



Jersey Financial
Services Commission

Business Plan 2015

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Jersey Financial Services Commission

BUSINESS PLAN 2015

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INTRODUCTION

This Business Plan and Budget 2015 sets out the Commission’s objectives and priorities for the next year and beyond. The goal is to assist Islanders, the financial services industry (“**Industry**”) and Government to assess how the Commission plans to address the current challenges facing it and its staff.

The Commission welcomes opportunities to meet Industry participants, members of Government and the public to explain how it sees these challenges and we would very much appreciate critical assessment.

COMMISSION STRATEGY STATEMENT

Our Mission

Our mission is to maintain Jersey's position as an international finance centre with high regulatory standards and to pay particular attention to our Guiding Principles¹ as set out in the Financial Services Commission (Jersey) Law 1998 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 reputation and integrity of Jersey in commercial and financial matters;
- Safeguarding the best economic interests of Jersey; and
- Countering financial crime both in Jersey and elsewhere

Our Vision

To deliver balanced, progressive, risk-based financial regulation for Jersey, built on insight, integrity and expertise.

Business as usual

This document is focused primarily on major priorities for change in 2015 and beyond. But it is important to recognize that the majority of the Commission's staff will continue to focus on the important day-to-day activity of the regulator. This includes authorisation, supervision, enforcement and international engagement. More detail on these activities is included in the Commission's Annual Report.

Current and emerging challenges

In the aftermath of the financial crisis, Jersey's financial services Industry faces a more challenging business environment and, at the same time, increased global regulation aimed at protecting the financial system and regaining investor confidence.

The full implications for Jersey of these and other environmental changes are not yet clear. We have already observed further consolidation within the trust and corporate services sector and anticipate that Jersey's banking model will need to adapt in response to changing UK banking regulation. What is clear, however, is that whilst the pace of change is unlikely to slow, change brings with it opportunities as well as risks.

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

¹ One of our 2015 actions arising from Government's McKinsey Review is to review our Guiding Principles

In this challenging and fast moving business environment, the Commission must become a more agile regulator - able to understand the significance of new developments and decide swiftly on appropriate, well-founded responses, ensuring that Jersey can continue to be a respected and successful international financial centre.

Our Strategy

Our strategic goal is to create a proportionate regulatory environment that supports a dynamic, healthy, compliant financial services industry. Confident that this goal is shared with our key stakeholders, our strategic plans focus on developing stakeholder relationships in order to work together to achieve successful outcomes.

Strategic Priorities

1. Develop strong, supportive relationships and dialogue with Government, Industry and consumers so that they can understand our regulatory scope and agenda and the roles and responsibilities that each party has in contributing to the achievement of common goals.
2. Maintain and develop successful relationships with international regulatory bodies to contribute to the development of sound international regulatory standards that, *inter alia*, sustain and provide access to financial markets for the Industry in Jersey.
3. Foster responsible behaviour and effective risk management within firms to drive healthy, compliant growth and provide confidence to customers, owners and other key stakeholders that they will be afforded appropriate levels of financial security.
4. Become a more thoughtful, agile regulator that delivers strategic and operational objectives effectively and efficiently.

Underpinning this strategy is a programme of significant internal change. The programme has a number of interrelated work-streams involving staff, systems, processes and the management of external relationships. The change programme will transform the Commission into a leaner, more agile regulator, able to work more effectively with key stakeholders to secure thoughtful, measured solutions to regulatory challenges.

HOW THE COMMISSION SETS ITS PRIORITIES

The Commission has reviewed all on-going projects and projected future demands to produce the Business Plan for 2015 with an eye on preparation for 2016 and 2017. Projects were identified and prioritised using four main criteria:



These numbered criteria are replicated below in tabular form to explain which criteria apply to each priority.

OUR MAJOR PRIORITIES FOR 2015

- MONEYVAL review and response – the ‘fourth-round’ mutual evaluation report will place a particular emphasis on assessing how effective Jersey’s implementation of the Financial Action Task Force Recommendations² has been. Liaison will continue with the MONEYVAL team during 2015 and there may well be a need for a number of legislative and regulatory responses to the issues raised.
- Commission change programme – a Commission-wide review of effectiveness and efficiency ensuring the organisation becomes more proactive, agile and delivers value for money for its stakeholders. This will include a Commission e-enablement strategy.
- Commission funding review - following discussions with interested stakeholders in 2014, the Commission plans to review its current fee setting policy and issue revised proposals to Industry for consultation in 2015.
- Funds regime review – the Commission will continue to work with stakeholders to undertake a comprehensive review of the current Jersey Funds and Fund Services Business regime. Consideration is being given to the regime’s current effectiveness, and opportunities that may exist to enhance or simplify it, whilst still ensuring that it complies with the relevant international standards.

² The FATF Recommendations are the internationally endorsed global standards against money laundering and terrorist financing: they increase transparency and enable countries to successfully take action against illicit use of their financial system.

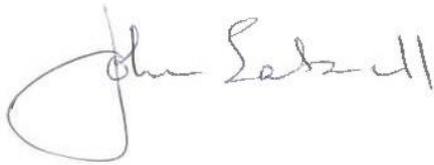
- Supervisory review - the Commission plans to undertake a comprehensive review of the supervisory processes and the procedures for supervising regulated entities. The objective is to identify opportunities to improve effectiveness and increase efficiency for both the Commission and regulated businesses.
- Introduction of a civil financial penalties regime – following the States adoption of the enabling law on civil financial penalties in 2014, the Commission will work to finalise the decision making process and the proposed tariff order, and will review the Codes of Practice in light of the introduction of civil financial penalties.
- Basel III implementation – the latest set of international bank prudential standards has a final target implementation date of 1 January 2019. The Commission is working with its counterparts in the Crown Dependencies to develop the standards for local adoption. Discussion papers have been issued, addressing capital, leverage and systemic issues, with further consultation to follow in 2015.
- Freedom of Information (“Fol”) - the Commission will continue its work to review, analyse and improve its filing systems, document retention policy and information retrieval processes. This will enable more efficient identification and provision of information that may be requested under Fol legislation.
- Registers for Industry and Government – the Commission will work with Government and other stakeholders on the introduction of the Securities Interests Register 2, and assess the potential of other registers, amongst other things, aircraft and charities.
- MIFID2 / MIFIR – the Commission will review with Government, Industry and other stakeholders, the potential local impact of this EU directive. In particular, consideration will be given to the need to develop, a MIFID2 equivalent regulatory framework.

	1	2	3	4
MONEYVAL	●	●	●	●
Change programme	●		●	●
Funding review				●
Funds regime review	●	●	●	●
Supervisory review	●			●
Civil financial penalties	●	●		●
Basel III	●	●		●
Freedom of Information			●	●
Registers for Industry and Government	●			●
MIFID 2 / MIFIR	●	●		●

The numbered columns in the table above cross refer to the criteria for how the Commission sets its priorities on the previous page.

CONCLUSION

There is a lot of work embodied in these major priorities, most of which will take longer than 2015 to bring to fruition. The change programme described above in the strategy statement and the list of major priorities poses substantial resource challenges that may well impinge on some of the Commission's important "business as usual" obligations, such as the volume of supervisory examinations, and balance between on and off-site activity. The appropriate balance between the change programme and the maintenance of business as usual will be subject to careful review at all times. Nonetheless, it is important that all stakeholders recognise that the change programme set out in this Business Plan and Budget is necessary to equip Jersey for the future.

A handwritten signature in black ink, appearing to read "John Eatwell". The signature is written in a cursive style with a large, looped initial "J".

John Eatwell
Chairman

BUDGET 2015

Policy

As described in the major priorities section above, the Commission will be undertaking a review of its current funding arrangements in 2015.

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

- set fees at such a level as to cover the cost of regulating the 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 six months' operating expenditure plus the average of the last five years' cost of investigations and litigation, in order to meet contingencies.

Summary

Preliminary 2014 and 2015 Budget

Preliminary results for 2014 reflect a surplus for the year after investigation and litigation costs. A net deficit of £405,000 after litigation costs had been expected for 2014. The positive variance is due to recovery of litigation costs which had not been anticipated in the 2014 budget. Fee income for the year ended lower than budgeted, owing to a decrease in fees levied, which has been mitigated by lower operating costs. The level of the Commission's reserves has increased marginally to £7,579,000 during the year.

The 2015 Budget anticipates a surplus before litigation and investigation costs of £173,000. The net result after such costs is expected to be a deficit of £427,000. The Commission's reserves are consequently expected to decrease to £7,153,000 by December 2015, which is approximately £400,000 below the Commission's policy objective.

The Commission's reserves are maintained to be available to provide working capital and fund costs associated with any major investigations or litigation that may arise in the future.

Income

Fee income in 2014 totalled £13,760,000, £148,000 behind budget. The adverse variance can be explained primarily by lower fee income from Banking, Funds, Investment Business and Trust Company Business. The 2014 budget included a fee increase in Investment Business fees, which was not implemented. Overseas bank branch closures, bank licence consolidation and a decrease in one category of licensed funds, due to the closure of funds at one provider, resulted in lower Banking and Funds fees.

Given the recent economic climate, the Commission has deliberately limited fee increases in recent years across most regulated activities, despite such increases being due. The ability to maintain such a policy over the longer term is coming to an end given substantial additional international and domestic policy demands with which the Commission is faced.

The 2015 Budget assumes that fees for certain regulated activities will be increased marginally in order to limit future decreases in the Commission's reserves, however the Commission will be undertaking a strategic review of its current funding arrangements in 2015.

Expenditure

Operating expenditure in 2014 amounted to £13,748,000 against a budget of £13,786,000. The positive variance is primarily due to lower costs associated with recruitment, computer systems and public relations. These positive variances have been partially offset by unexpected one-off costs and the impact of earlier than expected completion of capital projects and capital expenditures which resulted in increased depreciation charges during the year.

Overall operating expenditure is expected to increase by £638,000 to £14,386,000 during 2015; this increase includes temporary expenditure of £428,000 associated with investment in the change programme. Change programme expenditure is expected to be incurred during the next 3 years with the rate of expenditure expected to decrease in the third year. The balance of cost increases are expected to be sustained, these are mostly driven by the effect of full establishment of staff costs, with the appointment of new directors to positions that were vacant in previous years, and increases in costs associated with computer systems, improvements in operating platforms, public relations and resources required for managing the Commission's increasing responsibilities in the wake of major international policy developments impacting the Island. The overall cost increase will be mitigated by targeted decreases in travel costs, recruitment costs and other operational expenditure.

Computer costs for the year came in below budget due to the beneficial renegotiation of software licences and the deferral of planned operational and project expenditure to 2015. The significant 2015 increase in computer costs is due to the inclusion of change management costs.

Gross investigation & litigation costs incurred during 2014 exceed budget by approximately £255,000 due to two significant cases. However, a significant amount of investigation and litigation costs were exceptionally recovered from regulated entities subject to enforcement action resulting in an overall net surplus of recoveries over expenditure during the year. The 2015 Budget includes investigation & litigation expenditure of £600,000, in expectation that the bulk of the costs relating to these significant cases will have already been incurred.

Income and Expenditure for the Years 2013 to 2015

	2013 £'000	2014 £'000	2014 £'000 Unaudited Preliminary	2015 £'000 Budget
	Actual	Budget		Budget
Income				
a) Fee Income				
Registry	2,616	2,750	3,039	2,928
Banking	1,277	1,385	1,205	1,500
Insurance	745	760	728	760
General Insurance Mediation	107	105	101	105
Funds	4,685	4,650	4,604	4,840
Investment Business	1,192	1,280	1,142	1,280
Trust Company Business	2,446	2,450	2,393	2,500
Recognised Auditors	22	20	22	20
Money Services Business	10	10	12	10
AML Unit	518	498	514	498
	<u>13,618</u>	<u>13,908</u>	13,760	<u>14,441</u>
b) Other Income				
Other	46	-	23	46
Bank Interest	64	72	59	72
Total Net Income	<u>13,728</u>	<u>13,980</u>	13,842	<u>14,559</u>
Operating Expenditure				
Staff	9,250	10,036	10,250	10,418
Premises	781	814	798	750
Computer systems	1,026	1,140	832	1,378
Other operational costs	1,877	1,796	1,868	1,840
Total Operating Expenditure	<u>12,934</u>	<u>13,786</u>	13,748	<u>14,386</u>
Operational surplus	794	194	94	173
Net investigations/regulatory intervention/litigation (cost)/recovery	(701)	(600)	145	(600)
Surplus/(deficit) for the year	93	(406)	239	(427)
Accumulated Fund at beginning of year	<u>7,247</u>	<u>7,340</u>	7,340	<u>7,579</u>
Accumulated Fund at end of year	<u>7,340</u>	<u>6,934</u>	7,579	<u>7,152</u>