Jersey Financial Services Commission

Business Plan 2008 - 2010

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Section One: Introduction

The 2008 – 2010 Business Plan sets out the Commission's objectives together with an explanation of how they will be met. The Plan has been formulated taking account of the Commission's Key Purpose, Aims and Values. These are set out below.

Key Purpose

The Commission's key purpose is to maintain the Island's position as an international finance centre with high regulatory standards by:

- reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers;
- protecting and enhancing the Island's reputation and integrity in commercial and financial matters;
- safeguarding the Island's best economic interests; and
- countering financial crime both in Jersey and elsewhere.

Aims

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

- ensure that all entities that are authorised meet fit and proper criteria;
- ensure that all regulated entities are operating within accepted standards of good regulatory practice;
- match international standards in respect of banking, securities, trust company business, insurance regulation, and anti-money laundering and terrorist financing defences;
- identify and deter abuses and breaches of regulatory standards; and
- ensure that the Commission operates effectively and efficiently, and is accountable to the Minister for Economic Development as prescribed in the Financial Services Commission (Jersey) Law 1998.

Values

In support of its key purpose and aims the Commission expects all employees to act in a manner consistent with the following values:

Excellence:	We are committed to achieving quality in the exercise of our allocated tasks and assigned responsibilities and undertake to strive for continuous improvement by identifying ways to increase efficiency and effectiveness within ourselves and the Commission.
Professionalism:	We will conduct ourselves in accordance with the principles of professionalism by demonstrating a clear sense of commitment, objectivity and consistency.
Integrity:	We will be honest, fair and open in our dealings with one another and with the industry we regulate.
Teamwork:	We welcome the opportunity to work with one another and to share ideas, information and decisions by offering our support and assistance, and to solve problems in partnership with our colleagues, the industry we regulate and the international community.
Our employees:	We recognise that our people are our future and will encourage everyone to acquire professional skills, knowledge and experience to contribute effectively to the work of the Commission.
Respect for each other:	We recognise the equal worth of each individual and will support one another's need to balance their personal lives with their professional lives.
Respect for others:	We will aspire to meet the needs of all those we deal with by listening, understanding and responding promptly to their requests, and we will treat all those whom we regulate with courtesy and respect.

Section Two: Achievements in 2007

Overview

As highlighted in last year's Business Plan, the main priority in 2007 was the work to prepare for the visit of the International Monetary Fund ("**IMF**"), which is now scheduled to take place in October 2008. The preparatory work included a review of the international regulatory standards against which the Commission will be assessed. The gaps identified from this review were added to the remaining action points from the 2003 IMF assessment to form a remediation plan of necessary changes to the Island's primary and secondary legislation. There followed a series of public consultations and workshops on the proposed changes, which with the assistance of Jersey Finance Limited ("**JFL**") were undertaken expeditiously. The draft amendments to the primary legislation covering all regulatory laws have been adopted by the States and now await Privy Council consent. The amendment legislation also contained provisions to bring the regulatory laws into line with the requirements of the European Convention on Human Rights ("**ECHR**"). Further amendments, principally to secondary legislation, are due to be lodged with the States in the first quarter of 2008. In addition, the opportunity was taken to review and update the Codes of Practice applicable to all sectors of the finance industry (the "**Industry**").

With respect to other priorities, amendments were made to the prudential reporting requirements and capital calculations for banks, to bring them into line with the provisions of Basel II issued by the Basel Committee on Banking Supervision (the "**Basel Committee**"). Work continued to develop an Advertising Order and a related revision of the Overseas Persons Exemption Order, and to produce the revised version of the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism ("**AML/CFT Handbook**").

An All Island AML/CFT Strategy Group was formed in order to liaise, discuss and develop coordinated strategies and policies to enhance Jersey's capability to prevent and detect financial crime and terrorist financing. The Group comprises officers from the Commission and from the following Government Departments and Agencies: the Chief Minister's Department, the Economic Development Department, the Law Officers' Department, the Joint Financial Crimes Unit and the Shadow Gambling Commission. The Commission has agreed, following a request from Government, to undertake non-regulatory functions on behalf of Government. The Commission's remit is therefore being extended to include the AML/CFT oversight of money services businesses ("**MSBs**"), non-profit organisations ("**NPOs**") and designated non-financial businesses and professions ("**DNFBPs**"). A registration and notification regime for MSBs is currently being introduced and new Codes of Practice for MSBs have been issued. In response to the extension of the Commission's oversight role for AML/CFT, an AML Unit has been formed to take on that responsibility.

The most significant aspect of business as usual has been the continued focus and effort in respect of the closer supervision of the Industry by carrying out the on-site examination programme, which trend will continue into 2008. The outcome of the findings of the examinations has been discussed with the businesses concerned and, where necessary, remedial plans have been put in place. General issues arising from such examinations have been published on the Commission's website.

There was also a continuing emphasis on the various initiatives on funds, particularly the production of the Listed Fund Guide and the revision of the Non-domiciled Fund Guide. Significant progress was also made with the transfer of fund functionaries from regulation under the Collective Investment Fund (Jersey) Law 1988 ("**CIF Law**") to the Financial Services (Jersey) Law ("**FS(J)L**") and the creation of a new class of business under the FS(J)L, namely fund services business.

The other significant event during 2007 was the move to new premises at 14-18 Castle Street, St Helier. This was achieved in May with minimal disruption to the Commission's programme of work and the provision of key services to Industry. The Commission is now situated at the heart of the growing financial district and the inclusion of larger meeting rooms has enabled the Commission to hold more events for Industry at its new premises.

Contingency was necessarily built into the Commission's resource planning to allow for the ability to react quickly to new developments, particularly in the area of investigations and litigation where there have been some challenging cases. In addition, the Commission further tried to alleviate pressure on resources through the continued application of its risk-based approach to supervision.

During the year the Commission continued an action against Alternate Insurance Services Limited ("**Alternate**") to recover monies that had been lost due to misleading investment advice having been given to clients. In February 2007, judgment was given in favour of the Commission. Action is now being taken in the UK High Court against Alternate's professional indemnity insurer. The Commission also made a representation to the Royal Court under Article 34(5) of the CIF Law in relation to Equity Trust (Jersey) Limited and Equity Trust Services Limited as functionaries to collective investment funds investing in property developments in Bulgaria, Croatia and Montenegro.

Finally, following the untimely death of Andrew Winckler in January 2007 and the retirement of Richard Pirouet in May 2007, Sir Nigel Wicks and Clive Jones were appointed as Commissioners on 20 July and 23 October 2007 respectively.

Corporate Governance

The Executive was restructured in September 2007, following the departure of Mark Whiteley, Director, Corporate Services, to take up his new role as Guernsey's Registrar of Companies. The post of Director, Corporate Services, was discontinued and many of the functions were subsumed within the newly created post of Chief Financial Officer of the Commission ("**CFO**"). Nigel Woodroffe, previously Director, Finance and Insurance, took on the CFO function within the Finance Division, whilst Mark Sumner took on the Director of Insurance role in addition to his role as Director, Banking. The Heads of ICT, Shaun Roberts, and Human Resources, Annette Cullen, were both promoted to Director thereby giving the appropriate weight to these two central function roles within the Commission.

At the same time, the Executive meeting structure was simplified to provide additional focus to operational and strategic management. As part of this change, Gary Godel became Director, Risk and Quality Assurance, in February 2007 and was appointed Chief Operations Officer ("**COO**") in December 2007.

The Commission has continued to monitor its standards of corporate governance to ensure that it meets, so far as is applicable, the standards that are applied to commercial organisations. The model used for monitoring and mitigating the risks it faces has been the updated "Combined Code on Corporate Governance" issued by the UK Financial Reporting Council in June 2006.

As a result of the experience gained in a number of licensing and enforcement cases, a review of the Commission's decision-making process in these areas was begun in 2006. As part of that review, a new Review Committee process has been introduced to ensure that a greater degree of independent assessment of cases is undertaken before regulatory decisions are confirmed.

Communication

During 2005, the Commission started a planned programme for contact with key overseas regulatory authorities. This included visits to supervisory authorities and the signing of a number of agreements in relation to regulatory cooperation. In 2006, six new Memoranda of Understanding ("**MoUs**") were signed, and the programme continued in 2007 with MoUs being signed with the Cyprus Securities and Exchange Commission, the Office of the Superintendent of Financial Institutions Canada, the Irish Financial Services Regulatory Authority, the Central Bank of Cyprus, and the British Virgin Islands Financial Services Commission.

There has been continued progress in relations with other international organisations and regulators, for example with the US Securities and Exchange Commission and the UK Financial Services Authority, in respect of the exchange of information.

The Commission has also continued the process of communicating its strategic aims and objectives to Industry, and providing feedback on best industry practice and the results of its examination programme. A series of workshop events were held for Industry, relating primarily to the proposed legislative changes arising from the forthcoming IMF visit and also the introduction of the AML/CFT Handbook. In September 2007, communication and strategy were combined, at the start of the Commission's business planning cycle, with input from Industry on its priorities via the Chief Executive Officer ("**CEO**") Forum. The Commission also continued to publish its Quarterly Newsletter.

<u>Supervision</u>

The Commission has continued its focus on close supervision through on-site examinations and following up any necessary action arising out of those examinations. The examination results have also been fed back to Industry in various ways – through seminars, presentations, dialogue with Industry associations, "Dear CEO" letters, the Quarterly Newsletter, the website etc. The Commission completed 155 examinations during 2007 against a budget of 131 (including some examinations that were outsourced). There were 113 examinations during 2006.

The main issues that have arisen from the on-site examination programme during 2007 across the regulatory sectors are summarised in the following paragraphs.

The key examination theme addressed by the Banking Division was adherence to the Codes of Practice for Deposit-taking Business. Some common areas of shortcomings were: transaction monitoring where potential for higher risk has been identified, most particularly where an intermediary had introduced such an account; risk management controls applied to the accounts of politically exposed persons; controls surrounding 'hold mail accounts'; business continuity plans; controls relating to outsourced functions, most particularly those outsourced within the parental group; and board oversight and knowledge of the business.

Regulation has been recently extended to include general insurance mediation business ("**GIMB**"). The initial findings have shown that these businesses may benefit from a review of the relevant legislation in adhering to their regulatory requirements, significantly, but not least, in the performance of their insurance broking account calculations. The Commission has published guidance notes together with an Excel spreadsheet to help intermediaries to complete solvency calculations within the regulatory timeframes.

Some investment businesses were found to be undertaking unauthorised GIMB, following the recent introduction of that regime, and those businesses have since made the necessary applications to extend their classes of business to include GIMB. In some cases, new employees were being taken on without the registered person having first carried out sufficient checks with previous employers or referees. In addition, new products were being added to the list of products recommended to their clients without documenting the due diligence undertaken on those products.

In some cases, local fund functionaries were not performing the necessary due diligence checks on promoters and other parties in relation to new funds. Thereafter, issues arose due to a lack of knowledge of the structure of the funds and the attendant responsibilities being taken on. Some corporate governance issues were also noted that typically related to a failure to demonstrate proper oversight of outsourced or delegated functions.

Many trust company businesses were using a risk banding process for clients that was too narrow and, consequently, were not recognising or addressing the level of risk within their client base. In addition, there were cases where poor transaction trend monitoring led to a failure to identify unusual transactions that required further investigation. There were span of control issues for participating members where insufficient principal persons had been appointed to those participating members. On-site examinations identified a number of failures in respect of the conduct of business carried out for structures under administration. Finally, some managers of managed trust companies were not exercising the requisite level of control over those companies.

In the 2007 Business Plan, the Commission planned to bring to fruition the IMF action plan, thus beginning preparation for the 2008 assessment. Many of the activities during 2007 related to this in various ways, for instance:

- The continuing examination effort mentioned above;
- The completion of amendments to supervisory legislation;
- The development and amendment of Codes of Practice relating to all sectors of the Industry;
- The introduction of Codes of Practice for MSBs and fund services business; and
- The implementation of the provisions of Basel II to the banking sector, including guidance relating to the treatment of market risk.

In 2007, the Commission made good progress on a number of important policy issues. In the funds area, the Expert Fund Guide has been completed, as has the Jersey Listed Fund Guide for closed ended funds. Work has also continued on the transfer of the regulation of fund functionaries from the CIF Law to the FS(J)L, which transfer took effect on 13 November 2007.

General

The AML/CFT Handbook and revised Money Laundering Order were completed later than originally planned. Following extensive consultation with Industry, the draft AML/CFT Handbook was issued in final draft form on 2 July 2007. The AML/CFT Handbook became effective from 4 February 2008, which provided regulated financial services businesses with a 7-month period to implement its requirements. In addition, extensive work has been undertaken on the implementation of the European Union ("**EU**") Regulation on wire transfers to give effect to Financial Action Task Force ("**FATF**") Special Recommendation VII ("**SR VII**"); and the States passed the requisite Regulations in December 2007.

Financial Services Commission (Amendment No.4) (Jersey) Law 2007 was adopted by the States in April 2007 and was registered by the Royal Court on 26 October 2007. This Amendment, which came into full force on 24 January 2008, sets out more clearly the ability of the Commission to carry out the routine examination of supervised entities and permits the Commission to set its own regulatory and registry fees without requiring an Order of the States. It also introduces the ability to charge additional penalty fees for the late submission to the Commission of annual returns, accounts and any other documentation required for regulatory or supervisory purposes.

The introduction of on-line company searches and incorporations has progressed, following the introduction of the on-line filing of annual returns during the previous year.

The Commission has been recognised for the Investors in People ("**IiP**") Recruitment and Selection Award, reflecting the major advances that have been achieved in recruitment and selection strategies. The Commission first achieved the IiP standard in 2001 and this award came as part of the successful completion of the ongoing assessment programme. In addition, the Commission recently won an award from the Jersey Child Care Trust for being a family friendly employer.

There are a number of strategic items that the Commission has not progressed. These include the development of legislation to introduce fining powers because, following review, it was felt that the IMF preparation work and other legislative amendments were more immediate priorities. Changes to legislation to allow cost recovery of investigation costs related to regulated entities has been carried forward for future years.

Key Statistics for 2007

Total Examinations 2007

Division	Themed	Focused	Discovery	Total
TCB	35	4	33	72
Funds	6	7	14	27
IB	10	4	9	23
Banking	19	5	3	27
Insurance	0	0	6	6
Total	**70**	**20**	**65**	**155**

Funds Statistics

Category	2004	2005	2006	2007
Jersey Funds				
- Jersey CIFs	85	60	21	21
- Expert Funds	45	105	149	125
- Jersey Listed	-	-	-	11
- Total CIF	***130***	***165***	***170***	***157***
- VPUTs	68	393	311	66
- Other COBO only	21	14	20	11
- Total COBO	***89***	***407***	***331***	***77***
Total Jersey Funds	***219***	***572***	***501***	***234***
Non Jersey Funds				
- CIFs	55	20	37	29
- Expert Fund equivalent	7	21	28	43
- Total Non Jersey CIFs	***62***	***41***	***65***	***72***
- COBO	9	8	170	128
Total Non-Jersey Funds	***71***	***49***	***235***	***200***
Total New Funds Authorised	**290**	**621**	**736**	**434**

Enforcement Statistics

Requests from other regulators & international bodies during 2007

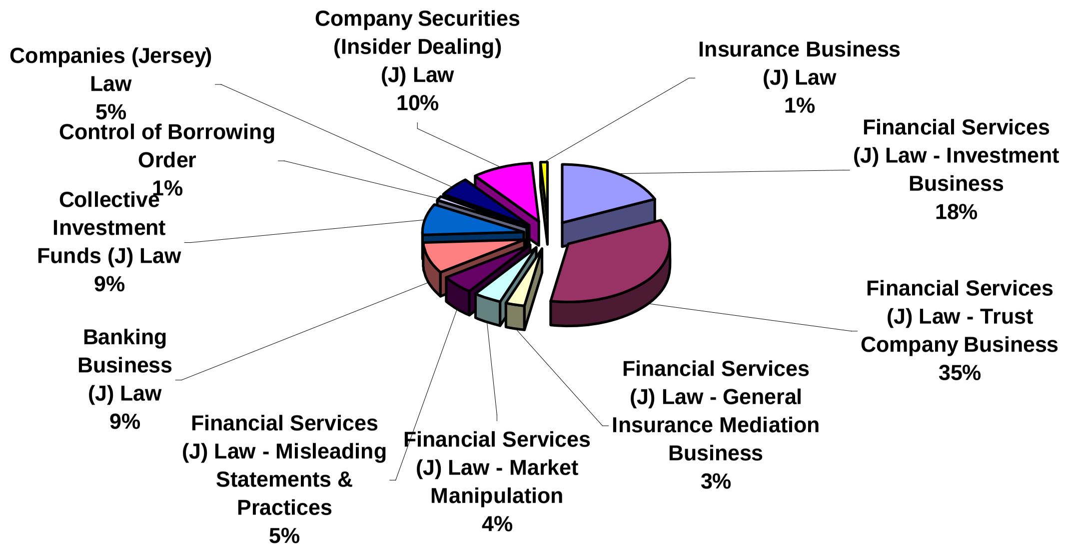
Requesting organisation	Request received and actioned	Law used or relevant Law
UK Financial Services Authority	2	Company Securities (Insider Dealing) (Jersey) Law 1988
UK Financial Services Authority	3	Financial Services (Jersey) Law 1998
Hellenic Capital Markets Commission	1	Company Securities (Insider Dealing) (Jersey) Law 1988
US Securities & Exchange Commission	3	Financial Services (Jersey) Law 1998
South Africa Financial Services Board	3	Financial Services (Jersey) Law 1998
Securities Commission of Malaysia	1	Collective Investment Funds (Jersey) Law 1988
Agencia Tributaria (Spanish Tax Agency)	1	Companies (Jersey) Law 1991
Serious Fraud Office	1	Financial Services (Jersey) Law 1998
Australian Securities & Investment Commission	1	Collective Investment Funds (Jersey) Law 1988
Charity Commission	1	Companies (Jersey) Law 1991
Oklahoma Horse Racing Commission	1	Companies (Jersey) Law 1991
TOTAL	**18**	

In respect of the Agencia Tributaria, the Charity Commission and the Oklahoma requests, the Commission was not able to provide all information requested, as the bodies are not relevant supervisory authorities. However, assistance was rendered to some degree, as a large amount of public information concerning Jersey companies etc was shared. The Agencia Tributaria was also referred to the Attorney General. The Commission has also provided assistance, to some degree, to the Serious Fraud Office, whilst also not a relevant supervisory authority.

Total Enforcement Cases during 2007

	Financial Services (J) Law - Investment Business	Financial Services (J) Law - Trust Company Business	Financial Services (J) Law - General Insurance Mediation Business	Financial Services (J) Law - Market Manipul-ation	Financial Services (J) Law - Misleading Statements & Practices	Banking Business (J) Law	Collective Investment Funds (J) Law	Control of Borrowing Order	Compan-ies (Jersey) Law	Company Securities (Insider Dealing) (J) Law	Insurance Business (J) Law	**Total**
Active 1 January 2007	3	11	1	0	0	2	2	0	0	1	1	21
New cases in year	14	21	2	4	5	6	6	1	5	8	0	72
Total during year	17	32	3	4	5	8	8	1	5	9	1	93
Total shown as percentage	*18.3%*	*34.3%*	*3.2%*	*4.3%*	*5.4%*	*8.6%*	*8.6%*	*1.1%*	*5.4%*	*9.7%*	*1.1%*	*100%*
Balance 31 December 2007	5	12	1	2	0	2	3	0	1	4	0	30

Enforcement Cases during 2007



Registry Statistics

Company incorporation and limited partnership set-ups

Year / Activity	2005		2006		2007	
Total company formations	2,861	17.3%	**3,479**	21.6%	**4,050**	16.41%
Dissolutions	2,568	-24.5%	**2,557**	-0.4%	**2,593**	1.41%
Limited Partnerships	113	-19.9%	**160**	41.6%	**120**	-25.00%

Self-imposed targets and achievements for the year ended 31 December 2007

	All Companies %	**Partnerships** %	**Searches** %	**Certification** %	**Business Names** %
Achieved	**98.3**	**99.1**	**100.0**	**100.0**	**98.7**
Target	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	90 achieved within 2 days

Section 3: Priorities for 2008 - 2010

Overview

In deciding on the Commission's main priorities for 2008 to 2010, the Commission has taken into account the outcome of a strategic Away Day held in September 2007. This involved the Board of Commissioners and the Commission's Executive and focused on identifying those essential projects, which would need to continue into 2008 and beyond, and any new essential projects. A second half-day meeting held with a selection of CEOs and Industry representatives reviewed the Commission's progress against its Business Plan and provided Industry feedback on the main priorities for the Commission.

In the Away Day held for Commissioners and Directors, it was agreed that the IMF assessment remained one of the main priorities for 2008. Although the assessment had been deferred until Autumn 2008, the Commission would take advantage of the extra time to further demonstrate effectiveness. As part of the ongoing preparation, there would be an internal focus on policies and procedures. Sector specific sections would be produced for the AML/CFT Handbook. The formation of an AML Unit would focus on MSBs, NPOs and DNFBPs and, in time, act as a centre of expertise for prudentially supervised financial services businesses. An Island-wide national risk assessment would be undertaken in relation to AML/CFT, which would enunciate and present the risks faced by the Island. This would be a useful tool in developing strategies to deal with those risks.

At the Away Day, it was also recognised that the priorities in the coming years needed to reflect international trends. In this connection, the Commission would consider, in conjunction with Industry, issues such as the position of non-executive directors and the rules regarding beneficial ownership. Other matters that might arise and require the Commission's review are fining and sanctions, compensation schemes and the possible regulation of pension schemes and consumer credit.

The opportunity had also been taken to adopt a longer-term view, which included a review of the Commission's regulatory philosophy as well as key policy areas. In relation to philosophy, the question was asked as to whether any of the Commission's statutory aims needed changing. The current aims were protecting investors, the reputation of the Island and its economic interests, and countering financial crime. The conclusion was that the aims and objectives were still relevant and appropriate but that the highest priority should be given to investors' interests and the Island's reputation, whilst still having regard for the economic interests. The Commission also understood the importance of being adaptable and responding to changes in the market place, which was evidenced by a number of advances in relation to fund products including the current development of an unregulated fund product. In addition the Commission was committed to using a risk-based approach, which focussed resources on the areas of highest risk.

The two major projects during 2008 will be the integration and supervision of fund services businesses under the FS(J)L and a progressive move away from desk-based supervision to on-site supervision using a risk-based approach. This will have an inevitable effect upon the way in which the Commission supervises the Industry, particularly the expertise of the staff. It has been recognised that the skills required for on-site examinations and the face-to-face contact with regulated businesses are different from those needed in a desk-based environment. This has been one of the main considerations when recruiting replacement or additional staff. In addition, the on-site examination programme is anticipated to result in an increase in regulatory issues that need resolution either with the Industry as a whole or with individual businesses, leading to a higher volume of post-examination activity.

There will be an increase in interaction with international bodies and organisations to demonstrate that the Island operates to accepted international standards. In general, there will be a move to undertake reforms and simplify mechanisms, and enforcement capabilities will be geared up to respond quickly and effectively to regulatory breaches as they arise.

Summary of Key Priorities for 2008

As already noted the continued preparation for the IMF assessment, now scheduled to take place in October 2008, will be the critical and major project for 2008.

The Action Plan from the last IMF assessment, and the Remediation Plan derived from the review undertaken of relevant revisions of international standards since that assessment, will be completed using current assessment methodologies published by the Basel Committee, the International Association of Insurance Supervisors ("**IAIS**"), the International Organisation of Securities Commissions ("**IOSCO**") and the FATF. The on-site examination programme will be maintained across all the Supervision Divisions, as the international community and the IMF will assess the effectiveness of the implementation of the legal and regulatory frameworks. The increased communication with Government should continue, as the Government has ownership of a number of AML/CFT issues, so that the Island as a whole is fully prepared for the IMF assessment. The recently formed AML Unit will undertake registration, education and on-site examinations in relation to MSBs, NPOs and DNFBPs as part of the extended remit for the oversight of AML/CFT now being undertaken by the Commission on behalf of Government.

Funds initiatives, such as the introduction of an unregulated fund product, will continue into 2008.

Registry online initiatives will continue to be developed, including the extension of on-line services. In addition, Registry will continue to participate in the European Commerce Registries' Forum ("**ECRF**"), the European Business Register ("**EBR**") and other international initiatives.

There is a number of projects that, whilst important, do not carry a high priority pre IMF. These include developing our own fining and cost recovery mechanisms, researching how an Ombudsman Scheme might work in the Island with appropriate recommendations to the Minister for Economic Development, and an overall tidy-up of the regulatory laws bringing the now largely consistent regimes into one single piece of legislation.

The Commission does not believe it should take on any new areas of responsibility, such as pensions and building societies regulation, unless requested by Government to do so on its behalf. Even if requested to do so and with separate funding, the impact of such new responsibility on the Commission's resources would need to be taken into account.

Divisional Priorities for 2008

Directorate

A continuing priority for the Director General is to spend more time on strategy and international relations. In particular, relations will be developed further with jurisdictions that may hold an adverse view of the Island, as well as being maintained with regulatory authorities with which the Commission has signed a MoU. The introduction of the CFO and COO roles, focussing on financial, technical and operational issues, will allow both the Director General to fulfil the above role and the Deputy Director General to concentrate on the management of the Supervision Divisions and the issues and cases arising from within Supervision.

In common with the rest of the Commission, the Directorate will be involved in the preparations for the forthcoming IMF assessment. The Directorate will also continue to develop and enhance relations with the Minister for Economic Development and other Government Ministers and Departments, including participation in the AML/CFT Strategy Group, as well as with the various Industry representative bodies domestically. The aim will be to continue the momentum gained in recent years in improving the relationship between the Commission, Industry and Government.

Chief Financial Officer ("CFO")

Following the introduction of legislation that permits the Commission to set its own fees, the CFO will review the rotational basis of fee setting with a view to possibly producing annual amendments.

The CFO has taken on the responsibility for the production of the Annual Business Plan and publishing the Annual Report and the Quarterly Newsletter. In addition, the CFO now has the main day-to-day responsibility for ensuring that the corporate governance framework within the Commission is maintained and, where opportunities for enhancement exist, that they are identified and progressed.

The Finance Team will continue the work to integrate the Central Index System ("**CIS**") to Open Accounts in order to reconcile fee income due to the Commission recorded in CIS to actual receipts in Open Accounts. This will be a joint project with ICT. Finally, the CFO will progress the arrangements for the 2007 audit, which will be undertaken by PKF (UK) LLP following their recent appointment as auditors of the Commission.

International & Policy

The continuing key priority for the International & Policy Division will be to coordinate the preparation for the IMF visit in October 2008. This will involve completing the action plan from the previous IMF visit, coordinating changes identified in the Commission's self-assessment against current international standards, and a proactive role in the work of the Island's AML/CFT Strategy Group.

The Division will continue to develop the AML/CFT Handbook, considering the addition of typologies, cases studies and additional sector specific guidance. The Division will also continue to assist the Supervision Divisions and the AML Unit with the development of a supervisory approach that is in line with the FATF Recommendations on AML/CFT.

Finally, the Division will continue to monitor developments in domestic legislation and, in particular, proposals to introduce Freedom of Information legislation. It will continue to keep a watching eye on developments in EU legislation, to assess the impact of such developments on the work of the Commission and finance sector. In particular, there will be a focus in 2008 on the oversight of auditors, payment service providers and e-money providers.

Supervision Divisions

The Supervision Divisions comprise the Banking Division, the Insurance Division, the Securities Division (combining the Funds Team and the Investment Business ("**IB**") Team), the Trust Company Business ("**TCB**") Division and the AML Unit.

The majority of the work undertaken by the Supervision Divisions falls within the category of business as usual, which comprises the on-site supervision of regulated entities, off-site supervision (including the review of audited accounts and other reports), and the authorisation of applications, revocations, amendments and renewals to registrations. The on-site examination programme for regulated entities conducted by Commission staff, and that outsourced to third parties, will continue at similar levels to that achieved in 2007 with 134 examinations planned for 2008. A further 60 examinations will be undertaken by the recently formed AML Unit to bring the total planned examinations to 194. On-site examinations for 2008 are scheduled as follows:

Division	**Themed**	**Focused**	**Discovery**	**Total**
TCB	25	5	20	50
Funds	15	4	4	23
IB	6	6	8	20
Banking	10	15	0	25
Insurance	0	0	16	16
AML Unit	0	60	0	60
Total	**56**	**90**	**48**	**194**

The AML Unit will undertake on-site examinations in relation to MSBs, now that these have been brought into regulation, and the AML/CFT oversight of NPOs and DNFBPs. It is anticipated that the AML Unit will work in partnership with the Supervision Divisions on the AML/CFT aspect of the regulatory examinations of prudentially supervised businesses. A key feature of on-site examinations for the Banking Division will be the implementation of the AML/CFT Handbook, while the Funds Team will carry out themed examinations in the areas of managers of managed entities.

In terms of essential projects, all the Supervision Divisions will continue to have a role to play in preparing for and assisting with the IMF evaluation in October 2008. The IMF Project Team, which was formed at the beginning of 2007, will continue to work into 2008 on the policies and procedures part of that preparation and assist with the subsequent collation and submission of data to the IMF. The amendments to the regulatory laws, which have been adopted by the States in November 2007, are likely to come into force in early 2008. Following requests from Industry, it is planned to issue a document for each regulatory sector setting out the key changes in the Law, Orders and Codes of Practice, which may form the basis of workshops for Industry to be held by September 2008.

The Banking Division will continue the implementation of a revised capital and reporting regime, the introduction of capital requirement for market risk and the implementation of the Pillar 2 requirements, as part of the Basel II regime. The ongoing work on the Advertising Order will continue to be led by the Banking Division, in liaison with the other Supervision Divisions, with a view to introducing the Order under the FS(J)L during the first half of 2008. The Division will continue to monitor the impact of the 2007 liquidity crisis on Jersey regulated businesses. Participation in meetings of the Offshore Group of Banking Supervisors ("**OGBS**") will also continue.

The Funds Team of the Securities Division will complete the process of transferring fund functionaries to the FS(J)L. The Funds Team will also continue work on the introduction of an unregulated fund product in liaison with Industry. Reviews will be undertaken of the Outsourcing Guide and the CIF (Recognized Funds) (Rules) (Jersey) Order 2003. A Securities Information Unit has been formed to undertake the review of accounts and collate statistical data. In addition, the Funds Team will continue its international obligations by attending IOSCO meetings and dealing with inter-regulator enquiries. The IB Team will publish, in addition to the names of all registered persons already published on the Commission's website, any registration conditions and the names of the investment business employees at those registered persons. The IB Team will undertake a 'Mystery Shopping' exercise and publish the results of that exercise.

The TCB Division will continue conducting significant numbers of on-site examinations and is planning a 'conduct of business' theme for 2008. This will involve examiners focusing predominately on detailed file reviews, rather than analysing the processes and procedures being employed by trust companies that have already been the subject of review in the majority of cases. The Division will continue to work closely with firms who are failing to meet the regulatory standards either by way of a formal corrective action plan or through an orderly wind-up of the business. On the legislative front, the Division will be reviewing the current directors' exemptions followed by a focus on the Experience Personal Advisor regime, analysing whether it remains fit for purpose or whether changes need to be made. Work is also being planned to review the private trust company regulatory regime, which will include a survey of Industry to establish the nature and extent of the use of the private trust company.

The Insurance Division will review compliance with the AML/CFT requirements by long-term insurance business permit holders. Consideration will be given to becoming a signatory of the recently introduced IAIS Multi-lateral MoU and further work will be undertaken for both the IAIS and the Offshore Group of Insurance Supervisors ("**OGIS**"). The CFO will continue to provide advice and assistance to the Insurance Division, particularly with Jersey's international relations with the IAIS and the OGIS.

Registry

The key priority of the Registry is to ensure that it offers a high quality of service to its users, by managing its workflows as efficiently and effectively as possible. The Registry will, in partnership with the ICT Division, continue the range of automation and e-commerce projects, which will continue through until the end of 2008. In addition, the Registry will promote a revised Registration of Business Names (Jersey) Law and issue related guidance notes. Guidance will also be issued in respect of corporate directors and a register of directors. Finally, the Registry will contribute to consultation on draft legislation that affects the Registry, such as a new Foundations Law and any amendments to the Companies (Jersey) Law 1991. In addition to participating in the ECRF and EBR, the Deputy Registrar has been appointed a Director of the International Association of Commercial Administrators.

Enforcement

The Enforcement Division will continue its ongoing investigation of domestic cases involving entities and individuals under the regulatory laws and possible cases of unauthorised business. This will involve recommending the use, where appropriate, of regulatory sanctions or, in cases involving criminal offences, a referral to the Attorney General. In addition, the Division will continue to respond, in a timely manner, to requests from overseas supervisory authorities, taking any further action locally as appropriate. The Division will carefully consider the conduct of individuals who have acted with a lack of integrity or competence and assess the need to use existing powers to ban them from the Industry.

The development of an intelligence capability and an intelligence system within the Division will assist in the identification of unauthorised businesses and the provision of information to the Supervisory Divisions in relation to their on-site examination programmes. The Division will promote the prevention of financial crime by engaging the public and Industry with a publicity campaign designed to warn the public of the dangers of being defrauded or making high-risk investments.

Consultation will take place on the introduction of cost recovery through the use of statutory powers in the FS(J)L in cases involving significant expenditure by the Commission. A review will be undertaken as to whether an enabling power for fining should be introduced, examining models used by other similar jurisdictions.

ICT

The ICT Division will continue the range of Registry automation and e-commerce projects. However, the main focus of the Division will be the development and enhancement of the Commission's internal systems, including the integration of the main databases and a review of how users access Commission data. This will necessitate an increased involvement by users if such developments are to be successful. Finally, the Division will co-ordinate the process leading to accreditation under the important international security standard, ISO 27001. A mock review carried out on 2007 suggests that the Commission is on course to achieve this.

Human Resources ("HR")

The HR Division will continue to progress enhanced automation of various functions including payroll, personnel records, absence management, statistics and the database. In addition, HR will be looking to develop an automated Personal Development Review process linked to the learning and development needs of the business. In this regard, a Learning and Development Manager has recently been recruited to improve and extend the range of training courses and other learning opportunities that will be made available to all staff. The amount of money included in the budget for training has been significantly increased. HR will also be focussing on the design, maintenance and enhancement of key policies and procedures to ensure compliance with employment and discrimination legislation.

Operations

The Operations Division, formerly Risk and Quality Assurance, will support the ongoing regulatory activities, which will include liaison between ICT, Supervision and Enforcement, focussing on major projects. The Division will continue to carry out the function of internal audit, which will include audit reviews, maintenance of the Commission Risk Schedules and liaison with the Audit Committee.

Resourcing

In terms of the Commission's resourcing to achieve the above priorities, the Commission has considered carefully its resourcing strategy and has concluded that, to manage its increased remit and the increasing workload across the Commission, it requires eleven additional staff. This includes the AML Unit, comprising four staff, but in 2008 the cost of this Unit will be largely funded by the States of Jersey. The cost effect for the Commission relates therefore to seven extra staff. The Funds Team is currently under pressure due to the level of activity in this sector.

As previously stated, the IMF evaluation will attach great importance to the effectiveness with which the international standards are being applied and will look to see how this is monitored through a comprehensive on-site examination programme. In order to achieve the priorities under these circumstances, a number of the on-site examinations will continue to be outsourced in 2008. Contract staff will be used to carry out day-to-day supervisory work in order to release key staff for the IMF preparation. The use of outsourcing and contract staff ensures that some of the increased staff costs in 2008 will not be incremental and ongoing into later years.

<u>Section 4: Budget 2008 - 2010</u>

Policy

The Commission's policy with respect to the Budget is to:

- Set fees at such a level as to cover the costs of regulating the finance industry and administering the Companies Registry, and to make an appropriate contribution to reserves;
- Keep regulatory fees to a minimum by maintaining strict control of costs; and
- Build up an accumulated reserve equal to one quarter's operating expenditure plus the average of one year's cost of investigations and litigation, in order to meet contingencies.

Income

Fee income in 2007 was £14,609,000, £869,000 above budget. The main cause of the increase has been the continued high level of company incorporations and new fund applications. General insurance mediation, investment business and trust companies also contributed additional fees. Income from banking and insurance was below budget, because anticipated applications for new registrations did not materialise when expected.

In the 2008 budget, fee income is £14,974,000. A cautious approach has been adopted towards registry and funds income because the current level of company incorporations and funds applications may not continue. Income from other sectors is anticipated to be at similar levels to 2007, but fees for money services businesses have been included for the first time, as has the contribution from the States of Jersey towards the costs of the Commission's recently formed AML Unit.

Bank deposit interest received in 2007 was £570,000, an increase against budget of £190,000. This was due to the higher level of fee income and the increase in interest rates during the year. For 2008, interest income is projected in the budget to be £550,000. It is expected to be lower because of the costs of new staff and an expected fall in interest rates.

After accounting for the contribution of £4.1 million payable to the States of Jersey, in practice from revenues generated by the Companies' Registry, the budgeted net income available to the Commission for its own expenditure in 2008 is £11,424,000, compared with £11,079,000 in 2007.

Expenditure

Operating expenditure in 2007 was £9,894,000 against a budget of £9,788,000. The increased spend of £107,000 arose primarily from premises costs associated with the move to new offices and the related depreciation charges on additional fixed assets. The Commission also continued to use external professional firms to provide assistance in the supervision visit programme. Staff costs were lower than budgeted due to the timing of the recruitment of additional staff.

In 2008, the budget shows an increase in costs over 2007 of £1,149,000 to £11,043,000. The main cause is staff costs.

Despite the continued policy that only essential projects are included, the costs of computer systems are anticipated to increase in 2008 as the Commission continues to improve its administrative systems. Software licence fees for the additional staff will also add to the costs of computer systems.

Expenditure on external professional service providers is expected to continue for assistance with on-site examinations and also for the ongoing preparatory work necessary in advance of the IMF visit.

The amount of business travel and training is likely to increase next year as a result of higher staff numbers. The level of staff training in 2007 was below expectations because of the commitments associated with the IMF visit preparation work, but it is hoped that an appropriate level of training can be achieved during 2008.

Investigation and litigation costs amounted to £882,000 in 2007, exceeding the budget of £700,000. The higher spend was caused by major new investigations that have turned out to be complicated and time consuming, and therefore expensive. The budget has been increased to £1 million for 2008, taking into account that the two major cases will continue and also allowing for a few new investigations arising during the year.

Results for the years

2007 produced an excess of income over expenditure of £303,000, compared with an original budget deficit of £468,000. For 2008, the budget shows a deficit of £619,000, but the forecast level of reserves at the end of the year, £4,368,000, remains in excess of the minimum target reserve calculated in line with the Commission's policy (£3,682,000).

INCOME AND EXPENDITURE FOR THE YEARS 2006 TO 2008

	2006 £ooo Actual	*2007 £ooo Budget*	2007 £ooo Actual (unaudited)	**2008 £ooo Budget**
Income				
a) Fee Income				
Registry	6,169	*6,000*	6,381	**6,400**
Banking	1,188	*1,348*	1,321	**1,348**
Insurance	536	*530*	516	**530**
General Insurance Mediation	74	*70*	88	**85**
Funds	2,537	*2,450*	2,886	**2,850**
Investment Business	1,085	*1,070*	1,112	**1,085**
Trust Company Business	1,927	*2,272*	2,305	**2,300**
Money Services Business	-	-	-	**36**
AML Unit	-	-	-	**340**
	13,516	*13,740*	14,609	**14,974**
Less: Contribution to the States of Jersey	4,100	*4,100*	4,100	**4,100**
	9,416	*9,640*	10,509	**10,874**
b) Other Income				
Bank Interest	412	*380*	570	**550**
Total Net Income	9,828	*10,020*	11,079	**11,424**
Operating Expenditure				
Staff costs	6,077	*7,033*	6,938	**7,754**
Other operating expenditure	2,341	*2,755*	2,956	**3,289**
Total Operating Expenditure	8,418	*9,788*	9,894	**11,043**
Operational surplus	1,410	*232*	1,185	**381**
Investigations/regulatory intervention/litigation	519	*700*	882	**1,000**
Surplus/(deficit) for the year	891	*(468)*	303	**(619)**
Accumulated Fund at beginning of year	3,793	*4,684*	4,684	**4,987**
Accumulated Fund at end of year	4,684	*4,216*	4,987	**4,368**

PROJECTED BALANCE SHEET AS AT 31/12/2007 AND 31/12/2008

		Actual 2007 (unaudited)		Budget 2008
	£000	**£000**	**£000**	**£000**
Fixed Assets		1,171		1,130
Current Assets				
Sundry debtors	37		25	
Prepayments	235		250	
Bank balances	7,733		7,101	
		8,005		7,376
Total Assets		9,176		8,506
Current Liabilities				
Fee income received in advance	3,424		3,438	
Sundry creditors and provisions	765		700	
		4,189		4,138
Total Assets less Current Liabilities		4,987		4,368
Accumulated Reserve		4,987		4,368