufficient to close the deficit completely.

Consolidation within the trust and corporate services and banking sectors is expected to reduce the contribution of fee increases to revenue under the current fee methodology. Variable and fixed fees will continue to be reviewed during 2016 as part of the consultation on Commission funding. This follows a period during which, in the light of pressures on Industry stemming from the financial crisis, the Commission deliberately limited fee increases across all regulated activities.

Overall operating expenditure is expected to decrease by £138,000 to £14.5m during 2016. The overall decrease is driven mostly by the effect of lower revenue costs associated with the Commission's change programme and the absence of non-recurring costs incurred in 2015. Other cost categories are expected to remain in line with 2015 costs or show increases as outlined below. >>>



The Commission has identified an increasing trend in the frequency of cyber-crime and attempts to gain unauthorised access the Commission's information systems and data. The Commission has responded to this trend by investing in its cyber defences to safeguard against such risks.

Computer system costs are also expected to increase temporarily for the duration of the change programme as licence, support and maintenance costs are incurred on newly implemented systems during the run-off period of outgoing systems that are still within their licence periods.

Revenue costs associated with the change programme will continue to be incurred during 2016, but at a reduced level. These costs are predominantly related to the requirements gathering phase of systems developments and associated project management costs. These costs will decrease progressively as the change programme nears completion. They have thus far predominantly been funded from reserves.

Staff costs are budgeted to decrease in 2016 due to a small decrease in staff numbers and better resource allocation between departments.

The Commission continues to seek high quality candidates for its staffing requirements but recognises that internal development of staff is also critical to achieving its objectives. Learning and development costs will therefore remain at similar levels to 2015 to enable the Commission to develop existing staff and attract talented staff.

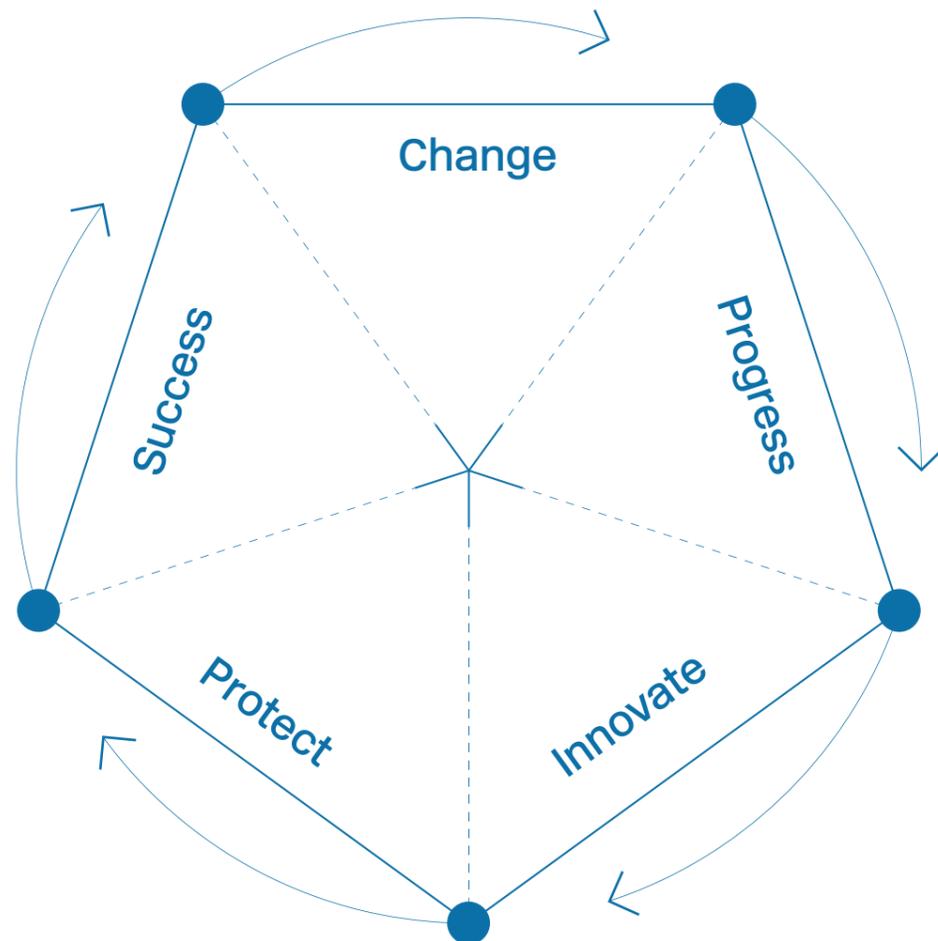
With increasing regulation across the finance industry and the increasingly global nature of regulation, the Commission is required to maintain its membership of several international regulatory bodies and participate in regulatory seminars and forums both within the UK, the EU and further afield. Consequently, the Commission incurs a significant amount of travel costs each year. These costs are budgeted to remain in line with historic levels.

Investigation and litigation costs, relating to external costs incurred on enforcement cases, are expected to remain at their current level (based on average costs incurred in recent years and the current level of enforcement activity), although these costs are inherently difficult to estimate. They are budgeted separately from other operating costs. >>>



Overall, the 2016 budget anticipates an improved operating performance, with a surplus of £221,000 before litigation and investigation costs. The net result after these costs is expected to be a deficit of £379,000. The Commission's reserves will consequently decrease to £6.1m by 31 December 2016, which is approximately £1.8 million below the Commission's current policy objective. As stated above, the current consultation on the Commission's funding is intended to identify a durable solution that addresses this issue.

The Commission's reserves are maintained to be available to provide working capital, fund long term capital asset replacements and fund costs associated with any major investigations or litigation that may arise in the future. Despite the current reserve shortfall compared to policy objectives, the Commission holds sufficient cash deposits to fund future change programme and operational cash requirements.



## Budget for year ending 31 Dec 2016



	2016 Budget £'000	2015 Forecast £'000	2014 Actual £'000	2013 Actual £'000
Fee Income	14,680	14,550	13,756	13,618
Other Income	20	17	24	46
Interest Income	60	59	59	64
<b>Total Income</b>	<b>14,760</b>	<b>14,626</b>	<b>13,839</b>	<b>13,728</b>
<b>Expenses</b>				
Staff Costs	(10,608)	(10,849)	(10,300)	(9,250)
Premises Cost	(736)	(720)	(798)	(781)
Computer Systems	(1,070)	(910)	(832)	(1,026)
Legal & Regulatory Costs	(41)	(58)	(31)	(143)
Public Relations	(59)	(58)	(5)	(19)
Professional Services	(328)	(179)	(397)	(314)
Audit Fees	(24)	(24)	(18)	(16)
Business Travel	(227)	(213)	(251)	(219)
Learning & Development	(316)	(328)	(244)	(204)
Recruitment	(31)	(31)	(132)	(291)
Operational Costs	(369)	(318)	(302)	(266)
Project Costs	(271)	(528)	0	0
Depreciation of Fixed Assets	(459)	(461)	(487)	(405)
<b>Total Operating Expenditure</b>	<b>(14,539)</b>	<b>(14,677)</b>	<b>(13,797)</b>	<b>12,934</b>
<b>Operational Surplus</b>	<b>221</b>	<b>(51)</b>	<b>42</b>	<b>794</b>
Investigation & Litigation	(600)	(547)	(855)	(738)
Less cost recovery	-	-	1,000	37
<b>Net Investigation &amp; Litigation Costs</b>	<b>(600)</b>	<b>(547)</b>	<b>145</b>	<b>(701)</b>
<b>Net (Deficit)/ Surplus</b>	<b>(379)</b>	<b>(598)</b>	<b>187</b>	<b>93</b>
Retrospective FRS 102 adjustments	-	(452)	-	-
<b>Accumulated reserves brought forward</b>	<b>6,477</b>	<b>7,527</b>	<b>7,340</b>	<b>7,247</b>
<b>Accumulated reserve at end of period</b>	<b>6,098</b>	<b>6,477</b>	<b>7,527</b>	<b>7,340</b>



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