JERSEY FINANCIAL SERVICES COMMISSION

Business Plan 2006

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Section One: Introduction

The 2005-2007 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, in pursuit of the above,

- contributing to the fight against financial crime.

Aims

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

- ensure that all entities we authorise meet fit and proper criteria;

- ensure that all entities we regulate 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 the Commission operates effectively and efficiently and is properly accountable to the Minister for Economic Development.

Values

In support of our key purpose and aims we expect all our 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 with 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 - Key achievements in 2005

Overview

In 2005 the overriding theme for the work of the Commission was a shift in emphasis from pure regulation to closer levels of supervision. This is consistent with a general trend in supervisory systems around the world of ensuring that compliance with regulations is monitored and enforced. In 2005 this was evidenced by a substantial increase in the number of on-site examinations undertaken and work to address the findings that resulted from them. In particular, examinations of trust company businesses highlighted a variety of risks and common causes for concern. A further priority was to ensure that the Commission met its targets with respect to the authorisation of new business, particularly in the area of Funds. The year saw a record number of new funds, with double the volume of new expert funds compared with 2004. There was also a strong focus on developing corporate policy in order to strengthen the regulatory framework and further enable the growth of this business in the future.

Governance

One of the Commission's objectives for 2005 was to enter into a Memorandum of Understanding with the Economic Development Committee ("EDC") to clarify certain matters on the use of Article 12 (Power of Direction) of the Financial Services Commission (Jersey) Law 1998. This was achieved with the Memorandum being executed in March 2005.

During the year the Commission implemented a number of measures to ensure that its corporate governance arrangements remain in line with current best practice. In particular, the Commission established a Nominations Committee and put in place a system for the evaluation of the performance of the Board of Commissioners, its committees, and individual Commissioners.

The Commission also agreed with the EDC a new scheme that introduces greater independence into the investigation of complaints against the Commission. In certain circumstances, this may involve investigation of the complaint by an outside party where it has not proved possible to resolve the matter through the Commission's internal complaints procedure.

The Commission conducted an internal review of its financial controls which was considered by the Commission's Audit Committee in December 2005. The Committee noted that the controls were comprehensive and appeared to be working satisfactorily.

The Commission's 2005 Business Plan had envisaged a 'Value for Money' audit being carried out, on behalf of the EDC, by an independent body. After consideration of the logistics of such an exercise, the EDC concluded that the newly appointed States' Comptroller and Auditor General would be the most appropriate person to conduct the audit. However, due to the recent establishment of the post of Comptroller, the value for money audit has been deferred until such time as the Comptroller has an opportunity to plan for the appropriate resources to be allocated.

The Board of Commissioners agreed an updated policy on its handling of conflicts of interest. This was incorporated into an updated version of the Commissioner's Handbook (which sets out Board policies and procedures) which was issued in the middle of the year.

At the end of 2005, the EDC ceased to exist and in future the accountability of the Commission will be to the Minister for Economic Development.

International and Policy Division

Progress was made in updating Jersey's framework for countering money laundering and the financing of terrorism. Drafts of the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism and the Money Laundering (Jersey) Order 200-, together with a draft consultation paper, were distributed to the Commission's Anti-Money Laundering Steering Group in November 2005 and will be the subject of further consultation in 2006. In addition, the Division worked through the year to develop legislation to provide for oversight of bureaux de change and money transmission activities (in line with international standards), and for implementation in Jersey of Financial Action Task Force ("FATF") Special Recommendation VII on wire transfers (in line with the approach to be followed by the European Union ("EU")).

In order to ensure that Jersey implements international standards in a way that is consistent with other jurisdictions, the Division closely followed the development of new anti-money laundering guidance in the United Kingdom, and development of the EU's Third Money Laundering Directive, and contributed to consultation exercises on both.

Much time was spent on considering the impact – direct and indirect – of EU legislation on Jersey, and also the opportunities arising from such legislation. In particular, the Division considered whether Jersey issuers might benefit from new passporting arrangements under the Prospectus Directive, and the impact on Jersey of EU legislation on company takeovers and auditor regulation and oversight.

The domestic environment in which the Commission operates is ever changing, and the Division was instrumental in reviewing legislation (including draft legislation), and policies and procedures in place at the Commission in preparation for new data protection and human rights legislation.

In the international field, the Division concluded memoranda of understanding with regulators in Malta and Mauritius, a letter of intent with the Hong Kong Securities and Futures Commission and coordinated the Island's participation in the IMF Information Dissemination Framework. International cooperation was also strengthened by temporary secondments to the Commission from the Bahrain Monetary Agency and the China Banking Regulatory Commission ("CBRC"). The Commission also participated in training initiatives for the CBRC.

Proposals to establish a deposit protection scheme were discussed with the Jersey Bankers Association early in the year. However, due to competing priorities, the project was put on hold although it is intended to make further progress in 2006.

Banking Division

The strategic approach to the Basel II Accord, initially considered in 2004, was finalised, following further industry consultation, inter-island dialogue and related international developments. The adoption plan now involves, in the main, application of the Standardised Approaches for both credit and operational risk.

Codes of Practice for Deposit-taking were issued for public consultation in April, which resulted in some reduction in prescriptive requirements but retention of all original key principles. A second, short consultation phase is planned for early in the New Year and it is hoped that the final version can be issued a short time thereafter.

Research work was conducted on the subjects of integrating the Banking Business (Jersey) Law 1991 ("BBL") into the Financial Services (Jersey) Law 1998, on introducing a capitalisation requirement to cover market risk, and on the challenges potentially created by Islamic Banking Services. Work on the latter two should be finalized in 2006, but the law merger is no longer seen as an immediate priority.

On-site activity was conducted at the levels envisaged, involving a total of 25 examinations. These included two themed programmes, covering the risks associated with treasury operations and outsourced activities. Industry guidance was issued following the completion of both programmes.

The Commission conducts various types of examination. Focused examinations take place where the Commission wishes to examine specific aspects of a business; discovery examinations are to obtain information to improve the Commission's understanding of a business; and themed examinations are undertaken where the Commission has identified an aspect it wishes to examine in a particular industry sector across a number of different institutions.

The intended higher level of dialogue with industry, involving regular updates with both individual entities and the Jersey Bankers Association, was achieved, with positive results.

The Banking Division saw considerable staff turnover during the year and, in effecting the necessary replacements, job roles have been changed and the Division restructured so as to best meet the challenges ahead, most particularly the need to adapt our prudential reporting regime to the wider requirements of Basel II.

Insurance Division

2005 was the first year that the Division became fully responsible for the regulation and supervision of general insurance mediation businesses as well as insurance companies. The primary legislation relating to general insurance mediation came into force on 21 January 2005, along with the Registration and Fees Order, and the Exemption Order and the Accounts, Audits, Reports and Solvency Order both followed one month later. Discussions with the industry on the Client Assets Order, and on a sliding scale for annual renewal fees (based on brokerage income), took place throughout the year, with agreement being reached on both matters in October. Seventy-six applications for registration under the new legislation were received, and at the time of writing seven of these applications remain transitional awaiting final assessment.

With respect to insurance companies, Codes of Practice were issued in February 2005 that dealt with most of the outstanding issues arising from the 2003 IMF Report and also introduced requirements that brought the regulatory and supervisory regime fully into compliance with the International Association of Insurance Supervisors ("IAIS") Core Principles of Insurance Supervision. A self-assessment exercise against the Core Principles was submitted to the IAIS in accordance with their request to every member jurisdiction. A speaker was provided to present five subjects at a training course for Caribbean regulators sponsored jointly by the IAIS and Offshore Group of Insurance Supervisors ("OGIS"). As in previous years, mergers and acquisitions in the industry have led to the need for insurance transfer schemes, and the Commission has received four of these during the year for review and subsequent approval by the Royal Court.

Securities Division

Record numbers of applications for new funds, both public and private were received in 2005. Most significantly, the number of expert funds authorised in 2005 more than doubled compared to 2004 (from 41 to over 100). This is testimony to the success of the expert funds regime. Because of this the Island's position as a centre of excellence for specialist fund operations has been greatly enhanced.

One of the advantages of the expert funds regime is its flexibility, thus enabling innovation and speed of response. The Commission undertakes to issue permits within 3 days of receipt of all relevant information. It is pleasing to note that the Commission has achieved 100% success rate in processing expert fund applications within the 3 day timescale.

Jersey's positioning as a centre of excellence for specialist funds is further evidenced by the growing number of hedge fund managers wishing to establish a physical presence in the Island. Several such applications were received and processed by the investment business team.

In addition authorisation of private funds saw a large increase to over 400 new funds authorised in 2005. This is primarily due to the setting up of property unit trusts in the Island in response to stamp duty charges in the United Kingdom. These funds are private unit trusts with less than 15 investors that do not require permits under the Collective Investment Funds (Jersey) Law 1988. They do, however, require consent under the Control of Borrowing (Jersey) Order 1958. (These private funds are not included in the published quarterly statistics.) Unlike expert funds however, it is not expected that this line of business will continue at such a level into the future.

During the year, due to staff turnover in Securities, achievement of the full programme of on-site examinations as envisaged in the original business plan was not possible. Nevertheless all the planned 13 focused and 10 themed examinations were achieved and 24 discovery examinations were undertaken with the help of outside service providers. (This breaks down to 8 focused, 5 themed and 10 discovery examinations for Funds; and 5 focused, 5 themed and 14 discovery examinations for Investment Business). An analysis of the findings arising from examinations indicates that issues such as span of control, outsourcing and, in certain categories of business, adequacy of record keeping are areas in need of improvement.

With regard to projects during 2005, in consultation with the industry, the Commission has facilitated new ways of enabling the Island to take advantage of market developments and to compete more effectively with other onshore and offshore jurisdictions while, at the same time maintaining regulatory standards in line with international best practice. To this end, the Commission has developed an exemption from the permit requirements for functionaries of collective investment funds carrying out services for funds not domiciled in the Island. This exemption should help to free up regulatory and industry resources, and enhance the Island's competitiveness as a centre for third party fund administration.

Work also began in 2005 on transferring the regulation of functionaries of collective investment funds from the Collective Investment Funds (Jersey) Law 1988 to the Financial Services (Jersey) Law 1998. Once complete, in addition to bringing the regulation of functionaries of funds in line with the requirements that apply to trust companies and investment businesses, it will also help reduce the administrative burden, both for industry and the Commission. In particular, except in relation to Recognized Funds, it will achieve the abolition of the need to apply for a permit for each and every fund taken on by a functionary.

Trust Company Business Division

Stepping up the on-site examination programme was a particular focus in 2005 and a total of 54 examinations were undertaken during the year, compared to 19 in 2004. These were broken down as follows:-

Focused - 12
Discovery - 20
Themed - 22

This heightened program of examinations across a broad spectrum of trust companies gave the Commission the opportunity to determine where the average standards in the industry currently lie. This strategy was invaluable in establishing a benchmark when deciding upon actions to be taken if a firm was found to be out of compliance with the regulations and in ensuring consistency of approach across the industry.

One particular examination of a trust company business revealed a serious breach of the anti- money laundering legislation. The business concerned and one of its directors were ultimately prosecuted, convicted and fined by the Royal Court. An appeal against the conviction was subsequently dismissed by the Court of Appeal.

The themed examination of "Risk Management" was particularly successful as it enabled the Commission to get to the heart of a firm's ability to manage the client, structure and asset risks associated with trust company business. An overview of this series of examinations will be circulated to industry separately. However, it is fair to say that results were mixed and ranged from truly excellent risk management procedures and implementation of same, through to weak procedures or lack of practical implementation. The risk management theme will be continued into 2006.

Significant effort was also put into increasing the level of communication with industry, primarily through speaking at seminar events as well as through forging strong links with the industry bodies, such as JATCo and STEP. Topics presented at a total of ten seminars ranged from explaining the examination process and helping firms prepare for such examinations; providing regular feedback on common findings from examinations; explaining the Commission's risk model; accounting issues, in particular ensuring compliance with the Accounts Order; risk management; differences between managed trust companies and participating members; and lastly responsibilities of trustees in respect of investments from the regulatory perspective. The objective was to publicly set out the Commission's expectations and to inform industry on common issues and areas of weakness or strength encountered by Commission staff during their program of examinations or during the course of their desk based supervision.

Emphasis was placed on increasing the degree of responsiveness to industry within the Division and improvements have been made. For example all examination reports were despatched to the trust companies within the three week deadline after completing the examination. The Division also worked on a number of time critical trust company re-structurings, mergers or acquisitions, all of which were dealt with within the prescribed timeframes.

From a staff perspective, the Division was strengthened considerably during the course of the year. The

Commission was fortunate to recruit several senior trust practitioners direct from industry. The team is now strong, and comprises an excellent balance of experienced regulators and experienced trust practitioners. This proved to be a powerful combination in supervising trust company businesses both from an onsite and offsite perspective.

The Division contributed to the consultation process with regard to the proposed amendments to the Trusts (Jersey) Law 1984 as well as the proposed development of legislation on foundations.

The Codes of Practice have proven to be a good working document, providing an invaluable tool for both the Commission and industry in establishing and working to the key principles expected of a registered person. Having said that, certain areas such as PII and Financial Resource, do require further work in order to clarify and expand on the requirements. A planned review of the Codes of Practice, including a consultation process in respect of proposed changes, will be carried over to 2006.

The processing of the remaining transitional applicants for trust company business licences was virtually completed in 2005. An appeal against the refusal of one such application was heard by the Royal Court during the year. The Court ruled in the Commission's favour (this judgement is subject to appeal to the Court of Appeal).

Enforcement Division

The Enforcement Division progressed a large number of diverse and complex issues in 2005.

A settlement in respect of split capital investment trusts ("splits") was reached at the end of 2004 between the regulators in Jersey, Guernsey and the UK and the firms that had been involved in the issue and marketing of splits. The settlement provided for the termination of regulatory investigation of splits and the establishment by the firms of a fund to be used to make payments to eligible investors in zero dividend preference shares. The Division was heavily involved in the first half of the year in setting up the detailed arrangements for this fund and in establishing a parallel scheme (similar to the UK Financial Ombudsman Scheme) to adjudicate on complaints from investors (including those in income shares) who considered that they had been missold investments by firms based in Jersey and Guernsey.

The Commission also commenced an action to recover investors' monies that are believed to have been lost due to an investment business misleading investors. The main trial is due to take place in mid 2006.

The A.P. Black case was subject to a number of hearings in 2005 concerning amongst other issues, the extent of the respondents' assets. One respondent applied successfully to the Court to be struck out of the proceedings and the Commission reviewed how the case should be taken forward in the light of this decision.

The Division managed the closure of two trust company businesses in Jersey which were considered to be operating without licences, and mounted an investigation which is still ongoing.

The Registry

The Registry continued to operate smoothly, meeting all its performance targets.

During the year, it embarked on progressing a new Business Names (Jersey) Law 200- , and a draft law was reviewed by the end of the year.

The major new IT project enabling the filing of Registry documents on-line was piloted with industry during the latter part of 2005 and is due to go live in early 2006. To facilitate this project the Electronic Communications (Amendment) (Jersey) Order 2005 was passed by the States and a further amendment to the Electronic Communications (Jersey) Law 2000 was drafted which was due to go before the States before the year end.

Drafting instructions were given to the law draftsman to allow the use of regulated Jersey service providers as corporate directors of Jersey companies and for a register of directors. These changes will be embodied in a new Companies (Jersey) (Amendment No.9) Law to be introduced in 2006. The Registry also amended its procedures to allow regulated service providers to register companies in advance for subsequent transfer to the ultimate beneficial owner when required for business purposes.

The Registry was also a major contributor to the implementation of the Companies (Jersey) (Amendment No.8) Law 200- which focused on protected cell and incorporated cell companies, and provided input into the development of the proposed new legislation on foundations.

Operations Division

In 2005 the Operations Division undertook an extensive review of the Commission's future premises needs and the available options in the property market. Negotiations were held with a number of parties, and the Commission decided in October to agree a long-term lease on the central section of a new development at 25/26 Esplanade and 14/22 Castle Street. The development will be completed in April 2007. This development was selected as it offered the greatest flexibility and value for money over the medium and long term.

Research and preparation for a potential value for money audit was undertaken in liaison with the National Audit Office, although such an audit was deferred until 2006 by the EDC.

The Division oversaw the complex migration of the Commission's defined contribution pension scheme to UK- based specialist administrators.

The Division further progressed the preparation for the delivery of e-commerce in the Registry. Remote working by staff was made possible through the use of up to date technology allowing improved communication, responsiveness and more flexible working. Work continued to integrate the Commission's databases, and the Commission's Central Index System was upgraded to include banking and insurance information.

The HR team issued revised contracts to all staff during the year compliant with the employment legislation enacted on 1 July. A combination of existing vacancies and increased staff turnover resulted in correspondingly high recruitment activity. As a result of the efforts made, by the end of the year the Commission was virtually back to full headcount with a high calibre of staff being successfully recruited and inducted. Structured personal development plans resulted in an increase in internal promotions.

Section Three – Main Priorities for 2006

Overview

In 2006 the Commission will continue its focus and efforts in respect of closer supervision of the industry, with further on-site examinations and the reporting of trends established back to the industry as part of the process to assist industry achieve greater levels of compliance. It is intended to facilitate this through the introduction of automated examination software (the Automated Risk Management and Integrated Information Exchange, or "ARMIIE" project). Notwithstanding this, the total number of on-site examinations will be somewhat lower than in 2005 (110 compared with 126), reflecting the need to allocate resources to resolving the remaining issues identified in the 2005 examination programme, and to dealing with legislative priorities (including revision of the Trust Company Business' Codes of Practice).

A more focused approach will be adopted with respect to the development of policy issues, with an emphasis on the essential projects to be completed in 2006. A key priority will be the completion of anti-money laundering guidance and legislation. It will also be necessary to consider whether regulation of international and domestic pension schemes should be introduced, bearing in mind developments in other jurisdictions. There will also be a continuing emphasis on the various initiatives on funds and the corporate sector, while it will also be necessary to ensure that the remaining elements of the IMF action plan are brought to fruition.

A number of Commission-wide projects will be pursued during 2006, which will require input from a number of divisions. These will include preparation for the planned move into new premises in 2007, any necessary changes to the regulatory laws and procedures to ensure compliance with the human rights legislation and assistance with the value for money audit of the Commission during 2006.

As well as projects and policy development, the Commission will continue to put effort into the substantial "business as usual" that it faces, with the ongoing aim of providing a high level of efficiency, flexibility and responsiveness. This includes the ability to react quickly to new developments. Contingency has been built into the Commission's resource planning to allow for this, but it is likely that resources will be tightly stretched despite the recent approval from Regulation of Undertakings for five additional headcount. The Commission will try to alleviate such pressure, where possible, through the continued application of its risk-based approach to supervision, which tries to allocate resources to those areas of higher risk.

A new Commissioner, preferably with a background in the banking sector, will be appointed in 2006, and the recruitment of a new Director General by 1 November is a key priority for the year.

Governance

The Commission will continue to monitor its standards of corporate governance to ensure that it meets, so far as is applicable, the standards set by the UK's Combined Code for Listed Companies.

During 2005, the Commission started work on reviewing the model it uses for monitoring and mitigating the risks it faces. Work on this will be finalised in 2006. In doing so, the Commission will have regard to the updated "Turnbull Guidance" issued by the Financial Reporting Council in October 2005.

As a result of the experience gained in a number of licensing and enforcement cases, a review is being undertaken of the Commission's processes in these areas. It is intended that this review will be finalised during the first half of the year.

During 2005 the Commission started a planned programme for contact with key overseas regulatory authorities. This included visits to supervisory authorities in the United States and Germany, and the signing of a number of agreements in relation to regulatory cooperation. In 2006, this contact programme will be further developed with a particular focus on those jurisdictions that may have an unfavourable view of Jersey. The Commission also plans to implement a programme to enhance the relationships it has with those overseas regulatory authorities with which it has a Memorandum of Understanding or similar agreement in place.

The Commission will also extend 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. In March 2006 the next series of workshop events will be held, followed in July by a strategic seminar focussing on international issues. In September 2006, communication and strategy will be combined, at the start of the

Commission's business planning cycle, with input from industry on its priorities via a Chief Executive Officer forum.

International and Policy Division

The Division's priority for 2006 will be to continue and finalise work started in 2005 and earlier.

In particular, it is intended to publish the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism, and to bring into force the Money Laundering (Jersey) Order 200- at the same time. It is intended that legislation will also be enacted to provide for the oversight of money services businesses, such as bureaux de change and money transmitters, and to implement Special Recommendation VII on wire transfers. Having done this, the Division's focus will then turn towards amending primary anti-money laundering legislation, in preparation for an assessment of the Island's compliance with Financial Action Task Force Standards, probably in 2007, as part of a further IMF assessment. The Commission's preparation for this will be coordinated by the Division, including monitoring of the implementation of the IMF Action Plan following on from the last review. Part of the Division's anti-money laundering effort will also be in contributing to the Island's implementation of Special Recommendation VIII on non-profit organisations and the development of oversight arrangements for designated non-financial businesses and professions, such as lawyers and accountants.

The Division will continue to monitor EU legislative proposals, including particularly the impact on Jersey's regulatory environment of the various Directives that form part of the Financial Sector Action Plan.

The Division will also continue to coordinate the Commission's effort to ensure compliance with the human rights legislation in Jersey.

The Division will lead the preparation for the enactment of a bank depositor compensation scheme, with a revised draft legislation going out for consultation during 2006.

Banking Division

On-site activity will continue at the levels established in the previous 2 years, with themed programmes expected to cover the areas of IT systems and due diligence on business introduced by intermediaries.

Reporting procedures and national discretions in respect of the Basel II Capital Accord will be considered and developed in conjunction with our fellow regulators in Guernsey and the Isle of Man, with the aim of implementation at the start of 2007. A capitalisation requirement in respect of market risk, if judged applicable to Jersey deposit takers, will also be introduced.

Codes of Practice for Deposit-taking will be launched, with the expectation that registered deposit takers achieve adherence to them within 6 months.

Following enactment of legislation in respect of money services businesses, development of related Codes of Practice will be undertaken in consultation with industry.

As part of the IMF Action Plan, the Banking Business

(Jersey) Law 1991 will be amended in order to introduce amendments to give legal backing to the Codes of Practice and provide for the appointment of a Manager. In addition, advertising provisions within the law will be reviewed and amended.

Insurance Division

In December 2005, the Inland Revenue in the United Kingdom published its rules and regulations in relation to the new pensions regime that is due to come into force in the United Kingdom at the beginning of April 2006. The Commission will review these rules and regulations and work closely with industry to establish whether a regulatory framework is needed in Jersey in respect of international and domestic pensions administration.

The main priorities in 2006 for general insurance mediation are the completion of the assessment of applications for registration of general insurance mediation businesses, and the enactment of the related Client Assets Order. Codes of Practice for this sector need to be drafted and agreed with the industry in order to complete the supervisory regime. It has been agreed that the Division will be able to recruit one new member of staff, and once this has been achieved a programme of on-site examinations, to both brokers and insurance companies, can begin. It is envisaged that a total of 19 examinations will be conducted during the year.

Securities Division

The number of expert funds is expected to grow in 2006. The Commission is committed as a top priority to ensuring that it maintains its 100% record in processing such applications within the stated timescale.

The shortage of staff experienced in 2005 has been largely rectified moving into 2006. As a consequence, the Commission expects to be in a position to continue its programme of on-site examinations of both fund functionaries and holders of investment business licences without outside assistance. A total of 18 examinations is planned in each case. However, the overall sufficiency of resources in the Funds area will continue to depend upon the flow of new applications.

In addition to completing the project of transferring the regulation of functionaries of collective investment funds into the Financial Services (Jersey) Law 1998 the Division will also embark upon discussions with the industry on the possibility of a super expert fund regime to accommodate those situations where the authorisation process can be streamlined still further in return for a substantial increase in the minimum level of investment.

Trust Company Business Division

As a result of the heightened examination program conducted in 2005 a number of issues were identified with certain businesses that need to be resolved during 2006. This will either be through the business working with the Commission on a specific remediation plan to get back into compliance; the firm deciding to sell its client book and wind down its operations; or at the extreme, the Commission commencing the process of revoking the licence.

The Division will be undertaking a minimum of 30 examinations in 2006 across a broad spectrum of the trust industry, but with a continuing focus on those businesses that are determined as higher risk by the Commission. This represents a lower number of on-site examinations than in 2005 (54), but is necessary in order that sufficient time is freed up to resolve the issues identified in the 2005 programme and to allow for the legislative priorities mentioned below. The risk management theme will be carried over to 2006.

The Codes of Practice will be reviewed and a consultation process commenced in respect of the proposed changes. Furthermore the Exemption Order (with regard to liquidators) will be updated and clarified and work will commence on widening the scope of the Assets Order.

The Division will continue to work closely with the trust industry through the medium of Commission seminars and regular meetings with the industry bodies.

Enforcement Division

The Commission is committed to a balanced, measured and fair process of enforcement, but would prefer where possible to assist registered entities to achieve compliance rather than take enforcement action against them. However, it will take the necessary action, including referral to the Attorney General for possible criminal prosecution, where breaches are sufficiently serious or persistent to warrant taking this step.

The Division will introduce legislative changes to the Financial Services (Jersey) Law 1998 that will result in the consolidation of all market abuse provisions into that Law and the repeal of the Company Securities (Insider Dealing) (Jersey) Law 1988.

The settlement process for split capital investment trusts will be finalised and the Commission will ensure that appropriate lessons are learnt from that case and built into the supervisory process.

The Division will review the enforcement process to develop a graduated use of enforcement powers, including the recovery of costs and use of fines where appropriate. A practical model for fining will be developed and put forward for consultation by the end of 2006.

The Registry

The key priority of the Registry is to ensure that it offers a high quality of service to its users, by managing its workflow as efficiently as possible. The introduction of on-line services during 2006 will provide further choices and efficiencies for the users of the Registry. On-line filing will be implemented progressively during the first quarter of the year, while on-line searches and incorporation are planned for the second half of the year.

The introduction of a new business names law which will incorporate a new on-line disputes resolution mechanism is also due within 2006.

The Registry will consult with industry on the draft Companies (Jersey) (Amendment No.9) Law 200- to allow corporate directors of Jersey companies and the introduction of a register of directors for private companies.

Corporate Services Division

Corporate Services is a new Division taking responsibility for all aspects of facilities management, pension administration, data protection, freedom of information, production of the business plan and annual report and, in conjunction with the Commission Secretary, for corporate governance.

The major project for the Division in 2006/7 will be in respect of the development of the new premises and ultimately the move into them. In 2006 this will include a fundamental review of filing arrangements and a project to enhance and improve the Commission's filing, archiving and scanning.

On-line provision of information in respect of the defined contribution pension scheme will be made available to both scheme members and trustees during 2006, thereby enhancing the service offering of the scheme.

The Division will co-ordinate a full disaster recovery and business recovery scenario test during the year, and will also coordinate the planned value for money audit by the office of the Auditor Comptroller General.

Information and Communications Technology ("ICT")

The ICT unit will play an important part in the intended introduction of software as a mechanism for enhancing and streamlining the on-site examination programme (the ARMIIE project).

The Commission will aim to gain accreditation under the security standard BS7799 during 2006. This is accepted as the recognised benchmark for standards of IT security, and achievement of it is consistent with the Commission's overall security strategy.

E-Commerce and on-line information exchange will be further implemented and developed, as will the integration of the Commission's databases. This will include on-line searches, preparation for on-line company incorporations and bulk filing by regulated entities. These projects will continue into 2007 and 2008. The re-design of the Commission's website to enable these initiatives will form part of this work

Human Resources ("HR")

The HR unit will continue to look at ways of improving long-term retention of staff as well as recruiting against the 5 additional staff approved by Regulation of Undertakings for 2006. This will include the design and implementation of a structured succession planning methodology and the design of structured development plans for all staff. Further automation is also planned in respect of HR administrative processes with additional functionality being made available to staff via U-access.

Section Four - Budget 2006

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 make an appropriate contribution to reserves;

- Keep regulatory fees to a minimum by maintaining strict control of costs;

- 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 2005 was £13.096 million, £1.068 million above budget. The main cause of the increase has been the high level of new fund applications together with the associated increase in company incorporations. There has also been increased income from banks. Fees from insurance and general insurance mediation business were marginally higher than originally forecast. Income from investment businesses was below budget due to mergers and the withdrawal of licences during the year, but trust company fees were almost exactly in line with expectations.

In the 2006 budget, fee income is £12.610 million. In respect of registry income, a cautious approach has been adopted, because we do not know whether the current, higher than expected level of company incorporations will continue. There is also likely to be a reduction in banking and insurance fees as a result of the non-renewal of licences, caused by mergers and acquisitions. Income from general insurance mediation will decrease due to a lower scale of annual renewal fees replacing the initial application fees that were received in 2005. A conservative assessment of new fund applications has been made because, again, we do not know whether these will continue at the same rate as in 2005, while income from trust companies is likely to remain broadly at present levels. New fee scales for investment business are due under the Commission's rotational policy, increasing this income from the annual renewal date at the beginning of May.

Bank deposit interest received in 2005 was £367,000, an increase against budget of £91,000. This was primarily due to higher interest rates. For 2006 this income is expected to remain at a similar level.

Expenditure

Operating expenditure in 2005 was £7.463 million against a budget of £7.265 million (excluding investigation and litigation costs). The additional expenditure of £198,000 arose in part from higher spend on professional services, a direct result of the engagement of KPMG to provide assistance in the supervision visit programme. An increase in premises costs came from the use of lawyers and other professional advisers for assistance with the project to obtain new offices. Staff costs were slightly above budget.

These increases were partially offset by reductions in spend on public relations and travel, and by the deferral of some expenditure on computer systems.

In 2006, the budget shows an increase in operating costs over 2005 of £549,000 to £8.012 million (excluding investigation and litigation costs). The main cause is staff costs (the pay review and the anticipated increased recruitment).

The budget for 2006 shows a reduction in premises costs because further significant expenditure relating to the new premises is not expected until 2007.

Only ICT projects that are considered to be essential have been included in the 2006 budget. All other developments have been deferred. 2006 budgeted costs are £302,000. This includes the maintenance costs for all systems and an increase in software licence fees for new staff.

The anticipated expenditure on legal and professional services has been reduced to £199,000 because it is not expected that the provision of assistance from KPMG with on-site visits will continue.

Due to the termination of the Commission's contract with its public relations consultancy firm, the anticipated expenditure for 2006 has been reduced to £50,000.

The amount of business travel was limited in 2005, but is likely to increase in 2006 as a result of higher staff numbers. However, the budget cost of training has been reduced because of a greater emphasis on in-house training or courses within Jersey, rather than attending courses outside the Island that involve travel and accommodation costs.

In respect of investigation and litigation costs, total expenditure was £1.143 million in 2005 compared with a budget of £900,000. The excess arose primarily from the increasing number of investigations into trust company businesses. For 2006, the budget of £900,000 has been based on the expected future costs of existing cases plus an allowance for new developments.

<u>Outturn for 2005 and 2006</u>

2005 produced an excess of income over expenditure of £757,000, compared with an original budget surplus of £39,000. For 2006, the budget shows a deficit of £52,000, with forecast level of reserves at the end of the year of £3.741 million.

INCOME AND EXPENDITURE FOR THE YEARS 2004 TO 2006

	2004 £ooo Actual	*2005 £ooo Budget*	2005 £ooo Actual (unaudited)	**2006 £ooo Budget**
Income				
Regulatory fees	6,172	*5,623*	5,871	**5,740**
Registry fees	5,801	*6,405*	7,225	**6,870**
	11,973	*12,028*	13,096	**12,610**
Profit on sale of fixed assets	2	*--*	--	**--**
Bank deposit interest received	322	*276*	367	**350**
Total income	12,297	*12,304*	13,463	**12,960**
Less:				
Contribution to the States of Jersey	4,100	*4,100*	4,100	**4,100**
Net income	8,197	*8,204*	9,363	**8,860**
Operating expenses				
Staff salaries, social security and pensions	5,063	*5,237*	5,248	**5,975**
Operating lease expenditure	319	*319*	319	**319**
Other premises costs	175	*205*	290	**217**
Computer systems costs	293	*292*	270	**302**
Legal & professional services	154	*138*	376	**199**
Investigations and litigation	900	*900*	1,143	**900**
Public relations costs	87	*95*	55	**50**
Travel costs	110	*155*	90	**128**
Staff training	148	*185*	195	**130**
Other operating expenses	242	*304*	229	**297**
Auditors' remuneration	14	*18*	15	**18**
Depreciation of tangible fixed assets	324	*317*	376	**377**
Total operating expenses	7,829	*8,165*	8,606	**8,912**
Exceptional item:				
Share of pension scheme (PECRS) pre-1987 debt	1,500	*--*	--	**--**
	9,329	*8,165*	8,606	**8,912**
Excess/(deficit) of income over expenditure	(1,132)	*39*	757	**(52)**
Accumulated reserve brought forward	4,168	*3,036*	3,036	**3,793**
Accumulated reserve carried forward	3,036	*3,075*	3,793	**3,741**

Financial Services Commission

Projected Balance Sheet as at 31/12/2005 and 31/12/2006

		Actual 2005 (unaudited)		Budget 2006
	£ooo	**£ooo**	**£ooo**	**£ooo**
Fixed Assets		578		640
Current Assets				
Sundry debtors	16		15	
Prepayments	219		200	
Bank balances	6,254		6,224	
		6,489		6,439
Total Assets		7,067		7,079
Current Liabilities				
Fee income received in advance	2,749		2,853	
Sundry creditors and provisions	525		485	
		3,274		3,338
Total Assets less Current Liabilities		3,793		3,741
Accumulated Reserve		3,793		3,741