



Jersey Financial Services Commission

Chief Executives (or equivalent)
of all persons registered
to conduct investment business
under the Financial Services
(Jersey) Law 1998

DB/GH

6 April 2011

Dear Sir or Madam,

**Jersey Financial Services Commission (the "Commission")
Financial Services (Jersey) Law 1998 (the "Law")
Codes of Practice for Investment Business (the "IB Codes")
2010 Overview of the Securities Division, Investment Business & Priorities for 2011**

This letter is sent to the Chief Executive (or equivalent) in order to share with you some of the key findings from our on-site examinations during 2010. It also explains recent developments within the Investment Business Team (the "Team") and the key priorities for Investment Business in 2011.

Key findings from 2010

The Team conducted 25 on-site examinations of regulated investment businesses in 2010. These comprised 3 focussed, 10 discovery and 12 themed examinations. The objective of the themed examinations was to examine conduct of business within businesses providing investment advice to clients. Overall the Team was encouraged to note a general rise in standards however there were a number of specific instances where further action was called for.

As in previous years, the Team was interested in gaining an insight into the practical measures implemented by Industry to demonstrate compliance with the IB Codes. The key findings that emerged from the 2010 on-site examination programme were as follows:

1. commissions and fees earned by the investment business and additional underlying charges were not fully disclosed to clients, and issues with the timing of the disclosure were also identified;
2. the information gathered from the client for fact finding/client profiling purposes was insufficient and in many cases did not take into consideration all the client's circumstances such as their assets, liabilities, future aspirations, debt and risk profile;



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3. information sent to clients, commonly referred to as the "suitability letter", was not tailored to the client's specific circumstances, and there was inadequate explanation why a particular product provider or fund manager was selected;
 4. there was an inappropriate degree of reliance on intermediaries in relation to introduced business;
 5. there was also an overreliance on platform/wrap providers and inadequate due diligence on specific funds, products and providers;
 6. the Team noted instances where AML/CFT risk ratings had either not been undertaken for some clients, or that such ratings had been completed with little or no documented rationale;
 7. compliance arrangements were found to be either inadequate or insufficiently independent. It was also noted that in circumstances where some of the functions were outsourced, there was no or only minimal oversight by compliance of the outsourced functions;
 8. the Team identified discrepancies within a number of businesses where the procedures were not aligned with the current IB Codes and did not reflect the requirements of the AML Handbook; and
 9. the internal systems and controls in respect of recording and monitoring conflicts of interest were inadequate.

2011 On-site Examinations

The Team is again proposing to conduct 25 on-site examinations of regulated investment businesses in 2011. These will comprise 2 focussed, 18 discovery and 5 themed examinations. The Team will continue to examine conduct of business within businesses, and the objective of the themed examinations for 2011 will be to examine investment businesses that hold a Class E registration (investment business in respect of funds).

A topic of particular interest where we would expect all firms to have adequate policies and procedures is conflicts of interest. Management of conflicts will become part of our routine review during our on-site visit programmes going forwards.



Recent Developments

Mystery Shopping Project II

A second mystery shopping exercise on the suitability of advice and the sales processed by regulated investment advisers was carried out during 2010 and a report of the findings was published on the Commission's website on 2 February 2011.

"Protect Your Money" Website

On 14 March 2011 the Commission launched the "Protect Your Money" website. It contains information aimed at helping consumers better understand the risks and opportunities associated with various types of investments and financial products. The Protect Your Money website can be found at www.protectyourmoney.je

The website will be a key element of a wider Commission initiative aimed at consumer education. Members of Industry are invited to give their views on the website and its content, and to suggest additional items for inclusion.

Our priorities for 2011

Retail Distribution Review ("RDR")

The UK Financial Services Authority ("FSA") has published its final rules concerning the remuneration, description of investment advice and professional standards elements of the RDR. The Commission is considering how to revise our investment business regime as a consequence of the RDR, and we shall shortly be issuing a Position Paper in order to share our proposals with Industry and invite their comments. Our current views are that we shall replicate the FSA's requirements with respect to higher levels of qualifications for investment advisers, and adopt their proposals regarding commission payments.

Guidance on Investments within Pension Schemes

The Income Tax Office recently updated its Practice Notes on Retirement Annuity Trust Schemes by removing all references to issues not specifically related to tax, including the



financial adviser's role. It is the Commission's intention to publish a Guidance Note on providing advice on investments within pension schemes.

Codes of Practice for Investment Business

The Commission will shortly be issuing a Consultation Paper concerning revisions to all supervision Codes of Practice, including those for investment business, in order to ensure greater consistency across each of the Commission's supervision divisions.

Para planning

The Team will be undertaking a project of researching into para planning activity. The project will include seeking responses from investment advisory businesses that employ para planners in order to form a view whether we need to widen the definition of an 'investment employee'.

Annual Registration Renewal

The annual renewal date for investment business registrations is 1 May 2011. The 2011 Investment Business Annual Registration Fee form has now been uploaded onto the Investment Business section of the Commission's website.

The form should be completed and submitted to the Commission, together with any supporting documentation and a cheque for the relevant fees, before 1 May 2011.

The Investment Business Team

We regret to inform you that Chris Jordan, Senior Manager, will be leaving the Commission shortly to further his career in the UK. Mike Jones will be acting as senior point of contact for the Investment Business Team for an interim period and registered businesses should continue to contact their dedicated supervision manager with regard to any regulatory matters.



In summary, 2010 was a very productive year for the Team and, whilst it was encouraging to see standards rising, there are still a number of areas for improvement and which we will continue to monitor throughout the year.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D Banks', written in a cursive style.

David Banks
Director, Securities