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ANNUAL
REPORT



JERSEY FINANCIAL SERVICES
COMMISSION

CONTENTS

THE ISLAND OF JERSEY	2
THE JERSEY FINANCIAL SERVICES COMMISSION	3
HIGHLIGHTS	4
CHAIRMAN'S STATEMENT	5 - 8
DIRECTOR GENERAL'S STATEMENT	9 - 14
THE COMMISSIONERS OF THE JERSEY FINANCIAL SERVICES COMMISSION	15 - 17

DIVISIONAL REPORTS

POLICY AND LEGAL	18 - 20
AUTHORISATION	21 - 23
COMPLIANCE	24 - 27
ENFORCEMENT	28 - 30
FINANCIAL BUSINESS	31 - 34
INSURANCE	35 - 37
SUPPORT SERVICES	38 - 39
REGULATORY PLAN 2002-2004	40 - 42

FINANCIAL STATEMENTS

INTRODUCTION	43
STATEMENT OF COMMISSIONERS' RESPONSIBILITIES	44
AUDITORS' REPORT	45
INCOME AND EXPENDITURE ACCOUNT	46
BALANCE SHEET	47
CASH FLOW STATEMENT	48
NOTES TO THE FINANCIAL STATEMENTS	49 - 54
ORGANISATION CHART	55



THE ISLAND OF JERSEY

Jersey is situated off the north-west coast of France, 14 miles from Normandy and 85 miles from the south coast of England.

Within its 45 square miles, the Island has a population of over 87,000 and enjoys an enviable reputation as an international finance centre of the highest renown.

Jersey's allegiance is to the British Crown but it is not part of the United Kingdom. The Island is not part of the European Union, being neither a separate Member State nor an Associate Member.

The relationship with the United Kingdom is founded on Royal Charters first granted over 900 years ago. These Charters were the basis of the independence of the Island's judicial system from the English Courts. From this foundation Jersey's independence and autonomy in domestic matters has developed. Jersey has its own legislative assembly, called the States of Jersey, which comprises 53 elected members plus the President. Jersey has its own system of local administration, fiscal and legal systems and courts of law.



THE JERSEY FINANCIAL SERVICES COMMISSION

The Jersey Financial Services Commission is responsible for the regulation, supervision and development of the financial services industry in the Island.

The Commission is a statutory body corporate, set up under the Financial Services Commission (Jersey) Law 1998. The Law provides for a Board of Commissioners to be the governing body of the Commission.

The Law established the Commission as an independent body. Since July 1998 we have been fully responsible for our own regulatory decisions. We are accountable for our overall performance to the States of Jersey through the Finance and Economics Committee. Prior to July 1998 the regulation of the financial services industry in Jersey was undertaken directly by the Finance and Economics Committee through the Financial Services Department.

The Commission's key purpose is:

To maintain Jersey's position as an international finance centre with the highest regulatory standards by:

- *reducing risk to the public;*
- *protecting and enhancing the Island's reputation and integrity;*
- *safeguarding the Island's best economic interests; and, in pursuit of the above,*
- *contributing to the fight against financial crime.*

In support of our key purpose, the Commission aims to:

- *be fully aware of international regulatory standards and their application to Jersey;*
- *ensure that all authorised entities meet fit and proper criteria;*
- *ensure that all authorised entities operate within international standards of best practice;*
- *identify and deter abuses and breaches of legislation; and*
- *ensure the Commission operates effectively and efficiently.*

HIGHLIGHTS

- The Commission has participated in the development of international standards for financial regulation and the fight against money laundering and is taking steps to implement the new standards.
- Jersey has actively assisted in the world wide initiative to trace and freeze terrorist assets. The Commission has opened a Sanctions Help Desk for the industry.
- The Commission hosted a seminar on international co-operation to which 60 delegates from 15 countries came. Jersey demonstrated its ability to co-operate and this was endorsed by a series of overseas speakers.
- Along with the other Crown Dependencies – Guernsey and the Isle of Man – the Commission has published new measures to tighten the Island’s anti-money laundering regime still further.
- The Commission has embarked upon the regulation of trust and company service providers, setting out a comprehensive regulatory regime and assessing applications.
- The Commission pursued a legislative agenda designed to assist local business, particularly by securing the passage of a companies amendment law that allowed for new corporate forms and the redomiciliation of companies into and out of Jersey.
- Legislation to enhance the Commission’s ability to co-operate internationally was enacted and good progress was made on depositor protection and Ombudsman schemes. The Commission completed a review of banking legislation, prior to embarking on industry consultation.
- The Commission has developed our own regulatory approach by applying our own risk model to the 158 financial businesses visited by compliance teams in 2001.
- The Registry incorporated just under 3000 Jersey companies in 2001 and completed these and other tasks within our published targeted timescales.
- Good progress was made towards the provision of on-line facilities for searching and eventually incorporating companies.
- New business continued to come to Jersey, reflected in the 57 new funds and 363 special purpose vehicles approved in 2001 and the rise in assets in banks, funds and investment businesses.
- The Commission conducted 70 investigations in 2001 - including 6 prompted by overseas enquiries – and took appropriate regulatory action both directly and through the courts.
- Guidance to the finance industry on dealing with politically exposed persons was issued, and the Commission conducted investigations where there was evidence of the abuse of Jersey by such people.
- The Commission completed self-assessments against international standards such as those published by the International Organisation of Securities Commissions and the International Association of Insurance Supervisors. These were published on the Commission’s web site.
- The Commission developed a new pay, training and development system for our staff and these are being implemented in 2002.
- Substantial IT developments took place with the installation of a new accounting system and new desktop technology.
- The Commission received an “Investor in People” award.



CHAIRMAN'S STATEMENT

I am pleased to present this Annual Report of the activities of the Jersey Financial Services Commission in 2001.

The Commission has made further excellent progress in meeting our statutory aims as set out in the Financial Services Commission (Jersey) Law 1998. These are set out in the opening pages of this Report. The Director General summarises this progress in his report and details are given by each of the Directors in respect of their Divisions. The Report also includes the Financial Statement and a forward look at priorities for 2002. I want to highlight a few key points.

International Reputation

One of the key objectives of the Commission is to enhance the Island's reputation as a well-regulated finance centre playing a full and active part in cross-border financial regulation, anti-money laundering and the fight against terrorism financing. In 2001 this objective was well served in a number of ways through the Commission's own actions, and through my participation in a number of international fora in my capacity as chairman of the Offshore Group of Banking Supervisors.

In these various capacities I and/or the Commission's executive have been, and will continue to be, actively engaged in the activities described below.

- We have contributed to the work of the Financial Action Task Force (FATF), and in particular the three working groups set up by the Task Force in connection with the current review of its forty anti-money laundering recommendations for which a number of papers covering key issues under consideration have been prepared.
- We have supported the fight against the financing of terrorism. Active support has been given in this respect, particularly to the US authorities following the tragic events of 11 September. Jersey has adopted the UN Security Council's Resolutions on terrorism; is amending its terrorism legislation to enable it to adopt the UN Convention on the Suppression of the Financing of Terrorism; and is participating in the self-assessment questionnaire exercise being undertaken globally by the FATF.
- We were invited to join in the work of the UN Ad Hoc Committee on the Negotiation of the UN Convention against Corruption.
- We have actively participated in the work of the Basel Committee on Banking Supervision in the setting of minimum standards for customer due diligence, with higher standards for higher risk areas such as politically exposed persons, correspondent banking, and non-face-to-face banking.
- A new working group was set up by the Offshore Group of Banking Supervisors to develop minimum international standards for trust and company service providers. The Working Group is made up of members of the Offshore Group and representatives of G7 countries and a number of international bodies. The regulation of trust and company service providers in particular has helped to enhance the Island's reputation as a jurisdiction keen to participate in both defining international standards and promoting compliance with them.



CHAIRMAN'S STATEMENT

- We are members of a working group set up by the International Organisation of Securities Commissions (IOSCO) to promote co-operation in support of the international fight against money-laundering and terrorism.

It has been particularly pleasing to note the growing stature of the Island and the respect being shown for the work of the Commission and the high standards met, alongside greater acceptance on the part of the international regulatory and law enforcement communities that the proper concern should not be for offshore centres per se, as has been the case in the past, but on which jurisdictions world-wide do not comply with the standards set by the relevant international organisations. Jersey has been recognised as a compliant and co-operative jurisdiction by such bodies as the FATF and the G7 Financial Stability Forum. Although not a matter that falls within the scope of the Commission's responsibilities, further proof of the Island's willingness to participate in the development of international standards of best practice in respect of information

exchange and transparency is to be found in the acknowledgement by the OECD, within the context of its harmful tax initiative, of Jersey as a co-operative jurisdiction.

Domestic Reputation

An international reputation depends on domestic achievement.

This report demonstrates the substantial progress that has been achieved in the development of the Commission's regulatory regime. In addition to the regulation of trust company business, Jersey has made good progress with the development of its anti-money laundering and anti-terrorism defences. Regulatory laws have been enhanced and other legislation beneficial for the development of the finance industry has been taken forward. Details are in this report.

A good international reputation is essential if the long-term interests of the Island as an international finance centre are to be well served.

Therefore those engaged in the provision of financial services should be as concerned for this

reputation as is the Commission and the Island's government. There are three main audiences – the international community, those using the Island's financial services, and those promoting these services – and all have a common interest in the regulatory standards being applied.

A good international reputation should be matched by equal respect at home.

The Commission values highly our relationship with those we regulate. In driving for higher standards it is important to have a partnership between the regulated and those who regulate. This is fostered by engaging in a full participative process of consultation on all regulatory developments. This has been manifested in the consultation on overriding principles for an anti-money laundering regime, as well as on other legislation such as the amendments to Companies Law, the introduction of an Ombudsman and depositor protection scheme and the developments in the efficient operation of the Companies Registry.

CHAIRMAN'S STATEMENT

The Commission is determined to maintain and enhance this relationship and continues to meet representatives of the finance industry regularly on an informal and formal basis.

Inevitably there are concerns expressed from time to time about the resources required by the Commission in respect of both the demands placed on a tight labour market and the costs borne by the industry. However, compliance with international standards increasingly calls for more on-site examinations and while the resource requirements can be limited by adopting a risk-based approach they cannot be avoided.

Naturally there is also some apprehension when new regulations are being brought in, and the Commission recognises the concern that exists that, through regulation, particularly in relation to the position in competitive jurisdictions, the economic interests of the Island may be adversely affected. The experience of the regulation of trust and company service providers since it came into force in February 2001, and that of the all crimes anti-money laundering legislation previously, has shown

that such concerns that may be expressed in advance of the enactment of new legislation are not borne out in practice.

It remains vital that the Commission is also properly accountable to the representatives of the people of Jersey. We have a formal accountability structure in place, which involves regular meetings with the Finance and Economics Committee. We discuss our Business Plan and this Annual Report with the Committee and ensure that members are fully aware of our approach and policies. All our legislative proposals also require the full support of States members if they are to be adopted.

The Board of Commissioners

The Board of Commissioners was sorry to lose Advocate Julian Clyde-Smith at the end of his term of office but fully appreciated his reasons for not seeking to renew his appointment as a Commissioner. He has been a source of great wisdom and strength and has always been determined to maintain the highest standards, while keeping a firm eye on the need to keep regulatory action proportionate.

We will miss his counsel and good humour.

The Board of Commissioners is delighted that Jacqueline Richomme agreed to fill the vacancy. A lawyer with a high reputation and extensive experience of regulated financial services business, Jacqueline brings a further source of expertise and practical experience to the Board's deliberations.

At the request of the Finance and Economics Committee, the Board looked for a further Commissioner from outside the Island – and, preferably, from outside the UK. We were delighted that Frederik Musch agreed to join us. With extensive regulatory experience as a banking regulator – both in his native Holland and as Secretary General to the Basel Committee on Banking Supervision - Erik brings to the Board a blend of international experience and insight.

The Board has decided to adhere to international standards of Corporate Governance. While we have most of the current requirements in place, we have decided to expand the terms of reference of our Audit Committee

CHAIRMAN'S STATEMENT

to include a full analysis of the risks facing the Commission and the measures taken to assess and mitigate these risks. This work will be completed this year.

The Board continues to act as a committed and effective team. We have a clear sense of direction, shared with the Executive, and are working with the Executive to achieve our statutory aims. The Board is faced with a striking array of issues, ranging from key policy questions faced by any regulator, to individual enforcement questions requiring careful judgment on the application of regulatory principles to what are inevitably hard cases. The Board recognises the importance of having in place a proper process for the hearing of appeals against its decisions, and consideration is being given to how the present arrangements might be improved.

Conclusion

2001 was a busy but rewarding year for the Commission. Much was achieved but with the continued development of international standards, and regulatory requirements and practices, there is always more to be done. The Island's

international reputation has been hard won and we are determined that it should not be lost.

We will continue to seek to take the initiative in responding to the challenges arising from the international environment and the on-going approach to our regulatory tasks is set out in this report.

The Commission will also continue to pursue our objectives with determination and sound judgement while consulting fully with those who are affected by our actions.

Colin Powell, OBE

Chairman



DIRECTOR GENERAL'S STATEMENT

Key Points

- Jersey's international reputation continues to improve as the Commission participates actively in standard setting bodies.
- A proactive reaction to the September 11th terrorist attack in the US reinforced the Commission's reputation.
- The Commission gave priority to commercial legislation and secured enactment of the landmark Companies Law amendment.
- Other legislative achievements included improved powers of regulatory co-operation, the review of the Banking Law and progress with Ombudsman and depositor protection.
- The Crown Dependencies agreed a new position paper on anti-money laundering defences after industry consultation.
- The Commission received an Investor in People Award.

Introduction

For everyone, the memory of the year's events will be dominated by the terrible atrocities committed in New York and Washington on 11 September 2001. These events had substantial consequences for the Commission both in our regulatory task and for the industry more generally. These are discussed further below.

For the year as a whole, the Commission has focused on our main task: setting regulatory standards, monitoring compliance with them and taking action to bring everyone up to the standards of the best. These central tasks absorb most of our resources. Achieving them efficiently and effectively is essential. I believe that the reports of our performance demonstrate that we have done so.

In addition, the Commission has made good progress with the main priorities for development, which were set out in the 2000 Annual Report. They were:

- Increasing the international understanding of our regulatory standards;
- Developing legislation and guidance;

- Consolidating changes to the regulatory regime;
- Completing the implementation of the Edwards Recommendations;
- Meeting the increased expectations of the industry in respect of customer service and professionalism;
- Securing the efficient operation of the Commission;
- Managing change.

The Regulatory Task

The Commission's vision is to attain and maintain a reputation as a regulator that meets international standards. Clearly, the best and most important way of achieving this is to focus on the central regulatory task. This is what we have done in 2001. The Commission now has some 600 regulated Jersey financial services businesses to monitor compared with fewer than 150 in 1998 when we were formed.

In 2001, 121 applications for new financial businesses were approved (mostly new trust company businesses).



DIRECTOR GENERAL'S STATEMENT

The Registry incorporated 2,760 companies. For these companies and for the granting of permits for funds and Special Purpose Vehicles (SPVs) the Commission met our performance targets in respect of the timescales for completing the tasks. The Commission developed a risk model and applied it to the 158 firms that were visited during the year. The Commission received 97 complaints against financial institutions from members of the public. The Commission's response time met targeted levels.

The Commission started 31 investigations (arising from information obtained through compliance visits, from overseas regulators and elsewhere) and commissioned 12 reports into the systems and controls of regulated institutions.

These activities are essential to ensure that the Commission can be satisfied that the industry actually meets the standards that we set. For the most part they do, although, of course, most compliance visits find some areas which, with the agreement of the management of the business, can be subject to some improvement.

In addition, the Commission has been obliged to take tough action in a small number of instances. In some cases, the Commission has exercised its powers to petition the Royal Court. The cost of such proceedings is being borne by the Commission and can be seen in the accounts presented with this Report. Such costs can be large and the Commission will clearly ensure that they are kept to a minimum. But the Commission is quite clear that we cannot and will not be deflected by such potentially large costs from taking the action we believe to be right.

International Recognition

While delivering good quality regulation is a necessary condition for achieving a good international reputation, it is not always sufficient. The Commission has sought to develop international understanding of what we have achieved.

The events of 11 September 2001 further focused attention on offshore centres. There was a steady stream of newspaper articles and reports – by no means all of which were favourable.

In response to the terrorist attacks on New York and Washington, the

Commission ensured that regulatory and commercial obligations continued to be met by the industry. The Commission then ensured that all businesses were aware of their obligations to review their files for any connection with known or suspected terrorists, to report any suspicions, and to apply sanctions.

The Commission made immediate contact with regulatory bodies in the United States – expressing our profound sympathy and offering assistance.

The Commission used the web site to ensure that businesses were up to date with the developing picture as regards the terrorist suspects and the application of sanctions. We worked with the Law Officers' Department and others to ensure that the United Nations sanctions were put in place and that our own domestic legislation was brought up to date.

The Commission moved positively to ensure that we were represented at international councils considering the response to the terrorist attack.

As Chairman of the Offshore Group of Banking Supervisors, the Commission Chairman played a

DIRECTOR GENERAL'S STATEMENT

key role in the development of further recommendations by the Financial Action Task Force. This was in addition to the central role he played in the more general review of the FATF's original forty recommendations. I was invited to attend a special project team established by the International Organisation of Securities Commissions (IOSCO). This group considered that body's response to the 11 September attack. I also attended a special meeting organised by the world's major banks on a response to terrorism (the Wolfsberg group).

The Commission used the occasion of our third anniversary to organise a seminar on international co-operation. This event, held with the support of the Law Officers' Department and the Joint Financial Crimes Unit, was primarily designed to demonstrate Jersey's powers of co-operation. Sixty delegates came from fifteen countries for the event. In line with the priority established in the 2001 Business Plan, the focus was on continental Europe and many delegates came from France, Germany, Italy and Spain. The Commission and other speakers from Jersey were supported by helpful comments from regulators and law enforcement officials

from the United States, United Kingdom, and Canada and were able to put forward their case for the Island. The initiative proved useful in responding to subsequent criticism of the Island.

At the seminar, the Commission signed a Memorandum of Understanding on international co-operation with the German securities regulator (BAWE). Later in the year, the Commission signed a Memorandum of Understanding with the French Commission des Opérations de Bourse (COB) and the Isle of Man Financial Supervision Committee. The Commission signed a letter of agreement with the United States Federal Reserve designed to allow their officials to come to Jersey to examine US banks. These MoUs set out the procedures for dealing with the exchange of information on regulatory matters and are in line both with Jersey's own existing law and the international standards for such agreements.

Feedback from regulators suggests that these initiatives continue to have some success. The opinions of the press are mixed but positive comments about Jersey are, perhaps, more common than local sentiment might suppose.

Jersey is increasingly being seen by its peers as a regulator that not only meets international standards but also takes an active part in setting those standards. The enhancement of the finance industry's general reputation is now primarily in the hands of the new promotional body, Jersey Finance Limited (JFL). The Commission will continue to promote the Island's regulatory standards at every opportunity and will work closely with JFL.

Developing Legislation

The Commission wished to respond to concerns that our focus on regulatory issues had meant that lower priority was given to legislative development that would be of direct commercial benefit to the industry – although the Commission continues to believe firmly that good regulation is, of itself, of commercial benefit.

The Commission therefore gave a high priority to commercial legislation in 2001.

The Companies (Amendment No.6) (Jersey) Law was approved by the States in July.

DIRECTOR GENERAL'S STATEMENT

This legislation, although complex and detailed, contains useful new opportunities for Jersey, and its passage through the States was a considerable achievement.

Progress was also made on Amendment No.7. The Commission also developed a set of guidelines for new collective investment funds, designed to assist the industry in marketing itself and to achieve faster approvals. The industry itself was fully involved in these initiatives.

The Commission also advanced a regulatory agenda. The most important achievement was the completion of a common position by the main regulatory Commissions in each of the three Crown Dependencies on the development of our anti-money laundering regimes. The completed position paper on 'Overriding Principles for a Revised Know Your Customer Framework' was discussed extensively in 2001 and published early in 2002. These principles are entirely consistent with other developments, such as the paper on Customer Due Diligence prepared by the joint working group of the Basel Committee and Offshore Group of Banking Supervisors and the review of the forty recommendations by the Financial Action Task Force.

Of great importance in 2001 was the passage through the States of the Criminal Justice (International Co-operation) (Jersey) Law 2001 and the amendments to each of the Commission's own regulatory laws (on banking, insurance, funds, investment and trust company business) designed to remove minor, but presentationally important, anomalies and inhibitions to our ability to co-operate with other regulators. The analysis of the overall effect of the Human Rights legislation on Commission legislation was completed.

Changes to the Regulatory Regime

The Commission's vision is to have a single regulatory law covering all regulated businesses. This would set out the powers and duties of the Commission, in terms of authorisation of businesses, information gathering, investigation and inspection, regulatory sanctions, co-operation with other regulators and the ability to set standards. This primary law would be supported by secondary legislation dealing with such matters as audit requirements, the fees to be paid, the segregation of client assets and so on. In addition, the Commission would issue Codes

of Practice – specific to each area of business – which set out the detailed requirements expected of each regulated entity.

In this way, all regulated entities would be subject to the same regulatory powers. They would have clear, consistent, published rules describing the standards expected of them. They would be quite clear as to what the Commission expects and what the Commission can and will do if they fall short. This position would be fair and transparent for the local regulated community.

It would also do more to demonstrate to our international audience precisely what regulatory rules apply. We have made good progress but more needs to be done.

The most significant move towards the achievement of this vision was the Financial Services Extension (Jersey) Law 2000, which came into effect in February 2001. This extended regulation to trust company businesses. It did so by amending and expanding the scope of the Investment Business (Jersey) Law 1998.



DIRECTOR GENERAL'S STATEMENT

The new amended law (now known as the Financial Services (Jersey) Law 1998) encompasses the regulation of all investment and trust company businesses. It will be the basis for the development of a single new regulatory law according to our vision.

Implementing the new legislation was a major task for the Commission in 2001. 240 applications were received. 14 licences were awarded in May. The second tranche of 41 licences was awarded in November. The Commission visited the 35 entities where we needed a better understanding of the business in question. The management of two companies was such that the Commission felt obliged to ask the court to appoint Managers to run the businesses. The police were also involved.

The review of the Banking Business (Jersey) Law 1991 was substantially completed. The Commission will be putting forward proposals in 2002 to bring banking into the scope of the Financial Services (Jersey) Law 1998 and to implement Codes of Practice for banking. In addition, there will be changes to the Insurance Business (Jersey) Law

1996, and the introduction of Codes of Practice for insurance. These will represent further important steps towards implementing the Commission's goals.

Completing the Edwards Agenda

The Commission has now implemented the vast majority of the Edwards recommendations that were accepted by the insular authorities. It is no longer necessary to see this as a separate item as the few remaining recommendations can be absorbed within the Commission's agenda.

A depositor compensation scheme framework was drafted and put to the industry for comment. The Commission was able to agree most of the details of an Ombudsman scheme with the industry. The Registry began advance preparations for new registers of foreign incorporated companies and of directors of private companies.

Although good progress was made with this agenda we did not achieve as much as early as we had targeted. The main reason for this was the delays in securing final agreement to the Companies Amendment Law and the

amendments to the regulatory laws noted above. The need to respond to the call for international sanctions against terrorists after September 11th and other international initiatives also took its toll.

Nevertheless, by far the majority of the recommendations made by the Edwards Review that affect the Island have now been implemented.

The Relationship with Industry

The Commission has sought regular meetings with the Jersey Finance Industry Association and has put consultation papers to them. The Commission has continued to meet finance sector groups, such as the Jersey Bankers Association and the Jersey Fund Managers Association. This is in addition to ad hoc groups on particular legislation, such as the Ombudsman, the depositor protection scheme, and Recognised Fund legislation.

Staff have spoken at numerous seminars, some of which we at the Commission have organised ourselves. In addition, Commissioners and staff have created and taken opportunities to meet industry members both formally and informally.

DIRECTOR GENERAL'S STATEMENT

The Commission has stepped up the use of the web as a communications medium.

The Operation of the Commission

The Commission received an "Investor in People" Award in July 2001. This represented substantial effort by a project team and demonstrated the commitment to training and development. Further improvements were made to the annual appraisal and training needs analysis during the course of the year.

The Commission successfully introduced a new accounting system, "Open Accounts", which allows us to refine our financial management and control systems as well as to record and analyse more accurately financial performance.

Managing Change

The Commission has experienced substantial change in recent years. There have been major challenges, both externally and internally. Staff have responded magnificently to the challenge of continuing their current jobs, whilst also developing new ways of doing things.

The Commission remains determined to provide our staff with the support and training that they deserve and require.

Conclusion

2001 was the third full year of operation since the Commission was established. In that time, the Commission has seen a substantial increase in the number of businesses under regulation, as it has risen to the challenge, set by the States of Jersey, to extend regulation to investment and trust company businesses. While planning for this extension of regulation, the Commission has responded to international initiatives and other events. We have pursued an aggressive agenda of regulatory reform and development.

We have sought to maintain and enhance the effectiveness and professionalism of our own staff.

The evidence is that these achievements have been recognised in an improving international reputation, as a result of which the Commission has been able to play a part in the development of international standards.

It has only been possible to achieve these results because of the dedication and commitment of the staff. It is their determination to continue with the daily challenges faced by any regulator, while continually looking for ways to develop the Commission's approach, that has been fundamental to the Commission's success.

I know that Commission employees are proud to work with the Commission. I, too, am proud to be part of such a committed team and I offer them here my personal thanks for what they have achieved.

Richard Pratt
Director General



THE COMMISSIONERS

Colin Powell, OBE

Colin Powell was born in Carshalton, Surrey, and attended Wallington Country Grammar School.

He achieved a Cambridge 1st Class Honours BA Degree in Economics in 1961 and two years later he was awarded an MA.

He started his career in the Economic Office of the British Iron and Steel Federation and went on to become an Economic Adviser for the Government of Northern Ireland.

He first came to the Island in 1969 as Economic Adviser to the States of Jersey, a post he held until 1992, when he became Chief Adviser. He retired from this position at the end of 1998.

In 1998 he was appointed Deputy Chairman of the Jersey Financial Services Commission and became Chairman in October 1999. Since 1981 he has also held the position of Chairman of the Offshore Group of Banking Supervisors.

He is the author of the *Economic Survey of Jersey* (1971), numerous articles on the Island's economy, and is currently engaged in writing a definitive history of Jersey as an international finance centre.

Richard Pirouet

Richard Pirouet was born in Jersey and was educated at Victoria College. He has been a Commissioner since the inception of the Jersey Financial Services Commission in July 1998 and is now Deputy Chairman.

He qualified as a chartered accountant in 1969 and was appointed a partner of one of the predecessor firms of Ernst & Young in 1974.

He became managing partner of Ernst & Young in 1991 and combined this role with acting as senior partner from 1994 until his retirement from the firm on 31 March 1998.

He has a portfolio of non-executive directorships which include Abbey National Treasury International Limited.

Richard Pratt

Richard Pratt took on the role of Director General of the Commission on 1 January 1999.

Prior to that date, he was the Director of External Affairs at the London International Financial Futures and Options Exchange (Liffe). He was responsible for the Exchange's government relations (particularly with the UK, USA and European Union) and for relations with international financial services regulators.

He also headed the Exchange's media relations department.

During his previous career as a civil servant, primarily with HM Treasury, he held a series of posts, including:

- head of the securities and markets team - with responsibility for advising the Chancellor of the Exchequer on financial services regulation policy and international regulatory co-operation;
- head of a European Community division - part of the British team negotiating the Maastricht Treaty and advising the Chancellor on negotiating policy;
- head of the Economic Department in the British Embassy in Washington DC, USA - where he represented British economic and financial interests.

SCOTT DOBBIE, CBE



ADVOCATE FRANCIS HAMON, OBE



FREDERIK MUSCH



THE COMMISSIONERS

Scott Dobbie, CBE

Scott Dobbie, worked in industrial marketing in Unilever and ICI for eleven years following graduation from the University of Edinburgh. Thereafter he had thirty years experience in stockbroking and investment banking, and remains an adviser to Deutsche Bank.

He was Chairman of CRESTCo from 1996 to 2001 and a director of the Securities and Futures Authority from 1993 to 2001. He is currently a member of the Regulatory Decisions Committee of the Financial Services Authority. He is also Chairman of both the Securities Institute and Standard Life European Private Equity Trust and a director of The Edinburgh Investment Trust plc, Premier Oil and other companies.

Advocate Francis Hamon, OBE

Advocate Francis Hamon received the OBE in the 2000 New Year's Honours list and he was appointed to the Board of the Jersey Financial Services Commission in April of that year. He was a Commissioner (Judge) of the Royal Court from 1988 to 1995, and only recently retired from his role as the Island's Deputy Bailiff, a position he held for five years.

From 1982 to 1995 he was a Director of the Royal Bank of Scotland (Jersey) Limited and Deputy Chairman of that company from 1986 to 1995. He joined Crill, Cubitt - Sowden and Tomes in 1967 and was senior partner of that firm from 1985 to 1987. Mr Hamon was called to the English Bar (Middle Temple) in 1966 and was admitted to the Jersey Bar in 1968.

He was born in Jersey and was educated on the Island at Victoria College.

Frederik Musch

Frederik Musch trained as an economist in the Netherlands and the United States. He began his career with a position in private banking in the Netherlands in 1970. In 1977 he joined the Dutch Central Bank, and from 1986 to 1992 he held the position of Deputy Executive Director and represented the Central Bank on bodies concerned with banking supervision established by the EU, the OECD and the Basel Committee. He has also participated as a founder member since 1986 at the Netherlands Securities Board (STE), which supervises the Amsterdam Stock Exchange and the European Option Exchange.

In 1992 he was appointed Secretary General to the Basel Committee on Banking Supervision at the Bank for International Settlements, Basel.

In 1998 he became Associate Director with the Financial Stability Institute in Basel, a body created jointly by the Bank for International Settlements and the Basel Committee on Banking Supervision to assist supervisors in improving and strengthening their financial systems, from which position he retired in 2001.

Since then, he has served as Chairman of the Global Financial Services Regulatory Practice at PricewaterhouseCoopers.

JACQUELINE RICHOMME



JOHN TIBBO



ANDREW WINCKLER



THE COMMISSIONERS

Jacqueline Richomme

Jacqueline Richomme was born in England with strong family connections to Jersey. She was educated at the Bar Convent School in York, studied law at the University of Durham and then at the College of Law, Chester. She qualified as an English Solicitor in 1982, practising with Farrer & Co, Lincolns Inn Fields, London, until the end of 1984 when she returned to Jersey. She joined the Jersey law firm, Mourant du Feu & Jeune and subsequently qualified as a solicitor of the Royal Court of Jersey in 1988, becoming a partner of Mourant du Feu & Jeune shortly thereafter.

Her legal practice, rooted in commercial law with specific reference to the offshore finance industry, has covered all aspects of Jersey company, trust and limited partnership law, and she specialises in the provision of Jersey legal advice to international finance transactions, principally structured financing, securitisation, and institutional investment funding (international private equity and commercial property funding).

She is a Director of Mourant & Co Limited, which provides corporate and trust administration services to a wide range of international corporate clients, and is also a Director of a number of client companies.

John Tibbo

John Tibbo was born in Jersey, was educated at Victoria College and has been on the Board of Commissioners since the inception of the JFSC in July 1998.

He first joined Midland Bank in Jersey in January 1959 after two years with the Jersey Savings Bank, now known as Lloyds TSB Bank, Channel Islands.

He held various management positions within Midland Bank PLC including Manager of the Library Place and Hill Street branches locally, Area Manager, Jersey and Divisional Director, Offshore Islands as well as positions at London Head Office.

John retired on 31 January 1996 and since that date he has taken up a number of Directorships on the Island, and he has held the position of Jurat of the Royal Court since December 1997.

Andrew Winckler

Andrew Winckler is Chairman of Ernst & Young's regulatory practice in the UK, a member of the Board of The Housing Corporation and the Senior Independent Director of CRESTCo Limited.

A former Chief Executive of the Securities and Investment Board/Financial Services Authority in the UK, he was also previously Deputy Chairman of the Securities and Futures Authority and chaired its Enforcement Committee.

Mr Winckler began his career in HM Treasury and, after a period working in the British Embassy, Washington DC, he returned to the UK in the early 1980s.

He joined Lloyds Bank International, and subsequently became a Director of Security Pacific Hoare Govett before becoming a founder Director and Deputy Chairman of European Capital.



POLICY AND LEGAL DIVISION

Key Points

- Development of commercially attractive legislation, particularly the Companies Amendment Law.
- New guidance for promoting funds.
- New anti-money laundering provisions, moving forward with international standards.
- Implementation of sanctions on terrorists.
- Strong legislative programme.
- Reinforced co-operation with other regulators.

Introduction

The aim of the Division is to ensure that the Commission is fully aware of international regulatory standards and to consider their application to Jersey.

In practice, this means identifying developments in regulatory thinking, as set out in papers issued by international standard setting bodies (such as the Financial Action Task Force (FATF), International Organisation of Securities

Commissions (IOSCO) and the Basel Committee on Banking Supervision).

The Division is charged with developing companies' legislation designed to ensure that local industry is able to offer attractive services.

Policy

Commission policy is to establish a balanced regulatory regime that meets international regulatory standards, while minimising the cost of regulation.

Regulatory Plan 2001

In the Commission's 2000 Annual Report, it was explained that, in 2001, the Division would give priority to developments which enhanced the ability of the industry to offer attractive and innovative services. This is what we have done. We undertook to:

- develop commercial legislation designed to improve competitiveness;
- develop a new, more easily marketable structure of investment funds;
- take forward the Edwards Report agenda;

- review the Island's anti-money laundering law and Guidance Notes;
- consider the impact of the Human Rights (Jersey) Law 2000 on the Commission.

The Companies (Amendment No. 6) (Jersey) Law 2001 received Royal Assent in early 2002. It provides a wider range of options for persons wishing to form companies in the Island. It facilitates company mergers and permits redomiciliation into and out of the Island, with Registry approval. Progress has also been made on the development of the Companies (Amendment No. 7) (Jersey) Law 200-, which will address amendments to company winding-up procedures.

Guidance on regulatory requirements for collective investment funds was written during the year, providing a clear distinction between retail, expert investor, and private funds. The guide will be issued for public consultation in 2002. It will help Island businesses to market themselves and to secure more rapid approval by the Commission.

POLICY AND LEGAL DIVISION

The Commission has drafted a depositor protection law and is consulting the industry on its provisions. The Commission was also able to agree many of the details for an Ombudsman scheme with an industry steering group. These followed recommendations by the Edwards Report (The Edwards Report on Financial Regulation in the Crown Dependencies, published November 1998).

The Commission consulted the industry on changes to the Island's anti-money laundering regime and, in association with the regulatory Commissions in the other Crown Dependencies, published a position paper on "Know Your Customer" principles.

The position paper

- insists that financial institutions should identify all "principals" underlying each business relationship and hold evidence of identity for each such principal;
- underlines the responsibility of institutions to ensure that they know their customers, even where some part of the due diligence may have been conducted by others;

- requires that institutions review accounts in existence before the current legislation was put in place and ensure that their knowledge of all accounts (together with the relevant documentation) are up to current standards.

The paper represents best practice as defined by international standard setting bodies and the Commission will look to businesses to implement it. The paper will also act as the basis for an open dialogue with industry with a view to amending Guidance Notes and preparing draft amendments to legislation.

The overall assessment of the effect of human rights legislation on the Commission was completed and discussed with Guernsey and the Isle of Man.

International initiatives

In 2001 international initiatives were dominated by the tragic events of 11 September.

At the end of October the Financial Action Task Force issued eight new recommendations for action to combat terrorist financing. These covered, inter alia, alternative remittance systems (hawala banking), strengthened customer

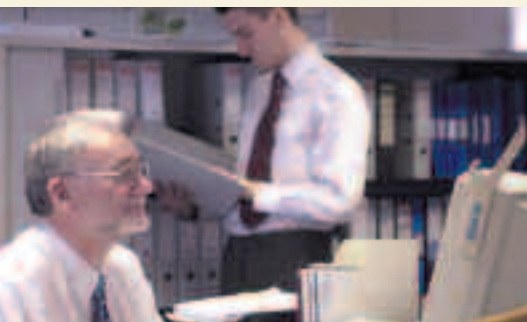
identification measures, wire transfers, and the role of non-profit organisations. The Division has co-ordinated a self-assessment which demonstrates that Jersey is largely compliant with the recommendations and intend to come into full compliance by June 2002.

The Commission also worked with the Law Officers' Department to introduce sanctions in respect of terrorists.

The Division prepared an assessment of those areas in which Jersey already exceeds the EU money laundering standard as defined in the new Directive agreed in 2001, and those where amendments might be required to Jersey legislation to bring it into line with recent changes. The Division has also monitored development of the EU action plan on financial services and the development of Directives on market abuse.

Regulatory developments

The Commission issued anti-money laundering updates in the year, including one which addressed the risks associated with "politically exposed persons".



POLICY AND LEGAL DIVISION

A review of the Banking Business (Jersey) Law 1991 was well advanced by the year end. The Commission now plans to propose to repeal this law and to add deposit-taking activities to the categories of business covered by the Financial Services (Jersey) Law 1998. A consultation paper addressing this review has been issued.

The Criminal Justice (International Co-operation Law) (Jersey) 2001 was approved by the States on 27 March 2001, and came into effect on 6 November 2001. The law will allow the Attorney General to provide assistance in securing evidence in the Island in connection with any investigations instituted overseas (this was already possible for money laundering, insider dealing and serious or complex fraud).

Amendments to each of the Commission's four regulatory laws were approved by the States on 30 October 2001, and came into force on 1 March 2002. Each amendment law is designed to remove minor, but presentationally important, anomalies from the Commission's ability to co-operate with other regulators.

Co-operation with other regulators

During the year, the Commission was able to agree memoranda of understanding with the German securities regulator (BAWE), the French Commission des Opérations de Bourse, and the Isle of Man Financial Supervision Commission. These agreements set out procedures for exchange of information on regulatory matters, in line with Jersey law and international standards.

Staffing

The Division's complement of four staff was reinforced during the year by the six month placement of a senior manager from the Shenzhen Stock Exchange. The placement was arranged through the China Financial Sector Training Scheme operated by the British Council, the UK's international organisation for education and cultural relations.

Conclusion

The outcome of the review of international standards described above will be another full law drafting programme for 2002. The major emphasis in the coming year will undoubtedly be on updating the Island's anti-money laundering legislation and

Guidance Notes, and in ensuring that the Island is compliant with the FATF's Special Recommendations on Terrorist Financing.

Much time is also likely to be spent in preparation for a wide ranging review of the Island's financial services legislation and regulation by the International Monetary Fund, which is expected to take place in the final quarter of 2002.

Andrew Le Brun

Director, Policy and Legal



AUTHORISATION DIVISION

Key Points

- All applicants who wish to be regulated must have stature, competence, integrity and sound financial standing.
- Substantial improvements were made to efficiency and customer service.
- The Registry is preparing for on-line applications and company searches.
- Performance targets relating to the speed of the application process were met.

Introduction

The Division's aim is to ensure that all entities that apply for authorisation meet appropriate, fit and proper criteria.

In practice, the main ongoing business of the Division is to deal with applications for new company incorporations, limited partnerships and business names and the authorisation of collective investment funds and special purpose vehicles (SPVs). The Division works jointly with the Compliance Division in the authorisation of new applications for investment business.

The Division assesses and, where appropriate, approves and records changes to key details relating to regulated businesses and companies.

Policy

For company incorporations, the Registrar's policy is to require that the identity of all beneficial owners is reported to him and to check that there is no known information that would suggest that the owner would present an unacceptable risk to the Island.

For funds (including functionaries of funds), SPVs and regulated financial services businesses, the Division's policy is to ensure that the registered persons and the principal persons have the stature, competence, integrity and financial standing to carry on financial services business in Jersey.

The Division is committed to providing members of the public and the industry with easy access to public records.

Regulatory Plan 2001

In the 2000 Annual Report, the Regulatory Plan for 2001 included the following key tasks:

- to improve the application process for funds and SPVs;

- to increase the efficiency of Registry work processes and improve our service to the public;
- to introduce policy guidance notes where these did not previously exist;
- to prepare for new provisions relating to records of foreign incorporated companies and Directors;
- to prepare for on-line applications for company incorporations.

Research visits have been made to a number of jurisdictions during the year, including Guernsey, United Kingdom and Dublin, in order to improve the applications process.

The review of the efficiency of work processes has enabled the Registry to improve service to the public in the following ways:

- Registry application forms are now available via the Commission's website;
- the Registry simplified the company application process for Jersey residents;



AUTHORISATION DIVISION

- through technological advances and training, Registry staff were able to handle more enquiries directly, thus reducing the need for the public to undertake formal company searches;
- during the year the website was enhanced to make specific Registry information more readily available to the Registry user.

These improvements also assisted in the preparations to keep records of foreign incorporated companies administered in Jersey and to maintain a register of Directors of all Jersey companies.

Further steps were made during the year towards providing Registry information to the public on-line:

- Registry staff have improved IT skill capabilities;
- the Registry has explored a range of options to ensure that, when we make company information available to the public on-line, we continue to safeguard confidential information.

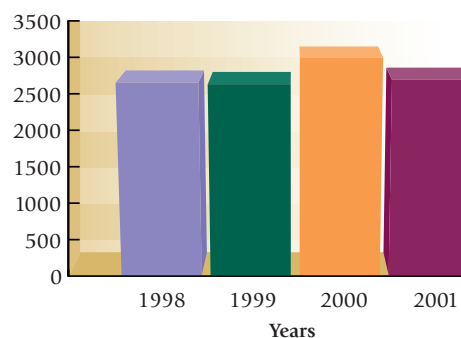
The results for 2001 are as follows: -

Activity	Published Timescales	Target	Performance
		%	%
Company Incorporations	2 days/2 hours	90	97
Partnership Formations	2 days	80	100
Searches Completed	2 days	80	100
Certificate Processed	2 days	80	99

The Division has adopted performance targets in respect of authorisation of new funds and SPVs. The results for 2001 are as follows:-

Activity	Published Timescales	Target	Performance
		%	%
SPV – Provisional approval	2 weeks	80	94
SPV – Document review	2 weeks	80	95
Private Fund Provisional approval	2 weeks	80	100
Private Fund Document review	4 weeks	80	100
CIF – Provisional	2 weeks	80	92
CIF – Document Review	4 weeks	80	100

Annual number of new company incorporations



AUTHORISATION DIVISION

The Development of Business

The Registry incorporated 2,760 companies in 2001, which represents a 10% reduction compared with the previous year. Other jurisdictions experienced a similar decline. The Registry handled 8,442 business names and 34 limited partnerships and undertook 8,754 company searches during the year.

The Division authorised 57 new Jersey funds (34 public and 23 private) and 363 SPV issues during 2001.

The Division's target is to respond to 90% of the applications for company incorporations within the published timescales and 80% for other applications.

Regulatory Developments

The Registry is launching on-line access to certain company information early in 2002. This will include business names, company name and number and date of incorporation of companies.

Consultation Papers are also being developed within the Registry to review procedures for recording information on beneficial ownership and activities. This is to be taken forward in close consultation with the industry.

The Registry User Group was established in 2001. It has established itself as a vehicle for working closely with the industry and developing new Registry initiatives. It is planned to establish a sub-group in 2002 to concentrate on the development of on-line services.

The Registry is developing close contacts with Companies House in the United Kingdom, and staff from the Registry visited Companies House during 2001. These links are proving to be extremely valuable as Companies House in the UK has developed on-line Registry services, the experience of which will be very helpful to the Jersey team. Contacts have also been made with the Registrar in the Isle of Man who is undertaking similar developments to those in Jersey.

Staffing

2001 was the year for consolidation for the new Registry team, new members of which had been recruited in 2000. Significant training was undertaken during the year and a number of staff commenced studies for the Chartered Institute of Secretaries, successfully passing the initial examinations.

Conclusion

The Authorisation Division met performance targets in 2001 and has set improved targets for 2002. The Division continues to look at ways for improving the working practices in order to enhance the quality of the service provided to the industry as a whole.

Roger Bignell

Director, Authorisation



COMPLIANCE DIVISION

Key Points

- The Commission operates a group-based, risk-weighted approach.
- The Division visited half our regulated institutions in 2001, meeting our target and developed a risk profile of the industry.
- The Division met performance targets for handling complaints against financial institutions.
- Total business managed in the Island continued to grow in 2001.
- The Division reviewed adherence to the Basel standards on capital adequacy and monitored development with Basel II.
- The Division participated in statistical surveys conducted by the IMF and the BIS.
- The Division administered sanctions imposed by the Island in line with international obligations.

Introduction

The aim of the Division is to ensure that the financial services businesses in the Island operate to international standards of regulation.

In practice this is achieved by publishing Codes of Practice and Guidance Notes that set out the standards we expect of regulated businesses and conducting regular visits to monitor adherence to those standards.

The Division focuses on two main themes: prudential supervision and conduct of business regulation. Prudential supervision requires the Commission to monitor the adequacy of corporate governance, financial resources and internal control systems. Conduct of business regulation involves overseeing a regulated firm's dealings with investors to ensure, for example, that information provided is clear, fair and not misleading.

The Division also receives and researches complaints, and provides advice and assistance to the industry on regulatory issues including international sanctions.

The Division is responsible for regulating banks, investment businesses, collective investment funds and their functionaries. Insurance, as a relatively new industry in Jersey, is the responsibility of a separate division. Trust company business is a newly regulated activity and the development of its regulatory regime is presently the responsibility of the Financial Business Division. The report of this Division therefore concerns banks, funds and investment businesses.

Policy

The Commission's policy is to take a group risk-based approach to regulation. This allows us to take a coherent and integrated approach to each group – one which concentrates on those aspects of a regulated firm's business which pose the highest risks to the Island. A risk-based approach also enables the Commission to use our resources in the most effective and efficient manner.

Equally important, the Commission believes in openness and transparency in our dealings with the regulated businesses and the public.

COMPLIANCE DIVISION

We publish our standards and policies in an easily accessible form, making maximum use of the website as well as our direct contacts with regulated businesses.

It is our policy to visit half the regulated institutions every year. The frequency of visits for any one institution depends on the Commission's assessment of its risk profile.

Regulatory Plan 2001

The regulatory plan for the Division in 2001 stated that we would focus on:

- corporate governance;
- internal management controls and procedures;
- staff quality and competence;
- risk management; and
- anti-money laundering systems.

The Division's officers visited 158 registered firms in 2001. The staff found that most businesses operated to good standards of regulation.

The Division's officers made recommendations for improvement, discussed them with the businesses and then ensured that such recommendations were followed up.

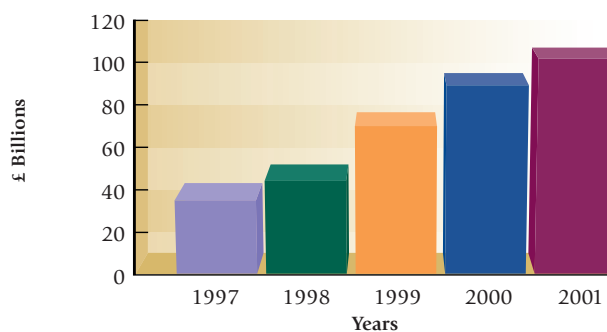
The Commission does not have powers to enforce a resolution of complaints against financial services businesses but does, where possible, seek to encourage an acceptable outcome in respect

of complaints which are referred to it. During 2001 the Commission received a total of 97 complaints. The Division met our targets with respect to the response time in 80% of those cases.

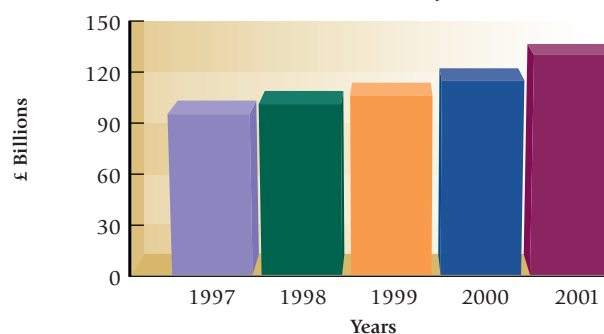
The Development of Business

By the end of 2001 the Division was responsible for regulating 337 regulated financial services businesses (ie excluding trust company business and insurance).

Growth in Funds



Growth in Bank Deposits



COMPLIANCE DIVISION

In line with international practice, the Commission also requires funds, as investment products, to be licenced. 64 banks were registered under the Banking Business (Jersey) Law 1991, as at December 2001, compared with 74 at the end of 2000. The decrease reflects the continuing trend of mergers and take-overs. Total bank deposits, however, rose to a new record high of over £132 billion compared with £117 billion at the end of 2000. Collective investment funds for which functionary permits were issued rose to £103 billion by December 2001, compared with £91 billion in December 2000. Funds did rise to a peak of £106 billion in June before falling, along with world markets in September, but recovering by the end of the year. The number of clients with assets under management by investment businesses rose from almost 22,000 at the beginning of January 2001 to over 23,000 by 31 December 2001.

Regulatory developments

The Division developed the Commission's risk model and applied it to each regulated business. In this way we ensure that international standards are encompassed within published

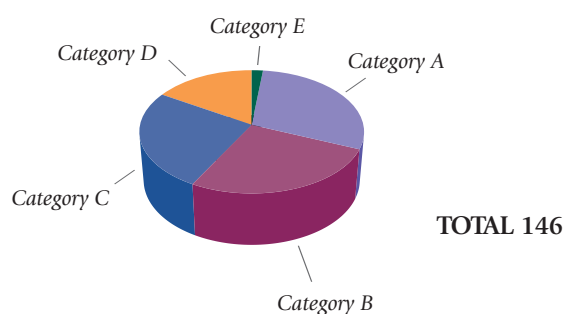
Codes of Practice and are followed by all regulated businesses. It also enables us to build up a risk profile of the industry which will be the basis of future policy in respect of the number and nature of visits.

The Division issued notices to the industry about new sanctions that were imposed, for example, following the September 11th terrorist attack in the USA. The Commission had, in any case, agreed to establish a "help desk" facility for the finance industry in relation to international

sanctions that were already applicable in the Island.

The Division reviewed the approach to prudential monitoring for banks to ensure compliance with international requirements (as defined by the Basel Committee on Banking Supervision). Our conclusions are reflected in draft Codes of Practice for banks that will be issued for consultation in 2002. In 2001 the Division followed closely the progress of the Basel Committee's revised draft capital accord (Basel II).

Investment Business Licences - holders of single or multiple licences



Category	Description
A	Dealing in investments.
B	Managing investments.
C	Giving investment advice and holding client assets.
D	Giving investment advice but not holding client assets.
E	Investment business relating to private funds.



COMPLIANCE DIVISION

After consultation with industry the Division published a policy statement on outsourcing. There are many good commercial reasons for outsourcing but the Commission needs to ensure we are able properly to carry out our regulatory responsibilities in relation to those outsourced activities.

The Division's officers met a number of regulators from various jurisdictions in 2001 in order to improve our regulatory understanding of the groups we regulate and enhance the effectiveness of that regulation.

The International Monetary Fund approached the Commission in July 2000 with a request that Jersey participate in the Fund's Co-ordinated Portfolio Investment Survey (CPIS) to be held for the reference date of 31 December 2001. In 2001 the Commission also agreed to participate in the Bank for International Settlement (BIS) review of international banking statistics with a view to providing statistics on a regular basis. The first full set of statistics was provided to BIS in October 2001.

Staffing

2001 saw a consolidation in the staffing structure of the Division. The total size of the Division grew to 21 staff. The Division is structured into two "on-site" and one "off-site" team. The on-site teams carry out the on-site visits to regulated firms and are the first points of contact for the industry on most compliance issues. The off-site team provides administrative back up for the Division as a whole, including dealing with the publication of statistics, providing the Sanctions Help Desk, and co-ordinating the projects such as CPIS.

Conclusion

The Division is at the heart of the Commission's activity. We carry the responsibility of visiting regulated businesses and ensuring they meet international standards. It is only by meeting such standards that the Island can maintain its international reputation as a sound place for business. The Division is pleased to be playing our part in enhancing the Island's reputation and integrity.

John Pallot

Director, Compliance



ENFORCEMENT DIVISION

Key Points

- The Division published lists of suspected terrorists for the industry after September 11.
- Active use was made of our investigative powers on behalf of the Commission and to assist foreign regulators.
- Investigations covered weak anti-money laundering controls, insider dealing and other alleged offences.
- Court action is being taken in respect of funds lost by investors in a non-Jersey fund but with a Jersey connection.
- The Division enhanced our relationships with other regulatory and law enforcement agencies in Jersey and elsewhere.

Introduction

The aim of the Division is to deter and detect regulatory breaches.

In practice, this means carrying out investigations into breaches of regulatory law and Codes of Practice by authorised and (where regulatory laws are broken) unauthorised business.

The Division is also responsible for investigations under non-regulatory laws administered by the Commission.

The Division responds to requests by overseas regulators for assistance. We work with the police and other agencies to understand the trends in illegal and improper activity and to liaise with the industry to minimise the incidence of regulatory offences.

Policy

The Commission's policy is to use our extensive investigation powers to reinforce high standards, support those who are working to attain and maintain high regulatory standards and to take firm action against those who do not.

The Division will also co-operate with other enforcement bodies and regulators in the Island and overseas. We have the power to share information where this is for a proper financial services regulatory purpose and will do so.

The Commission will treat fairly all those who are the subjects of investigation, so as to ensure that they are given every opportunity

to state their case and understand their rights as well as their obligations.

Regulatory Plan 2001

In the 2000 Annual Report, the Division committed to investigate regulatory breaches and respond to requests from foreign regulators. Breaches of the legislation have been dealt with by referring the most serious to the Attorney General. Appropriate regulatory action is also taken on these and the less serious cases. Responses to foreign regulators have led to successful action in their respective jurisdictions or are the subject of ongoing investigation.

Further, the Division continued to develop our intelligence function by providing the Commission with links to sources that may have detrimental information on potential applicants.

The Division has been active in using the Commission's powers across all regulatory laws that now extend to the entire finance industry.

ENFORCEMENT DIVISION

Investigations

Overall the Division has conducted 70 investigations, of which 6 were at the request of overseas investigators and 9 were matters where the Commission notified other jurisdictions of issues relevant to them. 43 investigations were still under way at the year end.

Investigations covered a wide range of regulatory breaches. They included allegations that local businesses might have failed to adhere to anti-money laundering controls and accepted funds from politically exposed persons such as former President Abacha of Nigeria and his associates. Other investigations covered regulatory breaches that were allegedly connected with criminal activity being investigated by the police.

The Division has also been involved in investigating the quality of other controls at a number of local businesses as a result of international investigations. Many of these included allegations that a business in the Island was party to insider dealing in another jurisdiction.

A further example of the Commission's action in respect of domestic breaches is the action commenced in 2000 under the Collective Investment Funds Law following losses by investors in a non-Jersey fund that involved local entities. This action continues.

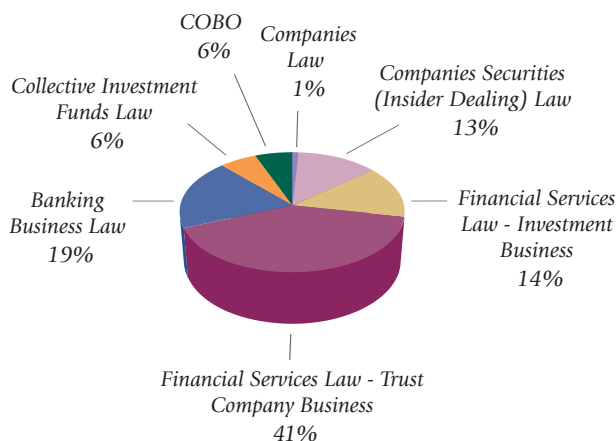
Regulatory Developments

The Division has extended the services we provided to the industry during the year, particularly after the events of 11 September. The Commission website was regularly updated with the most useful intelligence links disclosing the names of suspected terrorists.

From February 2001 trust company businesses have been fully regulated and the Division has been heavily involved in the process of gathering information that will lead to an assessment being made of each business's application. Consequently, the Division has been closely involved with the work of the Financial Business Division and has carried out a number of investigations in conjunction with that Division.

Meetings are held routinely with other local enforcement bodies with which the Commission has a continuing relationship within the Island. These include the Police, the Law Officers and the Viscount's Department.

Investigations carried out during 2001





ENFORCEMENT DIVISION

The Division has taken part in meetings of enforcement groups external to Jersey in order to increase knowledge of international developments.

The Division has participated in multi-jurisdictional investigations into crime under financial services legislation. These have included investigations where assistance has been provided to overseas authorities and territories for the first time.

During the course of the year the Director and managers have visited overseas regulatory bodies in order to build on existing relationships and establish further contacts. As a result, communication links have improved with many overseas regulators.

Staffing

The Division outsources much of our investigative work, so that the main role of the Division is to manage and assess such investigations. We achieved our full establishment by the middle of the year and, due to an increasing workload, received approval for a further manager to be recruited in 2002.

Conclusions

Jersey is one of the first jurisdictions in the world to regulate such a wide range of financial services. With this comes the need to carry out action that will lead to enforcement of the laws. At the same time, the issues to be dealt with have become more complex and require co-ordination of investigation and enforcement action across a number of jurisdictions involving various types of law enforcement agencies.

The Division will look forward to meeting the increasing demands placed on us in 2002, confident in the valuable experience gained in the past whilst the Division matured.

Gary Godel

Director, Enforcement



FINANCIAL BUSINESS DIVISION

Key Points

- Primary legislation to regulate trust company businesses came into force.
- Secondary legislation and Codes of Practice have been published which set out the standards expected of the industry.
- 295 applications were received for registration.
- Many businesses have been registered but a number have failed to meet the standards in respect of corporate governance, knowledge of their customers, competence and internal controls.
- The industry has been kept fully informed of the progress made in assessing applications.

Introduction

The aim of the Financial Business Division is to implement a new regulatory regime designed to bring those who carry on trust company businesses in or from within Jersey into the regulated community.

In practice this has meant introducing an enabling Law, together with underlying Orders and Codes of Practice, and then implementing the law – primarily, in its first year, by assessing the applications from existing trust company businesses that seek registration under the law.

Policy

The Policy of the Commission is to ensure that proper standards of integrity, competence and solvency are maintained by trust company businesses. We use our regulatory powers and authority to monitor those standards, prevent the abuse of the Island's financial system and enhance international client confidence.

The Law, Orders and Codes of Practice set minimum standards and codify best practice. The combined effect is to require all businesses to adopt high standards relating to their corporate governance, financial stability and conduct of business. Mandatory qualification and experience requirements encourage high levels of staff competence that are kept up to date through minimum levels of continuing professional development study.

Regulatory Plan 2001

The Annual Report for 2000 explained that in 2001 the Financial Business Division would:

- develop a regulatory regime for trust company businesses;
- evaluate applications received from existing businesses;
- carry out compliance visits in the newly regulated sector;
- take a proactive stance in explaining the details of the regulatory regime to businesses new to a regulated environment.

Details of the regulatory regime are in the form of Orders made by the Finance and Economics Committee and Codes of Practice that the Commission published in February 2001 following extensive consultation. The regime follows the same principles adopted by the Commission for all other businesses. It includes requirements relating to corporate governance, record keeping, identification and segregation of customer assets, employee competence and adequacy of financial resources.



FINANCIAL BUSINESS DIVISION

The businesses must also meet the Island's anti-money laundering requirements.

The Commission received 295 applications for registration (including individuals who applied as Experienced Personal Advisors - EPAs) and proceeded to evaluate them. Having established a risk-based method of setting priorities for assessment, the Commission reviewed 130 applications. It approved 100 of them, by the end of the year. 66 were trust company businesses and 34 were EPAs. Applicants who could demonstrate a strong and successful track record in a previously regulated area of business were authorised first. Businesses that were wholly owned subsidiaries of regulated

entities and who, though not subject to consolidated supervision, could nonetheless demonstrate long-standing and robust cultures embracing internal and external audit, compliance and anti-money laundering, were authorised next.

The total number of licences issued is rather less than the Commission might have anticipated – primarily due to the number of businesses whose regulatory weaknesses had to be addressed before they could be regarded as meeting our standards.

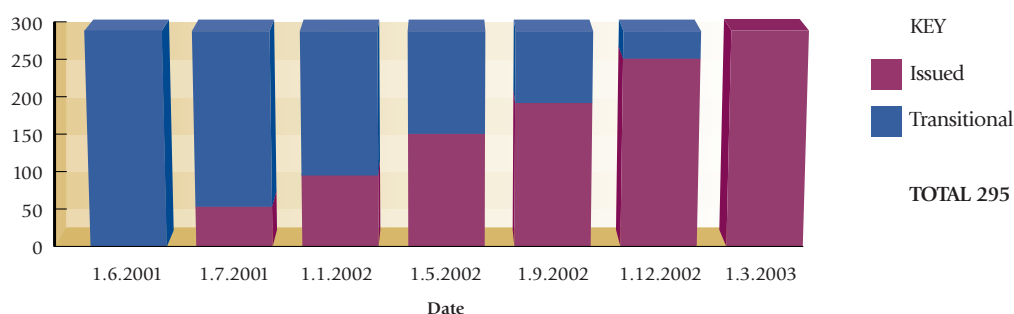
The Division determined the businesses that required a pre-authorisation visit and conducted 35 such visits.

The Division organised seminars at which the Commission explained our regulatory approach and described our findings.

Regulatory developments

The Division has determined some patterns of regulatory failings that have become apparent through the application process. Those that have been registered by the Commission have demonstrated that they are substantial, well run businesses that match international standards of best practice. However, it is also apparent that a number of businesses have not met our standards.

The Determination of Licences - Projected



FINANCIAL BUSINESS DIVISION

Weaknesses in particular were found in the areas listed below:

- Corporate Governance – the Commission insists that those who control client assets have three independent controllers. A number of businesses do not meet this requirement.
- Internal controls – the Commission demands that internal controls are adequate to protect the interests of the customers and the business. A number of businesses have not demonstrated that they meet this requirement.
- Know Your Customer – the Commission demands that businesses know who their customers are and enough about the business of their customer to be able to detect and report suspicious transactions. While many businesses meet this requirement, some do not.
- Competence – the Commission has found that a number of businesses do not meet our requirements in respect of qualifications and competence of their staff.

In most cases, early supervisory visits have provided opportunities for the Commission to offer advice on how the businesses might improve their compliance with the Law and Codes.

The Commission has set out strict timetables for improvement that our officers can monitor to ensure compliance is, indeed, achieved. However, in other cases, the Commission has had to inform the applicant of our intention to turn down its application.

We have used our powers to petition the Royal Court for the appointment of a manager in two cases where serious breakdown of management standards was identified. Whilst identification of such failures is always a grave disappointment, such petitions demonstrate that the Commission not only has the necessary powers, but when necessary, has both the resolve and the expertise to use them.

Other areas of regulatory development have included discussion with lawyers acting as testamentary trustees who now come within the regulatory net.

Jersey trustees acting for a trust which arises from a will are one of the first group of will trustees in the world to become subject to a conduct of business oriented financial services supervisory regime. This measure will add protection to those benefiting from such will trusts.

The Board of Commissioners discussed policies confirming that trust company businesses, like banking or investment businesses, must demonstrate transparency of ownership, real presence stature and track record before setting up in Jersey. Detailed policy statements will be issued during 2002.

Although most have generally been of high standard, the Commission has been concerned to see some businesses publishing questionable advertisements. Whilst individual cases have been taken up with the businesses concerned, the Commission proposes to issue an Advertising Order with supporting new sections in the Codes of Practice, setting out more clearly the precise standards of openness and honesty which a regulated financial service business is expected to adopt.

FINANCIAL BUSINESS DIVISION

An advertising standards consultation paper was disseminated to the industry in Spring 2002.

Staffing

The Financial Business team has developed from being a project team introducing a new law, to a regulatory team evaluating applications and monitoring standards. We have achieved this by expanding our staff from five to nine.

All Financial Business team supervisory staff are qualified to principal person standard as set out in Table A of the Trust Company Business Codes of Practice. The team has been specifically recruited to offer expertise across a broad spectrum of the trust company business industry.

Conclusion

The Commission is breaking new ground in introducing this regulatory regime. The regime is in place and applications are being assessed. The Division is determined to maintain high standards and will stick to our task for as long as it takes to get the job done.

Helen Hatton

*Deputy Director General and
Director, Financial Business*



INSURANCE DIVISION

Key Points

- Mergers and restructuring have reduced the number of licences but the business continues to grow steadily.
- Legislative changes will remove the limited areas of non-compliance with international standards following the Commission's self-assessment.
- Relations with other regulators were strengthened in 2001.
- The securitisation of insurance risks remains a growth area of business.

Introduction

The aim of the Division is to establish and maintain a regulatory regime that protects consumers of insurance services and encourages companies of stature to set up in business in the Island.

Jersey did not enter the international offshore insurance market until 1996, with the enactment of the Insurance Business (Jersey) Law.

Insurance therefore remains as a separate division for the time being so that particular attention can be given to the development of this business in the Island.

Policy

The policy of the Commission is to attract business of quality to the Island. This means that the Commission insists on high standards when assessing applications for permits. We also undertake a proactive on-site compliance programme where appropriate. We take firm action when regulatory standards slip.

Representatives of the Commission attend insurance business and risk management conferences to explain the benefits of the regulatory regime and our policies and approach. In this way we seek to further our aims i.e. to reduce the risk to the public, to protect the Island's reputation and integrity, and to safeguard its best economic interests.

The Insurance Business (Jersey) Law 1996 gives the Commission the power to determine who can do business in Jersey, to prescribe, where appropriate, how that

business should be conducted, to monitor and enforce compliance and to co-operate with other regulators overseas.

Under the provisions of the law there are two classes of insurance business permit. The category A permit is issued to those insurers who are already authorised and regulated in an acceptable jurisdiction elsewhere and who wish to carry on business in Jersey, either by setting up a branch in the Island, or by direct selling through tied agents, or via independent financial advisers. Category B permits are issued to businesses which establish and register an insurance company in Jersey. These companies are therefore authorised and supervised by the Commission.

Regulatory Plan 2001

The annual report for 2000 explained that in 2001 the Insurance Division would:

- develop a regime for on-site visits;
- prepare an amendment to the Insurance Business (Jersey) Law 1996.



INSURANCE DIVISION

During 2001 work began on the drafting of the Insurance Business (Amendment No.4) (Jersey) Law 200*, in order to bring into legislation the recommendations of the Edwards Report, and where appropriate the limited aspects of the Core Principles of Insurance Supervision (Issued by the International Association of Insurance Supervisors) where Jersey is not wholly compliant. It is expected that this piece of amending legislation will be submitted to the States during 2002.

During 2002 it is also intended to produce and publish Codes of Practice for the insurance industry in the Island, issued under the provisions of Article 39 of the Insurance Business (Jersey) Law 1996 to reflect international best practice as embodied in the Core Principles of Insurance Supervision.

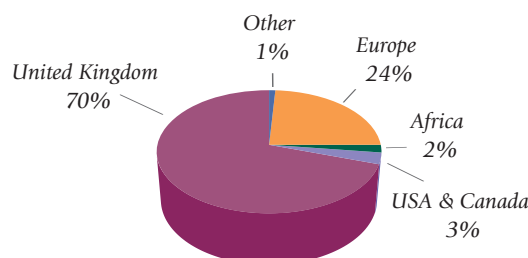
The development of business
As mentioned in last year's report, the insurance industry has been going through a period of consolidation in recent years, with companies merging or engaging in acquisitions. This trend has continued during 2001.

The effect of this has been seen in the number of category A permits in issue, which has fallen to 158 at the end of 2001 from 164 a year earlier. This decrease of six represents the net effect of the issue of ten new permits in the year offset by sixteen cancellations, the latter mostly being a direct result of mergers and acquisitions.

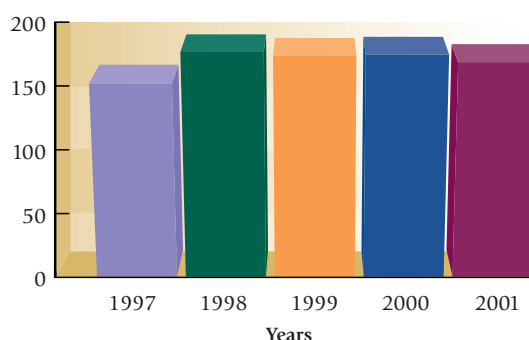
Five new category B licences were issued during 2001 but five permit holders surrendered their licences either because of acquisition or because their objectives had been completed.

The result of this has been that the number of these permits has remained at eighteen.

Insurance Business permits in issue by region of origin



Total Insurance Licences



INSURANCE DIVISION

The insurance industry has continued to seek alternative ways of raising capital to create insurance capacity. The securitisation of insurance risks (through the issue of bonds in the capital markets to investors willing to accept a higher level of risk on their investment for a greater potential return) has been maintained, while the use of other financial instruments aimed at providing capacity in specific niche markets has grown. Jersey has been successful in maintaining a significant share of this market, through the establishment of special purpose vehicles.

During the year, a significant amount of time was spent providing information and assistance to the Jersey policyholders of Equitable Life Assurance Society, which has closed to new business. Help was also given in connection with the insolvency of the Independent Insurance Company Limited.

In both cases, this involved regular contact with the primary regulators, the FSA in the United Kingdom and the Guernsey Financial Services Commission, to ensure that Jersey was up to date with the regulatory actions being taken to deal with these problems.

Co-operation with other regulatory authorities

The Commission has continued to strengthen our relations with other regulators through membership of the International Association of Insurance Supervisors and the Offshore Group of Insurance Supervisors, and attendance at various conferences and working meetings organised by those bodies during the year.

Such membership enables the Commission to exchange views on matters of common interest, to keep abreast of developments in the industry and in regulation worldwide, and to maintain a supervisory regime in line with international best practice.

Conclusion

During the year Jersey has consolidated its position as an attractive and properly regulated centre in which to establish an offshore insurance operation. Work will continue in the coming months to expand insurance business by following the policy of licensing companies of stature and quality in the Island.

Nigel Woodroffe
Director, Insurance



SUPPORT SERVICES DIVISION

Key Points

- IT and operational development is improving the service to the public in the Registry.
- A full review of remuneration has resulted in a more open pay system which can be more readily understood by staff.
- A new training and development programme is being launched.
- The Business Plan and Annual Report formed the basis for discussion with the Finance and Economics Committee in line with the agreed arrangements for accountability.

Introduction

The aim of the Division is to ensure that the Commission's reputation for professionalism, efficiency and effectiveness is maintained.

In practice, this means that the Division provides operational core services for the Commission including information technology, human resources,

premises management and business and strategic planning. The Division also provides secretarial services to the Board of Commissioners and is responsible for ensuring that the Commission is properly accountable to the Finance and Economics Committee.

Policy

The Commission's policy is to develop a clearly defined training and development programme for staff; to provide them with the modern and effective technical and physical infrastructure they need to perform tasks efficiently; to recruit appropriate staff within defined timescales; and to underpin the role of management in promoting staff commitment and motivation.

Regulatory Plan 2001

In the 2000 Annual Report, the contribution of the Support Services Division was stated as follows:

- a review of Human Resources policies, in particular with respect to the need to meet the requirements of best employment practice and human rights;

- a review of Information Systems Strategy, including the Central Index System (a comprehensive regulatory database for the regulatory divisions), the office systems and the Registry workflows;
- the development of a business recovery contingency plan.

Progress was made on all these fronts. The review of policies concluded that the Commission was broadly in line with employment best practice and human rights requirements.

The Central Index System was further developed during the year. The Division delayed development of this project to review the specification (so as to ensure the Budget was met for future phases) and to address project management questions. Work on this continues.

Office systems were renewed with the installation of "Office 2000" and the Division contributed to the successful review of Registry workflows. The Division started work on the Business Continuity Plan at the end of the year, with its delivery being planned for early 2002.

SUPPORT SERVICES DIVISION

Key developments

The Commission has continued to expand, and the demands on the operational infrastructure have increased. Information Technology in the Commission is driven wholly by the business needs of the organisation. In addition to progress in line with the Regulatory Plan, advances in various aspects of the IT strategy were achieved during the year.

To ensure that we remain competitive in the local market place, the Commission approved a substantial review of the pay system with a two-year phased implementation.

The Commission was awarded the Investors in People accreditation in July 2001, in recognition of our continued investment in training and development of staff. Consistent with this commitment, the Commission launched a new programme, building on previous arrangements, early in 2002. This will bring about a complete forward training programme for each member of staff designed both to meet the Commission's needs and the needs of staff.

The Division arranged the recruitment of new Commission staff during 2001. The Business Plan was successfully prepared and now includes comprehensive performance measurements and divisional activity calendars. An annual programme for Commission meetings has also been produced.

Staffing

The commitment of the staff in the Division is high and much has been achieved within an unchanged Divisional staffing complement.

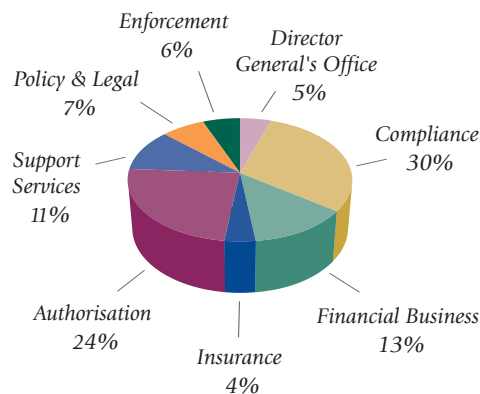
Conclusion

The Support Services Division is committed to delivering high quality services to Commission staff. It aims to develop the staff, both professionally and personally, and allow them to work to their full potential.

Alexis Pimley-Smith

Director, Support Services

% of staff as at 31st December 2001





REGULATORY PLAN 2002 - 2004

The Annual Report is primarily an account of the Commission's performance in 2001 as compared with its aims and objectives for that year. However, the Commission believes it right to outline the aims and objectives for the future, not least as a basis for future reports on performance.

The greater part of the Commission's resources is engaged in carrying out our key purpose as described on page three. However, we have an ambitious programme of development both as a result of changes in international standards and as a result of initiatives instigated by the Commission.

In determining the priorities for development, the Commission has been guided by two sets of themes; the first (Group A) relates to improvements in our regulatory regime, whilst the second (Group B) is concerned with the internal operation and management of the Commission.

GROUP A – REGULATORY THEMES

1. International recognition of regulatory standards

The first essential is to ensure that Jersey's regulatory standards are, indeed, at an international level. The Commission will continue with the process of self-evaluation. In addition, we will work with the International Monetary Fund that wishes to conduct an evaluation in 2002, arising from work prompted by the Financial Stability Forum (FSF). The Commission will take every opportunity to participate in standard-setting meetings organised by the main international regulatory bodies. We will sustain our proactive involvement with those international organisations of which the Commission is a member, e.g. the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Offshore Group of Insurance Supervision (OGIS), and the Offshore Group of Banking Supervisors (OGBS).

We will co-operate fully with other jurisdictions, for example, in enforcement matters.

We will continue to expand our portfolio of Memoranda of Understanding, so as to reinforce our ability to work effectively with foreign regulators. Bilateral contacts will continue to focus on continental Europe and especially on Spain and Italy, so as to increase their understanding of the assistance available to them from Jersey when they investigate regulatory offences.

2. Developing legislation, including that which is necessary to address the final remaining recommendations of the Edwards Report

We will maintain a programme of legislation development. This will include implementing the Edwards' recommendations in respect of an Ombudsman scheme, a depositor compensation scheme and restitution powers as well as changes to the Insurance Business Law. The Commission will seek powers to fine. There will be the development of an appeal mechanism and an investigator scheme into complaints made against the Commission itself.

REGULATORY PLAN 2002 - 2004

Our focus on legislation helpful to business will continue with the further development of companies' legislation.

3. Consolidation of the changes to the Jersey regulatory regime including its anti-money laundering regime

The Financial Business Division, currently developing the regulatory regime for trust company business, will complete the task during 2002. The staff will then be absorbed into the Authorisation, Compliance and Enforcement Divisions as appropriate.

There will be further progress towards providing more on-line facilities for those who wish to incorporate companies and to undertake company searches.

In addition, the Anti-Money Laundering Guidance Notes for the Finance Sector, first issued in 1999, are to be rewritten in order to encompass recent changes in international practice and focus. The Commission will also start consultations on further changes to the law on money laundering.

These changes will follow the Commission's policy statement recently issued in the "Overriding Principles" position paper.

GROUP B – DEVELOPMENT OF THE COMMISSION'S EFFECTIVENESS

4. Developing the Commission's ability to record, collate and access information

As the Commission and the finance industry have grown over the years, combined with the extended regulatory requirement, the amount of data received and processed by the Commission has increased commensurately. We are developing a bespoke Central Index System which will bring together the information contained in a series of legacy systems in the Commission. We will examine the scope for electronic filing and archiving as well as reviewing our paper systems.

5. Improve the Commission's relationship with the industry and those whom we serve

The Commission wants to improve local understanding of our regulatory objectives. We will continue to work through industry consultative bodies, primarily with the Jersey Finance Industry Association.

We will continue to improve our service levels in the Registry together with turn-around of enquiries from the industry and the public by all Divisions, and a Sanctions Help Desk.

All Divisions will seek to achieve greater transparency. The Commission is working towards a common structure whereby primary and secondary legislation is supported by published Codes of Practice and Policy Guidance Notes. There will be further public seminars on regulation issues.

The 2002 face-lift of the Commission's web-site is another of the major projects scheduled for the year ahead.



REGULATORY PLAN 2002 - 2004

It is intended that improvements to the site will offer the industry, public, and peer regulators, convenient 24-hour access to information, policy, and guidance on regulation in Jersey.

The ongoing training and development opportunities within the Commission will ensure that all staff continue to remain professional and highly skilled.

7. Managing the risks faced by the Commission

The Commission has decided to meet Corporate Governance standards set out in the Combined Code and in the Turnbull Report. We have established an Audit Committee, one of whose tasks will be to undertake an assessment of risks facing the Commission, and to ensure that all such risks are properly addressed. This will be a major task, led by the Deputy Director General and involving all the Directors in a review of the operations of the Commission.

8. Managing the effect of change on staff

Many of the current change initiatives have been introduced alongside an increasing operational workload. The Commission will continue to pay close attention to the effect of this constant state of change on staff morale and performance. It remains essential that the level of professionalism, commitment and competence of Commission staff remains high and that they are given the support and training necessary to achieve this.

INTRODUCTION TO THE FINANCIAL STATEMENTS

Regulatory fee income in 2001 was £10.7 million, an increase of £2.1 million over the previous year. This was largely the result of the introduction of the Financial Services Extension (Jersey) Law 2000, which has generated £2 million towards the cost of the regulation of trust company businesses.

Under the provisions of Article 18 of the Financial Services Commission (Jersey) Law 1998, the Commission pays an amount each year into the annual income of the States of Jersey Treasury. This contribution rose by £200,000 to £3.5 million in 2001. After taking into account deposit interest received and income from the sale of publications, net Commission income for the year was £7.4 million, an increase of £1.9 million compared with 2000.

Operating expenses also increased from £5.5 million in 2000 to £6.5 million this year. The two main causes of this £1 million net increase were the cost of additional staff and the significant increase in expenses relating to investigations and litigation. Litigation costs rose by £900,000, largely due to one specific case where the Commission has petitioned the Royal Court.

The amount added to reserves amounted to £947,000 compared with just £34,000 last year, but it should be noted that all the costs for the development of the Financial Services Extension (Jersey) Law were incurred during the course of 2000 without any income to compensate.

The increasing scope of regulation necessitated the recruitment of additional staff, particularly for compliance work. New staff have also been recruited for the Enforcement Division, which has had to deal with a greater number of investigations than ever before, as well as one major litigation case that was still ongoing at the end of 2001. Many of these investigations were initiated at the request of overseas regulators. Associated costs, particularly professional assistance from lawyers and accountants, also rose during the year as a consequence.

It is the intention of the Commission in the coming years to achieve as far as possible a balance between income and expenditure, subject to the need to hold a contingency reserve against unforeseen expenditure in the future. The policy of the Commission in this regard is to build a level of reserves equal to six months' costs.

The auditors, PricewaterhouseCoopers, who were appointed by the Finance and Economics Committee of the States of Jersey in accordance with Article 20 of the Financial Services Commission (Jersey) Law 1998, have indicated their willingness to continue in office.

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

The Commissioners are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Commission and of the income and expenditure for that period. In preparing those financial statements, the Commissioners are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

prepare the financial statements on the ongoing concern basis unless it is inappropriate to presume that the Commission will continue its operations.

The Commissioners confirm that the financial statements comply with the above requirements.

The Commissioners are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the financial statements have been properly prepared. They are also responsible for safeguarding the assets of the Commission and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

During 2001 the Commissioners confirmed their intention to comply with the provisions of the Combined Code prepared by the Committee on Corporate Governance. In the coming year the Commissioners intend to introduce the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance).

The Commissioners have monitored key risks during 2001. The ongoing assessment of risk has been linked with the business planning process, to enable compliance with the Code by the end of 2002.

For and on behalf of the Board of Commissioners

A Pimley-Smith

Secretary

18 April 2002

PO Box 267
Nelson House
David Place
St Helier
Jersey
Channel Islands JE4 8TP

AUDITORS' REPORT

TO THE FINANCE AND ECONOMICS COMMITTEE OF THE STATES OF JERSEY

We have audited the financial statements on pages 46 to 54 which have been prepared under the historical cost convention and the accounting policies set out on page 49.

Respective responsibilities of Commissioners and Auditors

The Commissioners are responsible for preparing the Annual Report. As described on page 44, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in Jersey by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the Director General's Statement is not consistent with the financial statements, if the Commission has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements were free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Commission's affairs as at 31 December 2001 and of its income and expenditure for the year then ended.

PricewaterhouseCoopers
Channel Islands
Chartered Accountants

18 April 2002

NOTE TO THE AUDITORS' REPORT PAGE

The maintenance and integrity of the Jersey Financial Services Commission web site is the responsibility of the Commissioners; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Please note that this page does not form part of the printed version of the Jersey Financial Services Commission 2001 Annual Report.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £000	2000 £000
Income:			
Regulatory fees	5 (a)	10,675	8,569
Sale of publications		1	1
Bank deposit interest received		<u>256</u>	<u>222</u>
 Total income		 10,932	 8,792
 Contribution to States of Jersey		 <u>3,500</u>	 <u>3,300</u>
 Net income		 7,432	 5,492
 Operating expenses:			
Staff salaries, social security and pension contributions		3,073	2,762
Premises costs		445	428
Computer systems costs		146	370
Law drafting expenses		42	41
Investigations and litigation		1,287	331
Public relations costs		167	306
Other operating expenses		994	805
Auditors' remuneration		18	12
Depreciation of tangible fixed assets	6	<u>313</u>	<u>403</u>
 Total operating expenses		 <u>6,485</u>	 <u>5,458</u>
		947	34
Accumulated reserve brought forward		<u>1,555</u>	<u>1,521</u>
Accumulated reserve carried forward		<u><u>2,502</u></u>	<u><u>1,555</u></u>

Statement of total recognised gains and losses

There were no recognised gains or losses other than those detailed above

The notes on pages 49 to 54 form an integral part of these financial statements

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	£000	2001 £000	£000	2000 £000
Fixed Assets:					
Tangible assets	6		463		512
Current Assets:					
Sundry Debtors		11		--	
Prepayments		151		88	
Cash at bank and in hand		<u>4,471</u>		<u>3,329</u>	
			<u>4,633</u>	<u>3,417</u>	
Creditors - amounts falling due within one year:					
Fee income received in advance	5 (b)	1,765		1,858	
Creditors and provisions	7	<u>829</u>		<u>516</u>	
			<u>2,594</u>	<u>2,374</u>	
Net Current Assets			<u>2,039</u>		<u>1,043</u>
Total Assets less Current Liabilities			<u>2,502</u>		<u>1,555</u>
Represented by:					
Accumulated reserve			<u>2,502</u>		<u>1,555</u>

The notes on pages 49 to 54 form an integral part of these financial statements

The financial statements on pages 46 to 54 were approved by the Commissioners, and signed on their behalf on 18 April 2002 by:

Chairman

Director General and Commissioner

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

	2001	2000
	£000	£000
Reconciliation of net income to net cash inflow from operating activities		
Net income for the year	947	34
Interest received	(256)	(222)
Depreciation charges	313	403
(Increase) in debtors and prepayments	(74)	(8)
Increase in creditors	220	253
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>1,150</u>	<u>460</u>

Cash Flow Statement

Net cash inflow from operating activities	1,150	460
Returns on investments and servicing of finance		
Interest received	256	222
Capital expenditure		
Payments to acquire tangible fixed assets	(264)	(119)
Receipts from sale of tangible fixed assets	<u>--</u>	<u>1</u>
	<hr/>	<hr/>
Increase in cash	<u>1,142</u>	<u>564</u>

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year	1,142	564
Net funds at 1 January	3,329	2,765
	<hr/>	<hr/>
Net funds at 31 December	<u>4,471</u>	<u>3,329</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution of the Commission

The Commission is a statutory body corporate established under Article 2 of the Financial Services Commission (Jersey) Law 1998 ("the Law"). The governing body comprises a Board of Commissioners who direct the financial and operating policy of the Commission. Whilst the Commission is an independent body, there are certain powers vested in the States of Jersey and in particular in the Finance and Economics Committee by the Law. These powers include:

- the appointment and removal of Commissioners
- the appointment and removal of auditors

In the case of a dispute with the Finance and Economics Committee concerning the level of annual contribution to the States of Jersey, the matter will be referred to the Policy and Resources Committee for determination.

The Commission also has a duty to have regard to any guidance or general direction which may be provided by the Finance and Economics Committee in carrying out its functions.

Whilst there are transactions on an arm's length basis between the Commission and the States of Jersey, it is not considered that these are related party transactions.

2. Accounting policies

- a) The financial statements have been prepared under the historical cost convention, and in accordance with generally accepted accounting practice in the United Kingdom.

A summary of the more important accounting policies is set out below:

- b) Income is accounted for during the period to which it relates.
- c) Expenditure is accounted for on an accruals basis.
- d) Depreciation on tangible fixed assets is calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives.
Computer equipment is depreciated over three years.
Computer software costs are written off as incurred to the Income and Expenditure Account, except for purchases in respect of major systems. In such cases, the costs are depreciated over three years.
Office furniture, fittings and equipment are depreciated over five years.
- e) Foreign currency transactions during the year have been translated at the rates of exchange ruling at the dates of the transactions.
Any profits or losses arising from such translations into Sterling are accounted for in the Income and Expenditure Account.
- f) Costs incurred as the result of investigations and litigation are accounted for in the year when the obligation exists at the balance sheet date, and where the costs are quantifiable.

NOTES TO THE FINANCIAL STATEMENTS

3. Income, and surplus of income over expenditure

Income, and the surplus of income over expenditure for the year, derive solely from continuing activities.

4. Taxation

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

5. Regulatory fees	2001	2000
	£000	£000
a) Fee income		
Companies Registry	5,643	5,478
Banking	792	802
Insurance	505	468
Securities/Investments	765	812
Investment Business	962	1,009
Trust companies	<u>2,008</u>	<u>--</u>
	<u>10,675</u>	<u>8,569</u>
b) Fee income received in advance	31 December	31 December
	2001	2000
	£000	£000
Banking	675	765
Insurance	350	359
Securities/Investments	418	369
Investment business	322	327
Trust companies	<u>--</u>	<u>38</u>
	<u>1,765</u>	<u>1,858</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Tangible assets

	Office Furniture Fittings & Equipment £000	Computer Equipment £000	Total £000
Cost of assets at 1 January 2001	469	977	1,446
Additions during year	17	247	264
Disposals during year	<u>(4)</u>	<u>(12)</u>	<u>(16)</u>
Cost at 31 December 2001	<u>482</u>	<u>1,212</u>	<u>1,694</u>
Depreciation at 1 January 2001	186	748	934
Charged during year	95	218	313
Eliminated on disposals	<u>(4)</u>	<u>(12)</u>	<u>(16)</u>
Depreciation at 31 December 2001	<u>277</u>	<u>954</u>	<u>1,231</u>
Net book value at 31 December 2001	<u>205</u>	<u>258</u>	<u>463</u>
Net book value at 31 December 2000	<u>283</u>	<u>229</u>	<u>512</u>

7. Sundry creditors

	2001 £000	2000 £000
General expense creditors	195	100
Accruals	127	363
Provisions	<u>507</u>	<u>53</u>
	<u>829</u>	<u>516</u>

8. Financial commitments

The Commission leases property for its own occupation.

The rentals payable under these leases in the next year are:

Leasehold with a termination date between one and five years	29
Leasehold with a termination date between five and ten years	<u>319</u>
	<u>348</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Commissioners' remuneration

		2001	2000
		£	£
Fees paid to Commissioners were as follows:			
Colin Powell	Chairman	37,500	37,500
Richard Pirouet	Deputy Chairman	20,000	17,500
Julian Clyde-Smith	(resigned 31 May 2001)	6,250	15,000
Scott Dobbie		15,000	15,000
Francis Hamon	(appointed 7 April 2000)	15,000	10,962
Frederik Musch	(appointed 18 July 2001)	6,875	n/a
Richard Pratt		nil	nil
Jacqueline Richomme	(appointed 1 October 2001)	3,750	n/a
John Tibbo		15,000	12,500
Andrew Winckler		15,000	15,000

Richard Pratt is the Director General of the Commission. He was paid no fees during the year as a Commissioner, but received total remuneration of £173,000, (2000 - £160,000), including pension contributions, in his capacity as Director General.

10. Interest in wholly-owned companies

The Jersey Financial Services Commission has two wholly owned companies, JFSC Property Holding No.1 Limited and JFSC Property Holding No.2 Limited. These companies hold title to residential properties occupied by two employees of the Commission.

Agreements exist between the occupiers and the Commission transferring all the risks and rewards associated with these properties to the occupiers. The purchase cost has been provided to the companies by the occupiers, and the occupiers will bear all future expenses associated with the properties. As a result of the above, the two subsidiaries have not been consolidated, and no investment has been recorded in the balance sheet.

11. Contingent liability

As part of its regulatory responsibilities the Commission enters into legal actions from time to time, the costs of which may be significant. At 31 December 2001 one specific action was in progress where regulatory responsibility has required the Commission to petition the Royal Court. No provision has been made in the accounts for any future costs because the outcome is uncertain.

NOTES TO THE FINANCIAL STATEMENTS

12. Pension costs

- a) Staff initially employed by the Commission before 1 January 1999 are members of the Public Employees Contributory Retirement Scheme, which is a defined benefit pension scheme whose assets are held separately from those of the States of Jersey. Contribution rates are determined by a qualified actuary so as to spread the costs of providing benefits over the members' expected service lives.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £213,000 (2000 - £318,000). The decrease is due to leavers and also to payments made in 2000 relating to early retirements.

Actuarial valuations are performed on a triennial basis. The most recent available is in respect of the position at 31 December 1998. The main purposes of the valuations are to review the operation of the scheme, to report on its financial condition, and to confirm the adequacy of the contributions to support the scheme benefits.

The following assumptions have had the most significant effect on the result of the valuation:

Investment returns will be 3.75% pa above inflation;

Increases to pensions in payment and deferred pensions will be at inflation plus a 0.5% pa margin;

General salary increases and the total scheme pensionable payroll will be 2% pa above inflation plus a further 0.5% pa margin;

Long term investment returns on index-linked gilts will be 3% pa above inflation;

Long term dividend yields on equities will be 3.25% pa for UK equities and 2.25% pa for overseas equities.

The conclusions of the latest valuation are that there is a deficiency in the scheme assets, representing less than 2.5% of the value placed on members' benefits. However, the Commissioners consider that the Commission will not be accountable for any liability that may arise. Discussions are taking place between the Finance and Economics Committee and the Scheme's Committee of Management concerning whether any additional funding is necessary for the scheme as a whole.

For the period up to 31 December 2001, the Jersey Financial Services Commission has been required to make contributions of 15.16% of salary to the scheme as specified by the Committee of Management of the Public Employees Contributory Retirement Scheme. For 2002 and beyond, the Commission is awaiting the outcome of the discussions mentioned above with regard to the future contribution rate.

Under the requirements of FRS17 the Commissioners have not provided the transitional disclosures on the basis that the scheme is a multi-employer scheme.

Copies of the latest Annual Accounts of the scheme, and of the States of Jersey, may be obtained from the States Treasury, Cyril Le Marquand House, The Parade, St Helier JE4 8UL.

NOTES TO THE FINANCIAL STATEMENTS

12. Pension costs (continued)

- b) Staff initially employed by the Commission after 1 January 1999 are members of the Jersey Financial Services Commission Staff Pension Scheme, which is a defined contribution scheme whose assets are held separately from those of the Commission. The administration of the scheme is carried out by independent consulting actuaries, and the Commission has appointed independent managers for the management of the investments.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £99,000 (2000 - £95,000). The increase is due to rising staff numbers.

Particulars of the scheme may be obtained from The Secretary, Financial Services Commission, PO Box 267, Nelson House, David Place, St Helier JE4 8TP.

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**JERSEY FINANCIAL SERVICES
COMMISSION**

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