Jersey Financial Services Commission

20th Anniversary Seminar

Sli.do #JFSC20
Welcome and introduction
John Harris, Director General
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John Harris, Director General

Looking back over the last 20 years
Debbie Prosser, Deputy Chairman

How will the world of financial regulation change over the next 20 years
Lord Eatwell, Chairman

Mid-year update
John Harris, Director General

Supervision developments
Jill Britton, Director of Supervision
Looking back over the last 20 years
Debbie Prosser
Deputy Chairman
Today is only the beginning, it is not the end.

1998: Northern Ireland peace deal reached

Rouble loses 70% of its value in relation to the dollar

EU agrees on a single currency the €

Financial crisis hits much of South East Asia

Microsoft becomes biggest company in the world

France wins 16th FIFA World Cup
Key moments in history

9/11
Terrorist Attacks

The Edwards Report
1998

2008
Financial Crisis
The Edwards Report 1998 findings:

› Top division of offshore centres

› Judicial and prosecution systems, regulation and co-operation with other jurisdictions are remarkably good for such small communities

› Exemplary assistance in many investigations into drug trafficking, fraud, tax offences and money laundering

› Endorsed Jersey’s long-standing policy of requiring confidential disclosure of ultimate beneficial ownership information for all new Jersey company incorporations
Key recommendations from the Edwards Report:

› JFSC to be entirely independent of Government

› JFSC should not be responsible for the promotion of the Island’s finance industry (which led to the formation of Jersey Finance)

› A dedicated Enforcement division

› Licensing and regulation of trust company service providers

› Amendments and extensions to existing legislation introduced to bring trust and company business and investment business into regulation

› Thirteen different Orders came into force in 2000 and 2001 relating to TCB and IB regulation

› Proceeds of Crime (Jersey) Law 1999

› Financial Services Commission Law amended to remove “promoting the Island as a centre for financial services”

› First FAFT evaluation report endorsed Jersey’s ‘robust’ regulation
None of us will ever forget
Post 9/11 attacks (2001-2008)

› Financial crime became central to country security
› Terrorism (Jersey) Law 2002 plus six related Regulations and Orders
› Money Laundering (Jersey) Order 2008
› IOSCO developed multilateral MoU to improve regulatory co-operation - JFSC founding signatory
› First AML Handbook published
› Other businesses brought into regulation
› First IMF Review on Jersey’s financial regulation and AML regime
Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Bank of America to Buy Merrill

Bailout Plan Rejects Forcing New Scramble

Down 777 points: The tale of the Dow

BANKING QUAKE

After Lehman fell, the economic tectonic plates shift

HOW THE CRISIS UNFOLDED

August 9, 2007
US Federal Reserve cut rates

September 7, 2008
US government takes control of Fannie Mae and Freddie Mac

September 15
Lehman Brothers files for Chapter 11 bankruptcy, Bank of America buys Merrill Lynch

September 16
US injects $85bn into insurer AIG

September 24
Warren Buffet Injects $5bn of capital into Goldman Sachs

September 26
UK nationalizes Northern Rock

October 3
US government buys $700bn bailout fund

October 7
UK injects £37bn into RBS, Lloyds and HBOS

October 20
Bank of England and banks have lost £200bn

October 30
Irish guarantees deposits of six largest banks

Emergency funding of $200bn called

Share plunge is biggest since 2008 banking crisis

Shareholders go into liquidation

Shareholders call for reforms

Shareholders hold annual meeting

Shareholders vote on recapitalization

Shareholders vote on profit warning
Post financial crisis

- First draft of the AIFMD published by the EU
- Jersey signed co-operation agreements re AIFMD
- Jersey’s Retail Distribution Review came into force
- Depositor Compensation Scheme introduced
- Problem banks exited
- Regulation of advice in relation to defined benefit schemes
- Second IMF Review of Jersey’s regulation and AML regime
Post financial crisis

- Jersey’s Retail Distribution Review came into force
- JFSC granted power to impose civil financial penalties
- MONEYVAL evaluation report published on Jersey AML/CFT standards
- Jersey/UK agreement on Central Register of Beneficial Ownership & Control
- Start of National Risk Assessment data collection
- Regulation of advice in relation to defined benefit schemes
Business as usual at the JFSC

› Membership of various international registry fora and serial award winner
› Investors in People award
› Incorporated and Separate Limited Partnerships
› Jersey joined SEPA
› Landmark judgements for enforcement cases
› Jersey Private Fund Guide to modernize the regime
› Amendments to Companies Law (now up to number 11)
› Jersey Expert Fund Regime
› Protected cell and incorporated cell companies
Innovation at the JFSC

› Online registry filings and searches enabled with electronic signature
› Security Interests register – fully automated
› JFSC portal
› Cyber-security self-assessment and tools
› JFSC’s first public awareness campaign on investment mis-selling
› Central Register of Beneficial Ownership & Control and application programme interfaces (APIs)
› Jersey joined Jersey Fraud Prevention Forum as founding member
Modernisation - the journey so far…
Our people – Chairmen

Frank Walker OBE
1998 – 1999

Colin Powell CBE
1999 – 2009

Clive Jones
2009 – 2013

Lord Eatwell
2014 - present
Our people – Director Generals

Richard Syvret
1998

Richard Pratt
1998 – 2003

David Carse
2003 – 2006

John Harris
2006 - present
Mike and Dawn video
How will the world of financial regulation change over the next 20 years?

Lord Eatwell, Chairman
Changes in financial regulation that have taken place in Jersey have been due to circumstances essentially beyond our control.

International regulatory changes that we are forced to mimic usually follow on from severe shocks to the financial system.

Underlying forces that tend to precipitate the financial crises that in turn stimulate regulatory reform.
Risk – task of the JFSC to attempt to mitigate all these threats to the economic well-being of Jersey
Innovation precedes a financial crisis

Innovation in financial markets or products can have an equally devastating effect
Blockchain: a digital ledger in which transactions made in bitcoin or another cryptocurrency are recorded chronologically and publicly
International agreement re settlement risk
What is the future of Fintech for regulators?
Eurozone uncertainties

Severe regulatory strictures

Unstable Euro

Managing emerging market risk
What can Jersey do to prepare for the future?
The JFSC is a sophisticated regulator working in a small jurisdiction.
Regulatory “sandbox” environment
Jersey – Regulator, Industry, Government all working together to our advantage
The JFSC’s commitment to enhancing the economic life of the people of Jersey will not change over the next 20 years. This is what we are here for.
Regulation - trends in Jersey

› Still very much aiming to meet international standards
› Match fit for the Central Register of Beneficial Ownership & Control, but policy debate (public/private) rages on
› Embracing a more overt consumer protection approach:
  › Lending
  › Pensions (advice and provision)
  › Mis-selling campaign
  › Jersey Fraud Prevention Forum
› Risk-based, data-led, outcome focused
› Working with other stakeholders in the Jersey jurisdictional interest
Increased focus on AML

- Arguably our biggest, certainly most insistent, risk
- Not quite zero failure but reputational damage remains uppermost
- NRA work will further inform us about our emerging vulnerabilities and areas of threat
Increased focus on AML

› Supervision resource shift – more AML/CFT focus
› Why? AML/CFT is where the exam questions will be posed
› Not a level playing field
› Super equivalence demanded!
› Public registers – continued pressure
Enforcement

- Ever more challenging in a small jurisdiction
- Recent case(s) emblematic of these challenges
- Substance, process, people
- Very structured decision-making process – separation of investigation, judgment, appeal
- Investigation and litigation – different disciplines, different resourcing
- Not enforcement led – prefer remediation
- Narrower “indictment” approach likely
- Close liaison with law enforcement – but regulatory actions must not displace the criminal stream
Registry – Registry Law

› Registry law consultation on track for Q4 for 2018, clarify filing obligations for:

I. Legal Ownership information
II. Beneficial Ownership information
III. Accounting records

› Clarification of Registry powers for:

I. Conditioning registrations
II. Issuing summary civil penalties for filing deficiencies
III. Strike off of companies in the public interest

› Creation of a central Register of Directors in Jersey
Registry – int. standards

› OECD Compliant rating (significant Registry input to Report and ability to demonstrate timely disclosure of information)

› Mutual 6 month review of the BO register by the Cabinet Office relating to Exchange of Notes

› Public v Private Debate continues - UK push for public BO registers via Sanctions and Anti-Money Laundering Bill / EU push via 5MLD

› Focus on the accuracy and integrity of our registers
Registry – general developments

› Introduction of new LLP Law (1 August 2018)
› Introduction of new Demerger regime (1 September 2018)
› LLCs on the horizon
› Registry platform and portal on track – introduction Q4 2019
› By September 2018 – e-enable outgoing traffic to 99.9% paperless
Supervision

Responding to the new demands to be:

- Risk based
- Evidence (data) driven
- Demonstrably effective
- Dissuasive, deterrent, directive

Two contrasting approaches:

- Low impact (not necessarily low risk) – reactive
- High impact – proactive, enhanced
Proactive, enhanced demands very different:

- Curiosity
- Intrusiveness
- Presence
- Relationship bias

- Professionalisation / certification
- Grow your own
- Train in-house – foundation / intermediate / advanced
Supervision video
The Cyber Position

Two overlapping issues for the JFSC

Self-protection at and beyond latest benchmarks

Potential responsibility for setting and supervising against cyber standards in regulated firms

Relentlessly attacked
High concentration risk (B.O. Register)
Investment reality
Human factors programme
Cambridge University – Cyber Crime Lab

Do existing principles of the Codes cover this general responsibility?
Very concerned not to create “safe harbours”

New registers and databases will compound the risk
Solution orientated approach

Eye on international position
No immediate further action

Watch this space!
Cryptos and Fintech

› JFSC in role of an alert facilitator
› Sandbox by another name (our licencing regime is already flexible)
› No compromise on AML/CFT controls
› Open to all propositions but not going to manufacture bespoke uni-product or sole applicant regimes
› ICOs – cautious stance but conditioned approvals given
Cryptos and FINTECH

› Jurisdictional risk appetite will be the real key:
  › Zug (Switzerland)
  › Bermuda
  › Isle of Man
  › Gibraltar

› Banking industry largely unsupportive

› Believe we are currently managing these dilemmas OK

› But happy to engage in further dialogue
No compromise on reputation

› Shock to the jurisdiction – unexpected revelations
› Very much a reflection of the current divided social climate. Hard to assert jurisdictional probity in such cacophony
› No criminality but feeds into perception that IFC’s are a negative influence and a bad business model
› Misappropriation and manipulation of data
› NGO and media strength a growing force
› Responses:
  › Data security
  › Ever closer vigilance on standards
  › Commercial benefit vs jurisdictional interest
  › Only real way to counter is to demonstrate economic benefit
Yes, a new one is coming in early 2019 – the current site is nearly 20 years old too and officially past its sell by date!

Survey and workshops completed with Industry, partners and public

Content audit

Emblematic of a more modern JFSC

First point of contact for our external audiences
Microsoft House (progressively decommissioning old systems)

CRM + financials + portal

Bespoke Registry solution but all network opportunity taken

Power of shared database and development tools (e.g. Supervision and Enforcement simultaneously around “case management” approach)

Automating applications and authorisations – JPF first

Machine analysed accounts and other reports

Data rich risk model by early 2019
Policy making

› Weight of external challenge
› Inherently reactive and capacity constrained
› Stronger pro-active approach needed (in Government, JFSC, or both?)
› A lot of past policy development done by entrepreneurial industry groups. Funding issues!
› Jersey Finance has played a role in explaining Jersey business model
› Need for a fully engaged debate – can we do more or is this as good as it gets?
Risk management

› At the heart of what we do
› As much a data management and analytics organisation as anything else (but will always be supplemented by the human element of relationships and judgements)
› Emerging risk management maturity at the JFSC
  › Environmental (strategic)
  › Internal (our risks)
  › External (your risks – drive our supervisory programme)
› Technical and difficult but real challenges is in culture and ownership
› Best learning about controls is when they don’t work
› Not a discretionary choice – professionalisation of risk management is here to stay
Risk-based Supervision
Supervision – Our Vision

- Demonstrate effectiveness
- Move to proportionate risk-based supervision
- Adopt a sustainable model for the future
- Maximise new opportunities
- Match resourcing with risk and complexity
- Implement a framework for assessed competence in supervision
2018 Systems Delivery Prioritisation

Stage 1
- CRM pilot - examination

Stage 2
- Authorisation, maintenance and cessation tasks, examination remediation

Stage 3
- Supervision data collection

Stage 4
- Financial statements and notifications

Stage 5
- Risk model
Target Operating Model 2018

- Proactive entities
- Enhanced entities

SEU
Risk Unit

Regulatory maintenance for all entities
Supervision of reactive entities

Central Authorisation team

Authorisation of new entities and products

Market entry/exit
Cessation/market exit
Progress to date

People and Structure:

› Revised Target Operating Model implemented
› Training & Competency Framework agreed
› Recruitment of Trainee Supervisors – 2 year programme
› Over 150 days of training delivered
› Development of Regulatory Certificate for Regulators in conjunction with JIBS and the University of Buckingham
Systems and Processes:

› End to end examination process through CRM
› Supervision data collection in support of the NRA delivered through ‘The Portal’
› Introduction of a Business Rules Management Engine (BRME)
› Risk event data capture functionality deployed in CRM
› On-line application submission and approval capability developed
› On-line notification and reporting capability developed
JPF Application Online

› Portal sign in
› Display of entities individual related to
› Display of services
› Selection of services
› Application behaviour

<table>
<thead>
<tr>
<th>Timescales</th>
<th>Details</th>
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<tbody>
<tr>
<td>13 June</td>
<td>Show and tell with volunteer</td>
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<tr>
<td>9 July</td>
<td>Internal and external testing</td>
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<tr>
<td>17 July</td>
<td>Soft launch</td>
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<tr>
<td>31 July</td>
<td>GO LIVE all entities</td>
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<tr>
<td>8 &amp; 13 August</td>
<td>External workshops</td>
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<tr>
<td>31 August</td>
<td>Removal of paper applications</td>
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Application completion
› Dynamic questions
› Uploading documents
› Declaring the application

Application submission
› Submission notice
› Invoice generation

Application status
Supervisory Risk
Data Collection
Supervisory Risk Data Collection Phase I

› Collected at entity level, aggregated and anonymised for use by the NRA
› Collection of Footprint data and some compliance information
› Important step in delivery of new JFSC core systems – first Industry-wide use of portal and CRM case management functionality – the basis for future model of information exchange
› Collection now completed, a huge thank you for your efforts – analysis of the data can now begin, and we can move on to Phase II....
Supervisory Risk Data Collection Phase II

- More complex round of data collection – customer data
- Again has dual use for supervisory purposes at entity level plus aggregated NRA data
- Utilises the same technology as Phase I
- Ambitious in scope – not collected under Notice
- Ultimate aim of Phases I and II
- Footprint – more robust and evidence-based allocation of entities into an approach to supervision
- Compliance and customer data – will inform the risk model and NRA
- NRA – Important as it must inform our approach to risk-based AML/CTF supervision
Industry Q&A
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Facilitated by
John Harris, Director General

Panel members
Lord Eatwell, Chairman
Debbie Prosser, Deputy Chairman
Jill Britton, Director of Supervision

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Closing remarks and thank you