

STATES OF JERSEY

Economic Affairs Scrutiny Panel Jersey Finance Limited Review

WEDNESDAY, 5th MARCH 2008

Panel:

Deputy G.P. Southern of St. Helier (Chairman)
Deputy J.A. Martin of St. Helier
Deputy A. Breckon of St. Saviour
Connétable M.K. Jackson of St. Brelade

Witnesses:

Mr. G. Cook (Chief Executive, Jersey Finance Limited)
Mr. R. Kirkby (Technical Director, Jersey Finance Limited)
Mr. M. de Forest-Brown (Director of International Finance)

Deputy G.P. Southern of St. Helier (Chairman):

First of all I would like to welcome you to this public hearing of the Economics Scrutiny Panel and our review into the role and funding of Jersey Finance Limited. I think we are getting to the real leads, as it were, because we have Jersey Finance here today. Can I draw your attention first of all to the document in front of you which outlines the terms and conditions on which you give evidence. It is fairly straightforward. Hopefully today we can have a good session exploring what it is that you do. If you would like to first of all just introduce yourselves just for the sake of the recording so that we can identify the voices.

Mr. G. Cook (Chief Executive, Jersey Finance Limited):

Certainly. I am Geoff Cook, Chief Executive of Jersey Finance.

Mr. R. Kirkby (Technical Director, Jersey Finance Limited):

I am Robert Kirkby, Technical Director, Jersey Finance.

Mr. M. de Forest-Brown (Director of International Finance)

I am Martin de Forest-Brown, Director of International Finance, Board Director of J.F.L. (Jersey Finance Limited) and Accounting Officer for J.F.L.

Deputy G.P. Southern:

So if you do not know what is going on nobody does?

Mr. M. de Forest-Brown:

Hopefully.

Deputy G.P. Southern:

Thanks. Geoff, could I just start you off, if you would just like to tell us how you came to get this particular job and your experience in the role. You have been there a fairly short time.

Mr. G. Cook:

Yes. It was advertised so it looked like a very interesting and appealing job, representing a small jurisdiction but still a State. So in terms of my previous working experience, I worked a lot in corporate life, approaching 20 years at HSBC. Prior to taking up this post I ran HSBC's wealth management business in the U.K. (United Kingdom). Prior to that I had a mix of experience in financial services, some in accountancy, business financial planning and started financial services in a mutual organisation, in building societies many years ago.

Deputy G.P. Southern:

In the days when we still had them.

Mr. G. Cook:

Yes, that is right. There are still a few around. Still a few.

Deputy G.P. Southern:

I would like to start, if I may, with you, Geoff, and talk about the terms of reference and the objectives you see for Jersey Finance now. Would you like to just outline that for us and we can see if we can explore it?

Mr. G. Cook:

Yes. I think there are 4 things that we set out to do principally. I think the primary objective is promotion and representation, both at home and abroad, but particularly overseas with influential gatekeepers, business introducers and other bodies, trade associations, and on occasion, in partnership with government, regulators and other government bodies. The aim there is to promote Jersey's financial services industry, Jersey as a brand, Jersey as an international finance centre and to encourage firms, and individuals to consider using Jersey for corporate, institutional and private client financial services work. That is our primary goal and aim or objective. We also work quite hard on working in partnership with interested stakeholders in building the best business environment that we can to ensure that firms here can innovate, can modernise their products and services, can remain competitive in the international spheres. So while Jersey has a good reputation, reputation on its own is not sufficient to compete in what is really an intense marketplace. There are over 40 international finance centres attempting to win market share and deliver the similar kinds of products and services to Jersey. So it is an intensely competitive marketplace. So working on making sure what you are offering is up to date, it is competitive, where you can differentiate and be seen as innovative, compelling, attractive, is very important. So that is about making sure what we have here is fit for purpose to go out and promote into the outside world, into the competitive marketplace that we operate in. I think there are probably 2 strands to that. I would say one is what I would call facilitation of a supportive legal, fiscal and regulatory environment. So much of what we offer needs a framework surrounding it which is supported by laws, needs appropriate regulation. Regulations that is respected but is not suffocating in terms of being intensely bureaucratic or difficult to work with. The fiscal regime, of course, you need a competitive offering, an offering that is at least equivalent to your main competitors in terms of trying to achieve a level playing field in the tax position for the overseas investor. So those are 3 key components where we work to facilitate with key partners. We work very closely with the Jersey Financial Services Commission, I see them on a monthly basis for a formal review of regulatory matters. We work closely with Economic Development in terms of seeking to inform them what we think needs to happen next to maintain those objectives of a strong offering, and we work very closely with industry. So we have 170 member firms and we consult very widely with them on what market intelligence is saying to them. What

do they believe needs to happen next to maintain that strong competitive positioning such that we can safeguard and protect our existing business streams and develop new opportunities. So it is a lot of intelligence gathering and then the facilitation of the flow of that information to any interested parties and we have a number of vehicles for that, standing working groups which have this multi disciplinary representation. We are seeking, through partnerships with interested stakeholders, to produce the best end result. Then I think probably a little more technical - that is more about the environment - is the actual development of products and services that could be made available broadly to the financial services community in Jersey. So if an individual firm internally develops a particularly attractive product or a particularly innovative change, if that is restricted on a commercial basis to that particular firm then you are not getting the wider benefit in the jurisdiction of that kind of innovation. So we do try and encourage, and have had some success in encouraging commercial firms to share, through us. Where their own commercial interests are protected by sometimes anonymity, they perhaps share concepts rather than their particular means of doing business or their particular business relationships. As a consequence, Jersey has been able to come forward with some really quite innovative and insightful new products and services. I think perhaps not the most topical example in terms of it being new but in terms of its commercial impact, was the Expert Funds, which I think work started on that around 2004. That was worked on progressively by Jersey Finance, Jersey Funds Association and commercial firms, with involvement from the regulator and that developed into a new fund offering that has had a really quite spectacular impact on Jersey's garnering of new funds business. So the annual results we have just released show that funds under administration in Jersey now have reached £246 billion and we have seen over the 2007 period a growth of 37 per cent in the funds under administration. Now much of that recent growth has been to do with product innovation. It is not all boats float in a rising tide, we did something that was pretty innovative and sharpened up our competitiveness. It has had a dynamic impact on our business flows. I think it is a key part of our role, this refreshment, this continual refreshment if you like as a product tool kit of making sure that what we have is fit for purpose, it is customer driven in the sense it is meeting the requirements of the external marketplace to make sure that our product armoury stays fit for purpose.

Connétable M. K. Jackson of St. Brelade:

In terms of competitiveness clearly we have got the other jurisdictions which you have mentioned, but in terms of internal competitiveness, do you find your involvement from a facilitating angle is restricted more to the smaller players or does it encompass the larger institutions as well.

Mr. G. Cook:

It encompasses more but in different ways. So we have - you talked about the very large brands here, the international banking groups, HSBC, Standard Chartered, Royal Bank of Scotland, people like that, very large employers - then they attend our overseas development activities, they attend our working groups and give investment and input into the kinds of things I have been describing. They feature articles in our publications and they are engaged. They are perhaps not quite as dependent on us for overseas promotions in terms of brand awareness, because some of these brands are very, very large, they are global brands. If I can use the example of the local and global it is that still the tailoring of what we offer under an HSBC brand or another major brand still needs some explanation in the marketplace, because what we have here is international services, and you are taking international services into domestic, local onshore territories, where despite the brand awareness, there can be quite a low level of awareness about the actual product set and what it is you are offering and promoting. So I think there is relevance in application. We do get good support from the major brands and we are engaged with the major brands. When I went to India recently, I approached all tiers of our industry as part our pre-planning process. I approached HSBC, Standard Chartered Bank, people who are global brands, who have big footprints in India and received their support and co-operation in gaining entry to both their own firms and recommended third parties while we were there.

The Connétable of St. Brelade:

So do you see the feedback coming from the larger firms as crucial to your existence?

Mr. G. Cook:

I think feedback from all the members is crucial to our existence, because if you are going to a member-driven organisation, we need to be attuned to and listen to what they require from us and what they value from us. I think different types of firms value different aspects of our activity in different ways. Even the very large firms

sometimes would not always gain ready access at the same level or platform that we can representing a country. So, for instance, in India recently we engaged with the Indian Chamber of Commerce and we did some presentations, had some discussions, had some networking interactions. They were prepared to do that because we were representing an entire industry, so it was an industry trade body to an industry trade body, with multiple people coming along to these events and lots of different firms and brands. A single brand, no matter how powerful, would find that very difficult to do, because it is a different relationship and a different footing, a different level.

Deputy G.P. Southern:

Alan, do you want to come in?

Deputy A. Breckon of St. Saviour:

Yes, you mentioned, Geoff, about the need for legal framework and obviously change happens when change is required. Where does that come from? Does that come from the regulator, does it come from government or does it come from industry, or is it a mix and where do you fit into that?

Mr. G. Cook:

I think it is a mix. I think the regulator would ordinarily drive what I call mandatory change or change that is required to keep up with international standards, and to keep the jurisdiction fit for purpose in terms of modern legislature that is comprehensive and fits the bill. So there is really a pretty substantial flow of that going on pretty much constantly, because you have international standard setting bodies. You have the E.U. (European Union) that can be a standard setting body, you have the O.E.C.D. (Organisation for Economic Co-operation and Development) you have the F.A.T.F. (Financial Action Task Force), you have I.O.S.C.O. (International Organization of Securities Commissions) in the funds world and these international bodies are constantly reviewing the international playing field and determining what they believe needs to happen next in terms of regulation, and Prudential Supervision of financial services, so that in itself will drive a programme of legislation. A good example would be the preparation for the I.M.F. (International Monetary Fund) review and the F.A.T.F. 40 + 9 recommendations. So Jersey has undertaken a very comprehensive

raft of work in order to prepare for that and to make sure the legislation and regulation is fit for purpose in terms of complying with all those kinds of requirements.

Deputy G.P. Southern:

Is that not a role of the J.F.S.C. (Jersey Financial Services Commission) itself rather than J.F.L. (Jersey Finance Limited)?

Mr. R. Kirkby:

Well, when the J.F.S.C. issues a new consultation paper, a new draft law on certain regulatory provisions, they issue it to Jersey Finance and industry, and Jersey Finance acts as a central collation point for feedback from industry, and that may take a number of forms. We may arrange a working group to discuss if it is quite significant legislation, so for example, if it is anti-money laundering type changes which will affect every firm in some shape or form, we may have a working group and that may consist of lawyers, accountants, trust people, fund people and other specialists. They discuss those issues and the regulator would sit in those discussions and it is really a sort of evolving consultation with the commission. Or in other situations, we may just have written responses from industry, which we collate and anonymise before sending to the commission. Industry values Jersey Finance as a facilitator in terms of that collation responsibility.

Deputy A. Breckon:

What about if there was something that Jersey does not have that somebody else is doing good business with - and you mentioned a growth area - I mean, is the industry lobby there to say: "Well, how does that work then from your point of view?"

Mr. G. Cook:

Every stakeholder is involved in new product development, so the government is involved if the new product development needs some kind of enabling legislation, so a degree of communication and consultation would go on there. If you bring a new product to market, then the regulator will want to decide how they regulate it. So we have taken the view very much it is important to engage all stakeholders, industry, government and regulator at an early stage in product development. In our funds offering, Expert Funds was a good example of that. I think our new funds offering

that has just been launched is another example where we involved the key stakeholders in informing them about what is going on in the marketplace. You know, we gather market intelligence ourselves through desktop research, through country visits and through members, and through that we seek to assess what trends are going on in the world, what are the developments, where are things heading and what do we need to do to anticipate that to make sure our offering stays strong? We share that intelligence with government and with our regulator, and collectively we seek to come to a conclusion about the correct way to carry that forward, balancing the needs of industry in terms of having a competitive product, of government in terms of the finite resources available. There is only so much legislature time, therefore that has to be balanced with all the other competing priorities, and the regulator will want to have a view about how they allow a product to come to market; what is their level of disclosure; which market are we selling to and who are the target customers; how will it be supervised, that kind of thing.

Deputy A. Breckon:

Can I just develop that a little bit? Earlier you said about you need a legal framework that is not suffocating and there is a growth area there. Are you content - and the regulator content - that the checks and balance and transparency is all there so that it does not go pear-shaped?

Mr. G. Cook:

I think we achieve a good balance in Jersey, and I think we have a strong and independent regulator who is not afraid to challenge back and push back on us. We have brought product ideas to the table and we have had to modify them on occasion because they perhaps agree the commercial value of what we are trying to achieve, but feel from their point of view that they need some checks and balances in place that we perhaps had not thought of. So there is a fairly robust process that goes on. There is a reverse challenge proving process in terms of government. We have to make a compelling case for getting a share of the legislation timetable, the law drafting timetable and we have to convince our regulator that whatever product we are bringing to market fits Jersey's international reputation and personality, because I believe we are differentiated from many providers. The positioning we have taken as an international finance centre is to be one of good reputation and good standing,

operating to ethical business principles and to be an international good neighbour and to be transparent in the way we go about doing business. Therefore, whatever you bring to the market has to support that strategy and those principles, and those are the kinds of checks and conversations that the regulator will have with us in terms of going through a proving process.

The Connétable of St. Brelade:

Would you regard yourself as a filter for ideas or concepts that are coming out of industry before they arrive at E.D.D. (Economic Development Department) - or Jersey Finance, shall we say - so that you know what is going to work, and in terms of facilitation, you can reject some which are perhaps off the wall and just focus on things which are maybe going to do the Island good and work properly?

Mr. G. Cook:

Robert is very involved in this. I will perhaps ask him. I will say something in terms of preface, but then ask Robert to comment on the detail. I would not really see ourselves as editing out in the sense of filtering and blocking, but more in the constructive way that you have described it, which is encouraging ideas to come forward, but effectively, because of resource constraints that we all have, we cannot bring every single good idea to market, and it could be that a particular niche area or a relatively small number of people have a particularly good idea that is good for them, but perhaps does not have a wider application. So I guess to a degree there, we do have to try and make those judgments and take the interests and the weight of opinion from the entire membership of the entire industry into account. But I will let Robert talk a little bit more about the actual process of how we construct that and how we go about it.

Mr. R. Kirkby:

We do get quite a lot of ideas or requests for changes from our members and we do need to prioritise those, because of the time and resources available. One of the ways we do that is we test with other members what appetite they would have for such a change, or we may convene a group of individuals to discuss that change and we sort of only test from what we have had heard from maybe a small minority of people as to whether it is applicable to a wider audience. We would also test that with external

international gatekeepers as well, so people who refer the work to Jersey, and then at the same time, we also balance what is the potential economic benefits to the Island of that piece of work, and again, could it be serviced with our existing skill set, would we need additional people et cetera. So what we try and do is on any new suggestion, we just try and look at it and work out what the benefits, pluses and minuses for the Island and then prioritise those taking them forward. We get a lot of great ideas, which is very healthy for the Island.

Mr. G. Cook:

Can I reinforce the gatekeeper point? That is very important. You know, the end consumers of these services are businesses or institutions or private individuals, but they are not by and large in Jersey, they are in other parts of the world. So having strong connections with what we call gatekeepers - they are in most industries, influential people and firms - there are concentrations of them in the major finance centres, so knowing them and being able, if you like, before we bring a product to its final delivery, doing some research with them, testing their opinion, testing their appetite for an innovative or a new product is really important, which you classically would do in an individual firm if you were doing market research. That is how we use them. It is a very important link in the chain.

Deputy G.P. Southern:

Can I just try and tease out these objectives? You mentioned 4 objectives and you mentioned also you are promoting the Island of Jersey, you are promoting the Jersey brand and you are promoting Jersey as a finance centre. It seems to me that of the 4 that you listed after talking about promotion, they are very much involved with promoting your members' interests. It seems to me that 90 per cent of your effort is acting as a group, in the interests of your members and that is your primary objective. Is that the way you would see it in terms of your accountability, you are funded by 2 sources: one the State of Jersey; and secondly, by your members? Is the balance correct? It seems to me what you are saying, you are 90 per cent working in the interests of your members, and yet the majority of the funding, if you like, directly comes from the States. How does that tie up? It seems to me you are working for 2 masters. Is that the case or not?

Mr. G. Cook:

No, I do not believe so, and as I said, we would not say we were working 90 per cent in a particular interest group's interest. We seek to represent all key stakeholders, because the reason for that is you are much stronger as a jurisdiction if you have partnership and co-operation between your industry, whatever industry it is, and your government and your regulator, because you cannot operate effectively - or as effectively as you would need to in today's competitive marketplace - unless there is co-operation and partnership between those 3 pillars. So I do not have any percentage fixed in my mind. We are trying to pursue objectives that deliver a strong offering to the outside world for Jersey as a finance jurisdiction, and the benefit flow from that to me goes equally to all stakeholders. The community, the Island community of Jersey will benefit if we have a strong finance industry. The government will benefit if we have a strong finance industry, because they have a strong and dependable flow of revenue for tax take. Our regulator benefits in terms of its international reputation if it is in a position where it has a good working relationship with the industry that is not cosy, but is effective in terms of a dialogue and a flow of information back and forth, and compliance with the standards that the regulator sets. So I see the relationship being entirely a common purpose, really, and so we are all trying to promote for a common set of objectives.

The Connétable of St. Brelade:

Can I just come in there? I agree with what you are trying to say, and if it is good, all of it is good for the Island. Where we are looking at the budget and when we were talking to Geoffrey Grimes(?) and Mr. de Forest-Brown last time, what we are trying to tease out from the budget to Jersey Finance from States and from the industry is there are 3 roles, and there are 2 roles that come from Jersey Finance; the third when you are lobbying government. You have already mentioned there is finite time for law drafting. When you say "finite" we can look at law drafting, and a lot of other people would say: "Well, finance get quite a good share of that." Now, is any of that coming from lobbying us for money we are giving you? It may be good for the Island, and there is the regulator in between, but we are told that none of that money that comes from the States is used to lobby us. I would like to see it broken down, because it is quite a substantial bit of money and there are lots of laws coming forward.

Mr. G. Cook:

I would really like to understand what you mean by lobbying, because I do not think we do any lobbying to speak of at all.

Mr. M. de Forest-Brown:

Can I just make one observation here, that government decides what is accepted in its law-drafting programme.

Deputy G.P. Southern:

You just said that one of your jobs is to pick new ideas and make sure the legislative programme is aware of them, and is capable of enabling you to deliver them.

Mr. M. de Forest-Brown:

Government simply looks at the range of law-drafting bids that are put on the table and makes a decision based on limited resources which laws it thinks are in the overall best interests of the Island, so that is the process.

Deputy G.P. Southern:

It could be argued, and it has been put to me, that Jersey Finance acts as a co-ordinating body and, if you like, in some ways is a pressure group to make sure that the interests of its members in terms of divvying up - when it comes to law-drafting time - are very strongly represented: "Do not forget, somewhere towards the top of your list, you should be doing this, because we want to do this."

Mr. M. de Forest-Brown:

I mean, I will make some comments and Geoff can respond. That has not been my experience the way the lobbying bit has worked. Where the lobbying bit has taken part is where industry may have a different set of views from, say, the regulator or government about what the detailed law says, for example, if the finance industry think that it is stupid to sell cars that are only made black and they think you should make cars that come in any colour, but the government and the regulator say: "Well, we think they should just be made in black" then the finance industry, representing their interests, will lobby government and say: "Well, we think they should come in

any colour.” So they will lobby at the content of the law and the shape of the law and the details of regulations. I have not had any experience of lobbying in the area: “Oh, we do not have this law through.” I mean, there is permanent pressure for us to get more laws through. I think that comes across the piece. I mean, everybody I speak to seems to be short of law-drafting time. So there is a general pressure on any laws that there is universal support for through the regulator and the finance industry. There is an expectation or an understanding that, yes, there is a desire to do this, otherwise we would not spend a lot of resource on it. But I certainly have not come across, in my tenure of experience, a situation where we have done a whole bunch of work and then we have said: “Sorry, we are not doing this law because we do not have the law-drafting time” and then there has been a heavy lobby that said: “Oh, we really want this. Can you force it through?” That is not my experience of lobbying. When I have talked about lobbying in previous meetings, it is very much about content of law, that there is a general agreement that it is in the best interests of the Island.

Deputy G.P. Southern:

How is that general agreement arrived at? You talked earlier about: “Yes, there are times where we will go and we will talk to the J.F.S.C. about this” and I had the impression of 2 forces, 2 powers coming together, saying: “Yes, we are coming strongly with this and they are [I think you used the word] pushing back, they will push back and we have to take it away and modify.” That seems to me it is acting on behalf of your members, which I think you should be doing.

Mr. M. de Forest-Brown:

I agree with you entirely. That is exactly what has happened. It is just a straight haggle. It is like anything else, it is whether you are trying to get money for the Battle of Flowers, or you are trying to get money for whatever it is, or any particular negotiation. The J.F.L. do fundamentally represent their finance industry members, but it is in government’s interests that they do so as effectively as possible. If we look back to a time prior to - I am going to finish this piece - when J.F.L. existed, we had anarchy, because we could not get the access. What we have in J.F.L. now is a vehicle that allows that debate to be had in an effective way; rather than Joe Bloggs who shouts loudest, we now have a body that can look across the piece and say: “It is not just about Joe Bloggs shouting loudest, it is about this is what will be of maximum

interest for the finance industry” and so they can give a view to government and the regulator and say: “This is what we think will be in the best interests of the Island.”

Deputy G.P. Southern:

I have no objection at all to you doing that and doing it as effectively as you possibly can. Where I think the question mark arises is with the funding and the question mark is whether we are funding the body, that you are to do work which goes round in a circle and impacts on us; should we be funding you to the tune of £1 million when part of that funding is coming round for you acting as a lobbying group to persuade us to act in a particular way in the interests of your members? Fine if you do it, but should you not be paid by your members to do it and do it effectively and be held accountable to them?

Mr. G. Cook:

I do not think that is an accurate description of what we do. If we are looking at a need to bring new products and services to market, we will communicate with Economic Development. We are not involved in the law-drafting prioritisation process at all. We simply tell Economic Development what we believe would be beneficial in terms of bringing new products or new developments to market, and the end goal of that always is to encourage economic growth. Businesses are in business to make profit. If they make profits, then they pay more tax. If they pay more tax, then the States of Jersey benefits. So what I would say in response to you is that I think it is a very sound investment to pay 0.03 per cent to safeguard an industry of over £300 million. I think that is what we do. We are not involved in lobbying States Members, we are not involved in lobbying politicians. We are not a political organisation. We simply communicate, I believe, good quality information to the interface point in government that we have been asked to work with as to what we believe needs to happen next, and the end objective of that always will be having the wider interests of the Island and the economy in mind.

Deputy A. Breckon:

Can I ask you to comment then on the G.S.T. (Goods and Services Tax) lobby, let us say around Article 60, 61, 62, 63, whatever it was with the exemptions or the special treatment? Where did that come from then?

Mr. G. Cook:

I will ask Robert to comment on that, because I have not been sitting on the G.S.T. Working Group or been involved with the previous group. He is more knowledgeable on that than I.

Mr. R. Kirkby:

Jersey Finance has 3 standing committees and one of the standing committees, a group called the Fiscal Strategy Group, over the course of the last 4 years has worked in partnership with government to help evolve good tax law, so the Zero-Ten law and the G.S.T. law. That body is made up of the top tax professionals in the Island. They give their time free of charge and meet very regularly to develop various laws. In terms of G.S.T., Goods and Services Tax was part of the framework to introduce Zero-Ten, because of the removal of the exempt and international business companies. A commitment made by the Treasury Minister a number of years ago was that finance would contribute £5 million to £10 million of Goods and Services, a total of £45 million. If finance had applied a normal G.S.T. model or indirect V.A.T. (Value Added Tax) model, the collection by the finance industry would have been considerably less than £5 million, and the reason for that is the majority of the finance industry business is an export business, and when it is an export business, that business is zero-rated for G.S.T. purposes and you would cover all your input tax and there is no collection for the States. In addition, if you apply a normal finance model, it is incredibly bureaucratic. An example is that most mainstream U.K. retail banks have teams of between 20 and 40 people just doing V.A.T. for their bank in the U.K., so they are sat in London, and all they do is V.A.T. Obviously we did not want that in Jersey, because that is non-productive, non-economic work. If we stripped out 200, 300, 400 people out of the industry who were just processing G.S.T. returns et cetera in the Island, that is not healthy for the Island, and also it would not generate the amount of the revenue the States required, so finance proposed a flat rate scheme, a 2-tier flat rate scheme, which as you say, is in part 12, Article 60 to 65. We proposed that to the Treasury Minister that it would collect the required amount of money, and at the same time keep the process very simple so that we did not have all this non-productive, non-economic work going on. That was made as a proposal as opposed to

any form of lobby and achieved 2 benefits: the money required and continuing a productive finance industry.

Deputy A. Breckon:

The approach, I understand it was the night before the debate on the main law.

Mr. R. Kirkby:

That is not correct either. It was not the night before the main law. It was evolved over a period from when the Crown agents were appointed, over that period, I think that was early 2006 or late 2005, to the position where we are now, where the finance service industry regulations were due to be debated on 11th March and it is a continually evolving process. Tax legislation is unfortunately incredibly complicated legislation because it has so many effects in so many different areas and it takes a long time to examine each of those impacts. The States of Jersey have had the incredible benefit of having all these tax professionals available free of charge to discuss and talk about the law, and the hours they have donated is vast. I think this year alone - I had this on the back of an envelope - it is more than 1,000 hours of these professionals, and this has been going on for some 4 years, and their average charge-out rate is around £400 or £500. They have donated that time free of charge, and I believe Jersey now has a much more robust tax law than it would have done without the services of this group.

Deputy G.P. Southern:

You mentioned there that you have whole teams in the U.K. working on V.A.T. as non-productive work. In particular, why should the exemption be to finance and not to other areas of industry?

Mr. R. Kirkby:

Finance is unfortunately incredibly difficult when it comes to indirect tax, because an indirect tax, a value-added tax, this is about adding value, and at what point does a finance service become a value-added tax? So, for example, mortgage interest, is that a taxable supply? The argument very clearly in E.U. is it is not. However, what happens if you have mortgage interest but then you have a payment protection plan that sits on top of the mortgage interest, so for example, if you die or have a

permanent illness? That payment protection insurance debate is raging about whether that is taxable or non-taxable, and then unfortunately what happens with all these financial products is there is wrappers and wrappers and there might be another insurance product on there, it may be for the children, or there might be a pension product that sits alongside it, it declines as the mortgage declines and you have to have all these people in the banks working out this model and how this works and what the V.A.T. position is. The *Blue Book*, which looks at financial services in the U.K., is over 500 pages long, which is longer than most of the other V.A.T. legislation that applies to any other industry. Finance unfortunately is an incredibly complicated industry to introduce an indirect tax on, and that is why it is so non-productive. If you looked at, say, a manufacturing business in the U.K., their V.A.T. team would probably be one or 2 people at the most.

Deputy G.P. Southern:

Without getting into the pros and cons of V.A.T. or G.S.T. at the moment, could I just put it back to you, I mean, one of the arguments that has been around in terms of the model that we adopted for G.S.T. was that we should adopt the U.K. regime full stop and we would not have the arguments around food in particular that the U.K. have already gone through. It would have been far simpler, because we get 90 per cent to 95 per cent of our business with the U.K. to adopt the U.K. model, and if you are saying you have a 500-page document which delineates financial service in the U.K., presumably they have solved most of the problems.

Mr. R. Kirkby:

I think the easy answer is the *Blue Book* has not really truly delineated things. There have continued to be I think it is around 50 financial services, V.A.T. cases before the tribunal in the U.K. a year, and even more brought to the European Court of Justice and that costs H.M.R.C. (Her Majesty's Revenue and Customs) a huge amount of money in terms of legal fees et cetera, and that is something that certainly we would not want the Jersey Tax Office pursuing. The V.A.T. position on food, children's clothes and reading material et cetera - which is exempt, zero-rated or taxable - is again complex, and the reason you would not want to adopt the full U.K. model in Jersey is that the cost of collecting that V.A.T. in the U.K. is considerably higher than the just below 1 per cent that is proposed in Jersey. If we apply the full U.K. model,

the cost of collection would be considerably higher than 1 per cent, therefore the G.S.T. rates would have to be considerably higher to collect the overall £45 million desired. It seems if we can have a simpler model in Jersey, i.e. sort of the non-exemption model, and it is more efficient and cheaper to collect and then we get the desired result, then that surely is beneficial for an island of our size. I do think we need to --

Mr. M. de Forest-Brown:

Can I say that we seem to be sort of straying a bit. Can I understand exactly what the question is that relates to the funding of J.F.L.? I am slightly lost. Rob has just given his personal view - or maybe even J.F.L.'s view or maybe even the industry's view - on what G.S.T. scheme should operate. I am just slightly lost as to where that fits into the picture.

Deputy G.P. Southern:

We just happen to have strayed on to that, but we will come back to the agenda that is in front of us anyway. I mean, we are just exploring it for the sake of it, but we are talking about substantial input into the organisation of the tax regime under which we all operate in Jersey, and that seems to me quite a powerful position for J.F.L. to be in.

Deputy A. Breckon:

In broad terms, the government's idea of G.S.T. was raising tax, okay, so if there is going to be exemptions, then they were kept to a minimum and the finance industry have made a case why there should be exemptions or special treatment.

Mr. M. de Forest-Brown:

Let us be very clear, you are confusing issues here about exemption --

Deputy A. Breckon:

What is this then? We have this down for debate.

Mr. M. de Forest-Brown:

No, no, no. What is exemption? There are products that are exempted and there are businesses that collect the tax as agents. This is a consumer tax and we are straying rather away from it, and there is a little confusion about --

Deputy A. Breckon:

It is on Goods and Services Tax.

Mr. M. de Forest-Brown:

Yes, exactly, and there is confusion. If what you are saying is: "Yes, we should have taxed all of the financial services available here in the Island then --"

Deputy A. Breckon:

I did not say that.

Mr. M. de Forest-Brown:

I am slightly confused, because what we are saying is the finance industry was exempted from processing G.S.T.; not exempted from G.S.T., but exempted from processing G.S.T., and that is a very important difference. It is not that financial products have been exempted versus food or children's clothes, it is the financial industry was exempted from the processing of G.S.T.

Deputy A. Breckon:

Been given special treatment. Many retailers would like to say: "Well, I will pay £1,000 a year and that will be mine" so what I am saying is there was a lobby and there was regulations that have done that, so the question was basically where has the lobby come from and how has that happened? That is where we have come back --

Mr. M. de Forest-Brown:

Let us the ask the question, because Rob might be reticent on answering it, going back to the detail, going back to the Fiscal Strategy Group that came up with the flat rate scheme, whose idea was it? Who brought the idea to the table and suggested that we introduce a flat rate scheme? Do you recall that meeting?

Mr. R Kirkby:

No.

Mr. M. de Forest-Brown:

There was a meeting where everybody was debating the G.S.T. We came a long way down the road with all the agreements, which is why it appeared at the last minute and there was a debate. Steve Lowthorpe(?) came to the meeting and before that meeting, there was a previous meeting to discuss the issues. In that debate, an individual said: "This is ridiculous. This is going to waste money for the Island, it is going to waste resources, it is going to waste manpower. It is going to --" There was a whole debate before it. You do not recall who that person was?

Mr. R Kirkby:

No.

Deputy A. Breckon:

But is that not the general issue of G.S.T. for business in the High Street?

Mr. G. Cook:

Can I raise 2 points of principle which I think we are simply missing here in getting down to the detail. One is that the finance industry principally is an export, therefore if you apply overhead to it and additional taxes to it that other competitive jurisdictions do not, you make it uncompetitive. That is a very important point of principle, and the arrangement that has been agreed generates significantly more tax revenue for the States of Jersey than a conventional scheme would have done. So I struggle to understand how you object to - as you appear to be - an arrangement that generates more tax take for Jersey and provides greater benefit to Jersey than a conventional scheme would.

Deputy G. P. Southern;

The figure that I have seen suggests that the spend of financial services locally would generate around £7.5 million and that is the figure approximately that you are using with your scheme, so it is around the same level.

Mr. M. de Forest-Brown:

Let us be clear, let us be clear. That would be raised from the consumer. It would be raised from the consumer, so the financial institutions have chosen to pay that instead of the consumer.

Mr. R. Kirkby:

The consumer would have been the Jersey resident individuals, the population.

Mr. M. de Forest-Brown:

So let us be clear, the financial institutions are paying what the consumer would have had to have paid.

Deputy G.P. Southern:

But to suggest that you are paying over the odds is not --

Mr. M. de Forest-Brown:

No, no, no. The financial institutions are paying what the consumer would have paid. The consumer would have paid £7.5 million. The finance industry would have paid nothing. It would have paid not one penny. Companies do not pay. They collect the money on behalf of the government from the consumer, so instead what we would have is a situation where the financial institutions are paying the £7.5 million that would have been paid by Jersey residents in the street. If you would like to revert that system and get customers, the Jersey residents, to pay an extra £7.5 million in tax, then I am sure if you want to bring those proposals, that would be hell, and we do not see that as good business for the Island.

Deputy G.P. Southern:

Your point is well made and taken.

The Connétable of St. Brelade:

Chairman, can I just tweak back, if I may, to the agenda.

Deputy G.P. Southern:

Yes, please do.

The Connétable of St. Brelade:

A couple of points. I mean, we started off with terms of reference and what I would be interested to know, we have seen evolution to a certain extent. We had original terms of reference when J.F.L. was set up. We have probably current terms of reference now. How would you see future terms of reference in view of the fact that you are now moving perhaps into the Far East and feel that Jersey has markets out there? Do you think there is mileage in changing the terms of reference to adapt to modern day needs in the finance industry?

Mr. G. Cook:

I think it is always helpful to have a period of reflection over the passage of time, and determine whether those kinds of things are still accurate, they are still fit for purpose. I would say I do not think we have departed substantially from the intent of the original partnership agreement. I was clearly not around then, but I did have a look at the descriptor and just picked out a descriptive sentence from the original partnership agreement and it says: “Activities supporting the promotion, diversification and further development of the financial services industry.” So while we might be using slightly different language now, I think essentially the core of what we do is still the same. But I do agree with you, I think it is healthy periodically to review how things are working, how agreements are working and things will evolve over time. You know, Jersey has been a really terrific example of that. It is a terrifically, I think, resilient and agile community. It has shown its ability to reinvent itself many times, you know, over very long periods of time and I think its finance industry is no different. If you look back at how the finance industry started, it was a simple banking deposit for British expatriates leaving the U.K., going somewhere else in the world. That was their primary offering. Today, the deposits that we have booked here, 2-thirds of them are not in sterling. They are very diversified, in many, many different currencies and different countries now around the world do business with Jersey, so I think things like market development and focusing on where we are trying to win business is something we need to be considering and the future of that also needs consideration.

The Connétable of St. Brelade:

That leads me to a question, really. Do you see a need in resource requirements because of your presence in the Far East?

Mr. G. Cook:

Well, we are evaluating that the moment. There has been some very significant moves by what we would term serious competition, so if you look around the world, you have people like the City of London, who have now opened representative distribution offices in India, in China, in Europe, our close and near neighbours, and competitors, Guernsey, have opened a full time office in Shanghai. We understand - we have not seen it announced yet - that the Dubai financial services body will be opening a network of overseas offices in New York, London and Hong Kong sometime during 2008. But other up and coming jurisdictions are reputed to be spending 16 million dollars, about £8 million on their promotion of budding activities in 2008. So it is very much exercising our minds at the moment. We have our plan in place for 2008, it is a very full plan, a full programme, but do we need to keep evolving as a jurisdiction in how we develop markets? That is an open question that we are currently discussing and reviewing internally and researching.

The Connétable of St. Brelade:

Are we in a position to compete with very wealthy Middle Eastern jurisdictions such as Dubai for instance?

Mr. G. Cook:

I think we are, because I mean, they clearly have deep pockets, but Jersey has some attributes that they do not have, but it is very, very important we get out there and do not allow them to, if you like, occupy our space. You know, if we were complacent about that, they will take business share, they will take market share over time. But Jersey has some things that the newer offerings do not. We have a great history and tradition of offering competitive financial services that now goes back over 5 decades. We have talked a lot about it today, one of our great assets is the ability for the various components of what you need to build a successful international finance centre, here they work effectively together and that is not always the case in other jurisdictions. So we have, despite the rather sad external press we have seen recently in other areas, a very strong legal and judicial system that is respected around the

world. Those are things that you cannot create. You cannot spend your way to those. You can buy in knowledge and experience, but you cannot with longevity and case history and reliability and stability and predictability, but I do believe absolutely, you know, with huge conviction that if we sit back and rest purely on our reputation in this competitive world, we will go backwards, which is why I think it is important that we continue thinking afresh about the areas that you have raised.

Deputy A. Breckon:

Just an issue on that, are you still in touch with the outside world and publications? I have seen stuff that has been generated as well as newspapers, periodicals and publications. Do you pick up anything that is said about Jersey and sort of respond to that, whether it is good, bad or indifferent? Do you have that network?

Mr. G. Cook:

Yes, we do. Yes, we do monitor press reports out of the Island. We employ a P.R. (Public Relations) company in the U.K. to assist us with that, both in the U.K. and internationally. An example would be very recently - I will give you a very recent live example - there is a publication which is an online publication called *Breakingviews.com*. It is probably not a name you will be familiar with, or anybody would regularly be expected to be familiar with, because it is a very bespoke and targeted online publication. The people who formed that are ex *The Financial Times*. They are very respected journalists. They started up this new enterprise and it goes on a private subscription basis to key figures in the city and elsewhere in other financial centres, opinion formers, and the idea is they get the news as it is breaking, ahead of more conventional channels of communication. They picked up on the Liechtenstein story very quickly. It was one of the first items they became aware of, and they described Germany's approach to Liechtenstein and were speculating on the change that that might drive. They incorporated Jersey in a little clutch of international finance centres in a slightly negative way. It was also implied: "Well, you are kind of potentially associated with this kind of thing. So I approached them, I did an interview and we had that story taken down and they have now rewritten and relaunched it, and Jersey's reputation has been defended and protected, because we are differentiated from other international finance centres. We are a co-operative, good neighbour. We are a responsible member of the international finance

community. I have met recently with *The Times* to do the same thing. I am meeting with *The Observer* later in March. They have run a series - they and *The Guardian* - of rather unfavourable articles on a number of international fund centres, including Jersey, so I do see it as part of our role to make our case, and explain the differences.

Deputy G.P. Southern:

Have you had any engagement with the US recently in terms of the commission?

Mr. G. Cook:

No, we would not ordinarily make any direct approaches to governmental bodies. That is Martin de Forest-Brown's role, but we do pick up on press commentary, so we have spoken to *The Wall Street Journal* about their reporting of that particular activity. We spoken to *The Economist*, where we have had both very favourable coverage in 2007 from one journalist, but from the same publication, some less favourable coverage, so we have spoken to *The Economist*. We have had a series of meetings with *The Financial Times*. So we do take, if you like, the capacity of very influential opinion formers around the world very seriously and do work at those.

Deputy G.P. Southern:

Can I take us on to accountability? In relation to States funding, we have some accountability. You referred to the 2005 partnership agreement; when finally that arrived, it was overdue by 2005, I think. We talk about direction 26 requires relevant and meaningful performance indicators. There has been an area of promotion and marketing. Can you tell us what your performance indicators are and how you account of how well you are doing in that sense?

Mr. G. Cook:

I will talk a little bit about the general approach and then perhaps invite Robert to comment on it, and I think Martin's also very interesting view on which particular kind of marketing is effective and which is not. But in terms of the general thing about the marketing, you know, how we measure the effectiveness of marketing generally, we do it in a variety of ways. All of our events and activities are subject to surveys and reviews, so one of our principle means of marketing promotion is putting on events, seminars, conferences. So if people come along to these: their initial

attendance to start with is an indicator of effectiveness, because if you think about the audience that we are promoting to, they will invariably be around the world, they will be structuring lawyers, they will be chartered accountants who are tax advisors, they will be wealth managers, they will be investment banks, they will be private equity houses. By and large, these are people whose time is expensive, and they will not readily give that time unless they feel there is some real value and real benefit in turning up to something and getting information that they are going to be able to use practically with clients. So I think attendance levels are quite a strong indicator as to whether your marketing is effective or not. However, on the back of each of our events, we do do exit surveys, and we test the satisfaction ratings of the attendees, and we have set ourselves a minimum benchmark of achieving 7 or better in terms of scoring, 7 out of 10 or better on those kinds of events. So those are some sort of primary means we do. On advertising in publications, we again take member feedback, external third party feedback and we have begun in recent times doing independent research, having them researched by an independent company to test effectiveness, test whether the message has been received, whether it has moved opinion, whether anybody is going to take any action off the message. A very recent innovation - it is not in our plans, but is something that I have been working on building for 2008 - is to measure the commercial value of our P.R. So generally, I am sure you would agree, it is a commonly held view that editorial coverage, journalistic coverage is much more valuable than advertising, because you are paying for advertising and you are paying to advertise your message. If somebody else writes a positive commentary about you or what you have to offer in your products and service, then that by and large is much more valuable. We have just done a test exercise with our P.R. company, and we just picked a month at random for last year, and on conventional industry standard measurements, we generated around £140,000 of value in positive P.R. in one month last year. The net effect of that of course is you are getting that value you have to pay for for advertising to get your promotional activity out there. So we will be looking to do more of that ongoing. That is a new discipline that we will be introducing. Other ways: we do try and test with members whether they get commercial value out of our activity, but that is a sensitive area, because if members accompany us on a promotional activity, which they do in significant numbers, whether they write commercial business, whether they complete business with new contacts is a commercially sensitive topic and not one they want to

readily share, particularly with their competitors. But I will give you an example. We went to Kuwait in March last year for the very first time as part of the Middle East promotional activity, and we experimented with new ways of doing business development, so we have the classic conference or seminar that you invite people to, you promote your message and engage in networking after and you build networks and connections and then practitioners generally follow through and go and visit those firms. In addition to that, we did individual visits to companies that we had researched who we knew had very little knowledge of Jersey and do not do any business with Jersey, and I know as a result of those visits that a flow of business has opened up and Jersey firms are transacting with Kuwaiti companies where they were not before, and the cash value of that activity has been more than paid for by a multiple and the actual entire cost of that trip. We have similar information for the activity in China, where new AIM listings, new company formations have arisen as a result of us making those connections for brands. An AIM listing will generate fee revenue for a variety of firms, there are several firms involved in the process, with fees running into many hundreds of thousands of pounds, and again, a significant multiple of the cost of putting that trip on.

The Connétable of St. Brelade:

Given that it is quite difficult to reconcile accountancy or accountability with entrepreneurialism, do you see your role as J.F.L. as being at all entrepreneurial or would you rather step back from that and leave that for industry and just act as a facilitator?

Mr. G. Cook:

I think we have different roles in different contexts, so if it is a mature market where Jersey is well known, then I think providing a backdrop, so if we put an event or a conference on, that enables a variety of firms to come along and network and promote their particular brand and their particular service offering. I would say it is less entrepreneurial. That is more about care and maintenance of making sure that our marketing collateral and our brand is out there in the marketplace and that supports firms' individual business development efforts.

Mr. R. Kirkby:

Probably the U.K. would be a good example, where we do regular visits to the U.K. to put a platform for our members to network.

Mr. G. Cook:

Can I finish the second half of the question, because there is a different kind of activity which I think is important, and it perhaps is more in the groundbreaking area. Because we are not selling business directly, we are not seen quite the same way as an individual firm, and because we are representing a number of financial services industries, it does raise the whole game and whole bar. So if we go to a jurisdiction, we can often gain entry to forums and opportunities that an individual firm could not. So if you want to develop a new market, going there and building awareness of what we do is much easier for an organisation like ourselves than it is for an individual member firm, because they are having to establish who they are, their credibility, their product set. We go and can provide a much more substantive promotional backdrop and information on our jurisdiction and we gain much more ready access, so I think if you try and develop new markets I think there is a role for us to be a bit more entrepreneurial in terms of, if you like, breaking new ground to allow firms to come in behind us and we do get asked to do that quite a lot by firms.

Deputy G.P. Southern:

That is as a body representing the industry or a body representing the Island?

Mr. G. Cook:

I think it is both. I really do not think you can divide them, you know. Our industry will not be successful unless it is engaged with the Island community. We will not get people to come into the finance industry and work for it; we will not get our government to support us; we will not get the engagement that we need. You cannot divide them up into neat chunks or delineate them. You know, the Jersey finance industry is dependent on its host, and all these international brands that are here are dependent on the co-operation and goodwill of the government and the people of Jersey for it to be able to function and to be successful. So when I go out and promote I have in mind that we are promoting Jersey, the international finance centre, and I make no division or demarcation in my mind about whether that is the Island of Jersey

or whether it is a particular finance firm. We are promoting the same objectives in the same manner.

Deputy J.A. Martin of St. Helier:

When you say that, I fully understand that it is hard to separate the Island off from the industry, because people who have heard of Jersey would know it has a finance industry. Just an aside, I was in Edinburgh on a C.P.A. (Commonwealth Parliamentary Association), and I was very shocked how big countries in Asia and Pakistan had never heard of Jersey and as you say, there is a lot of places we need to be and I was quite shocked at that, and even the representative of Canada and Australia did not know what our industry was. But my question, when you say the whole of the industry, obviously not all the industry or individual firms subscribe to Jersey Finance, but you must, as Jersey Finance, go out there and represent the whole of the industry, so what gives the incentive for the others to start subscribing, because if there is a need, if we said to you today: “Right, there is another £2 million in the pot” if it is from us or from the industry: “Can you promote another and double what we have in the bank of the trust funds?” I know that is very simplistic, but what gives the rest of the industry the incentive when basically you are doing it, we are doing it, we are giving you money, you are doing it? Obviously you cannot make them all subscribe, but I presume you do promote forward the whole of the industry, whether they subscribe or not.

Mr. G. Cook:

We do. I mean, if you are not a member, then you do not get access to some services, because obviously there is a cost attached to them and we require people to subscribe to get access to them. But no, we do not distinguish and present things in that way. We are promoting Jersey’s entire finance industry and the Island of Jersey. We have a very high penetration rate of the universal potential, we believe we have a very high penetration, a very high proportion of firms do support us and do come after us and do support us. So we have never really seen that as an issue or a problem, and what we generally find is that large numbers of firms do travel with us, and those who are internationally branched will invariably send representatives from their own country operations along to our events. So again, we do not really have those sort of demarcations in our minds when we are trying to promote and do the best we can for

the finance industry.

Mr. R. Kirkby:

We have 170 members, which as you rightly say is not the full finance industry, but we do believe we have of that 170 members, that is more than 11,000 employees of the finance industry, given we have about 12,500, it is very significant.

Deputy J.A. Martin:

It is quite large.

Mr. G. Cook:

Something I should say, you know, of the balance, a good number of them will be support services, so they are marketing internally in Jersey to the finance industry and supporting it with various types of services, so there is really little benefit or margin in them going around the world and promoting their service elsewhere, because they have geared it to local supply.

Deputy A. Breckon:

Can I ask, Geoff, do they share with you what they might be doing as individuals, like Barclays, who they might be targeting or do they keep that --

Mr. G. Cook:

They do. I mean, again, as an example, when we went to India for this sort of fact-finding promotion to prepare the way for market entry, I visited a number of firms in Jersey who freely volunteered their in-country connections, but they always do that on the understanding that we will respect confidentiality, so we never share individual introducer information that comes from one firm with other firms. We respect the confidentiality. When we go and do these visits to firms, we are very careful to build on those sort of internal connections. But I think by and large the firms here do accept that if we work collectively, we are more powerful in our combined efforts than any individual firm can be on its own, no matter how strong its brand. So they are by and large, the big firms, very supportive and give us information, give us contacts and help us build a platform for promotion as we go round the world. So you mentioned Barclays, Barclays did that before I went out to India.

Deputy A. Breckon:

Would they share with you the fact that they were targeting an area or their clients with a product, would they share that information?

Mr. G. Cook:

They do do that. They do come to us and say: "We are developing this." I had one yesterday. A firm came to me yesterday, they are developing a particular area of the world that not too many other Jersey firms seem to be involved in yet, and this gentleman was saying: "It really would be great if you felt there was market potential and we will get more firms involved." Because if you are an individual firm going into market territory that is not familiar with Jersey, it is Judy's point really, if you are not well-known, it is hard work, so if your promotional body can come in and raise awareness levels and get a comfort level about the type of jurisdiction you are, you are well-governed, you have good corporate governance, you are reputable, you have a whole array of different products and services and if anything goes wrong, there is very strong regulation to protect and there are good laws that have gone through a proving process over many years, it gives comfort to the potential investor that there is a good backdrop that this is safe and secure to do business with. So individual firms do not tend to kind of deal with this and hold it all into themselves. They are keen for us to try and help them open the market up and accepting that their competitors will come in with them. It is a very large market potentially, therefore they will all benefit if there is a greater market penetration.

Deputy A. Breckon:

Can I just come back to some basic boring stuff for a bit, the actual funding, do you have a system where, say on a quarterly basis, are you funded quarterly or annually, do you have to tick the boxes on a quarterly basis through a reporting structure back to E.D. (Economic Development), or is annually?

Mr. G. Cook:

Well, I will ask Robert to comment on corporate governance and Martin as well, but we have real time supervision, because we have 2 States members on our board, so we produce monthly reports to our board on progress against our business plans and we

provide very regular financial reporting information. So it is an extremely transparent and very immediate feedback.

Deputy A. Breckon:

The nominees are from E.D.?

Mr. G. Cook:

Pardon?

Deputy A. Breckon:

The links are --

Mr. G. Cook:

The Assistant Minister of Economic Development sits on our board, Geoffrey Fisher, and Martin is the Accounting Officer, so you have 2 very prominent members of the E.D. who are there, if you like, in real time supervising what we are doing. I am going to ask my colleagues to comment on the corporate governance.

Mr. R. Kirkby:

In terms of the grant in 2008, we are going to receive the grant in 2 tranches, 1st January, 1st July. We do quarterly management accounts, which not only go to the board members, of which there is 2 States members, but they are also sent to James Dickson, who is the Economic Development accountant and Finance Director, so he has real time access to those accounts and he will pick up the phone and ask if he has any queries about that and we would talk about those. We also have pretty stringent internal procedures in terms of what happens with the money, not just the States money, but obviously our members' money, because we have a number of stakeholders, and those are around if we diverge from the business plan by more than say £6,000, then it requires 2 executive directors; if it is more than £30,000 then it requires the whole board approval. We have processes in place for things as actual spend, so cheque signing rights et cetera are very stringent. We are under a very strict obligation, because we are a non-profit organisation, to make sure that we are spending the money wisely and have sufficient procedures in place. Martin, do you want to add anything?

Mr. M. de Forest-Brown:

I do not think so.

The Connétable of St. Brelade:

You mentioned, just going back really in terms of what Alan was saying, you have your subscription from members, and effectively that is the user pays side of things. Do you see that formula changing in any way or being developed as business changes and perhaps certain firms will have more involvement on overseas visit and derive more benefit? Do you see that there will be mileage in those firms contributing to a greater extent to the cost?

Mr. G. Cook:

Well, we are doing it already. So if we are going to an overseas activity that has a significant cost attached to it, so, you know, in some parts of the world, you can join major conferences, major gatherings, where you need to take a trade stand and there is a reasonably significant cost in attending. For those very large areas or activities, we would invite member interest in supporting and they pay an additional payment over and above their membership subscription fee to attend, to help us defray the costs. So if they get a very particular benefit, a very particular exposure for their brand, they do pay more. So I think last year - and Robert will help me out - but I think we raised an additional £100,000 or more of revenue through that activity and similar related activities. In recent times, if we have been in a situation where we have just not had the budgetary capability, we have done a little bit of modest charging for activities. There is a limit to how much of that you can do, you know, if somebody is already paying a membership subscription and then to continue to sort of layer charge after charge on top of that is not realistic or perhaps fair.

The Connétable of St. Brelade:

Are the subscriptions based on the number of employees?

Mr. G. Cook:

Yes.

Mr. M. de Forest-Brown:

Yes, they are.

Mr. G. Cook:

That is the best measure we felt we could find for affordability and benefit.

Mr. M. de Forest-Brown:

So there is a degree to which the larger firms pay more anyway and the larger firms are the ones who are more likely to be interested in international expansion, as opposed to a purely local firm, so there is a sort of cost correlation or membership fee correlation in that respect already.

Mr. R. Kirkby:

For some of our events, an example last year, we went to Super Returns, which is a private equity event, some members were paying £2,000 or £3,000 just to attend that event with us, so I think the overall costs for Jersey Finance in the event was less than £5,000, but the total gross cost without those membership contributions would have been over £25,000, so it is used to defray the cost significantly.

Mr. M. de Forest-Brown:

On a recent trip to China, there were firms there who presented as part of the Jersey proposition, and that they present there without their own brand, so those are individuals giving their time and they were not promoted as whichever firm they were, they were simply specialists on the stage presenting the Jersey options or services or products.

Deputy G.P. Southern:

Our set up for Jersey Finance is a public/private combination. Can we just talk about how that compares with our jurisdictions? We are often hearing about other jurisdictions that are putting this much into promoting. How do you see that developing and what is the situation, because I think Cayman promotes itself almost entirely through private funding; Guernsey, I think, is supposed to be entirely public, although I think they are debating it again. How do you see the balance?

Mr. G. Cook:

There is a range of models. I think the public/private partnership has been particularly successful, because you have the key stakeholders with a common interest in the same activity, so that way, I think you get the engagement and support of your commercial firms, but you also get the keen interest of your government stakeholder in terms of ensuring that is done effectively, it is done cost effectively, it is done efficiently, and you get, I think, a greater partnership and a greater flow of information going between your industry, your government and your Regulator. I think it is a much better conduit, because you do not have quite the same level of demarcation you have where these things are done entirely independently of one another. So I see it as a great positive. People have done, not studies on this, but key figures who move around the world and have contact with the various international fund centres have commented, there is a Canadian law firm called Stikeman Elliott who have said that they believe that Jersey Finance is the most effective international finance promotion body and have cited one of the reasons as being the fact it is a public/private partnership. In terms of what we spend relative to other jurisdictions, you may well have attempted that research. We have certainly attempted it and it is extraordinarily difficult to get at. It is really difficult to find. I do not think we are out in there in front in terms of what we spend. I mean, if you took the Isle of Man, close neighbour, they revamped their funds regime in 2007 and that is just one sector of their finance industry and they had the amount to spend of £548,000 just to relaunch their funds offering. We have mentioned already the kind of Middle East companies and deep pockets, but that does not alter the fact that we have to compete with them. You know, if they are spending £8 million and £10 million and £15 million to promote their finance centres, then that is a lot of firepower. But there are other ways of investing more value. I would say that some of those is being able to get into markets more often than we have been able to. So if you took the Cayman, the example you raised there, they are a little bit ahead of us in Asia in one particular sector in the funds, because they have gone more often. They are in Hong Kong about every 8 weeks, and because of that, again, it is this familiarity thing. You know, if you are there reinforcing your message, reminding people about what is happening, what the latest developments are, you are reinforcing your message. If you go once a year, you create a kind of peak of interest and then gradually that comes down the curve on the other side and gradually falls away over time. If you just reinforce, so we try and reinforce by encouraging our members to

follow up, by sending in e-marketing material, we send the Finance Update out, which is a half-yearly publication, via email to the database of international networks and people we have met. So we are very appreciative of the grant that we receive. There is a lot of competing sources for funding from government, but I do not feel we are out in front - you know, the feeling we get in terms of what other people are doing - we are out in front in any shape or form in terms of relative levels of spend.

Deputy J. A. Martin:

As you say, we are looking at the funding, is it right, is it not enough? When you are talking about it is hard to find out about other jurisdictions, is there not a measure of the size of population, the size of funds, what they spend? I mean, comparing our million to the £16 million from Dubai, what is in their fund? I mean, is that public knowledge? I know it is very hard, we are not out there with their money, they are in more places, but realistically --

Mr. G. Cook:

Yes, I do not think population, to be honest, would work as a sort of a proxy for per head spend because --

Deputy J.A. Martin:

Okay. Well, then funds, investments against the spend.

Mr. G. Cook:

Yes, I think rates of growth and increases in profitability, I think they are all good measures. No one in isolation, I think, gives you the answer, but I think a basket of measures is helpful. So I think the rate of growth of our deposit book and our funds book compared to other jurisdictions is a good proxy as to whether you are achieving value in terms of your spend and your activity; are you getting a payback? We compare very favourably in terms of rates of growth. I think things like productivity per head of your finance and industry population and ranking that against other financial jurisdictions, that is going to be a driver of tax take, so from your point of view, determine are you getting a decent payback on the investment? That is probably quite an important figure. Those are the sorts of things that we review periodically with E.D. and they are covered off in the States statistical unit prediction.

I think there are some measures of a wider indicative nature. I think you cannot make the very direct correlation, the precise sort of financial calculation or accounting calculation, but there are some indicators, definitely.

Mr. R. Kirkby:

I think your point about do we require more funding, I think we believe that having representative offices elsewhere would be very useful and is almost becoming a crucial thing with Guernsey, with China and London and Dubai, and to have a representative office would cost a considerable amount of money per each office. That would require additional funding and probably would derive a significant benefit to the Island in terms of as you found in Edinburgh, just raising that awareness is certainly something we find in China, for example, where awareness is quite low of the existence of the Island. So there is some benefit, I think, in looking at increasing the funding.

Deputy G.P. Southern:

The balance of the funding?

Mr. G. Cook:

Well, I think personally we are just too hung up on that, really. I think we do not have that sort of demarcation in our mind, as: “We will spend this type of pound on this and the other type of pound on another activity.” You are trying to achieve some broad objectives which are about advancing our market share. That drives economic growth. That drives improved tax take and we really do not take it down to that kind of granular level, because you spend a huge amount of time on internal accounting trying to work out which particular pound had which particular effect, and you then build internal bureaucracy and you start spending your grant and your membership subscriptions on internal accounting, internal bureaucracies, rather than spending it on trying to generate a good reputation for Jersey Finance, our market share and then the flowback of that in terms of economic benefit and tax take.

Mr. R. Kirkby:

I think one way of advocating, let us say an additional £1 million, for example, if an additional £1 million generated an additional £40 million to £50 million of tax

revenue from the States, then that would be an incredibly worthwhile investment and certainly a large return, and that is probably the way to look at, rather than measuring it against member contributions, because not only do members contribute financially in terms of the £450,000 fees and subscriptions a year, they contributed last year around £100,000 for an ad hoc event attendance, they also contributed, in terms of technical developments, probably in excess of £2 million of free time. Then in addition to that a lot of the firms, especially the mid to large firms, have a significant marketing budget themselves and that is spent on publications, trips, et cetera. So when you look at the size of the actual industry contribution it is incredibly significant. But the way I would measure it, if you are looking to increase the grant, which would be fantastic, would be what will grow States revenue, what will that allow you to do in addition. It will allow you to improve public services, et cetera. I believe personally that such a small investment, say, £1 million or such like and growing it by £20, £30, £40 million would be a very worthwhile investment.

Deputy G.P. Southern:

But then you could argue that extra £20 £30, £40 million is either 20 per cent, or in the future, 10 per cent of what is a profit for individual companies. Proportionately who gets the benefit

Mr. G. Cook:

It is kind of a circular argument. If you do not generate the profits you have nothing to tax.

Mr. R. Kirkby:

The other argument really is that it is crucial to remember that all the businesses in the Island in the finance sector are highly mobile businesses and if they find that other centres are supporting them more strongly they will make greater investments in those other centres. So, for example, if they feel Guernsey was supporting them or Cayman or Bermuda or Singapore or Hong Kong, they will start to shift their infrastructure and their businesses. So they need to feel supported by government as well. They need to feel -- and Jersey has done a fantastic job recently in terms of stability of the tax position going forward and controlling spending and all that has really encouraged inward investment. But alongside that it is about actual real visible government

support and if they see government supporting additional money to the finance industry they think: “Great, it is a solid base to build on.”

Deputy G.P. Southern:

That argument has been rolled out very successfully in the U.K. recently. I am aware that we are having a chat and we could be here all day but we must be building towards a finish at some stage. To what extent are you concerned about internal promotion as well? You talk about having the support of the Island, the support of people of the Island.

Mr. G. Cook:

Yes, I think that is very important.

Deputy G.P. Southern:

Do you do publications in the *J.E.P. (Jersey Evening Post)* supplements? You do. To what extent are you concerned with issues like the skills gap in the skills base? Does that take a portion of your time?

Mr. G. Cook:

Yes, we have a standing Education and Resources Working Group and that has worked on a number of fronts. We have worked quite hard on education in terms of a contribution to community engagement, so we have done work in schools, we have supported, along with other organisations, financial capability qualifications being introduced into the curriculum to try and help people be better equipped to handle finance later in life. We have been involved with the production of the Financial Services Foundation Degree in Jersey, we have helped support that. So we have played a supporting and facilitating role, principally in the area of education, to try and improve skills supply, address skills gaps and just leave people in a better informed position. We are not trying to proselitise or convert people or preach to people about finance, but we would like folks who might be considering career options to at least have the facts on the table and understand what finance really is, and what the opportunities really are. To many young folks it is, you know, a boring job, sitting behind a bank counter dishing cash out. Because that is all they see of finance. They do not see what else can go on. I have worked as a cashier and it is

quite an interesting job because you meet a lot of people, and if you like meeting people - despite the glass - it can be quite a pleasant job. But they can build careers, international careers, from Jersey and we are looking really to try and encourage home grown talent to consider finance as one of their options in terms of career development.

Deputy G.P. Southern:

Can I just throw this at you, just to get your reaction, Financial Direction 5.4 and Article 6.2 says: “In general money should not be awarded to individuals or organisations who have sufficient funds themselves to finance the particular activity.” That certainly applies to the finance sector as a whole, how do you react to that?

Mr. G. Cook:

I am afraid I would not agree with that assertion, in terms of the comment you have added to the statement. Finance firms in Jersey, you have to remember, are international brands. They will be driven where their customers want to flow business. So their primary responsibility and their primary spend goes on their own brand, not on Jersey. If you look at our organisations now many of them are in multiple jurisdictions. So the same firm has a representative office in Switzerland, in Singapore and in Dubai, and they will become increasingly agnostic over time to which particular jurisdiction business is booked. What they are doing primarily is promoting their brand, and they spend already huge sums of money on that. So I think you have to draw a distinction between promoting Jersey as a brand in a jurisdiction, which is what we do, and I believe we do it with a passion and I believe we do it effectively. I think we provide tremendous value for money in doing that.

Deputy G.P. Southern:

Are you saying without the input from State funding Bank X International will not have an interest in promoting business in Jersey for its Bank X Jersey branch?

Mr. G. Cook:

I think it would see the government here as being less committed to its principal industry and its principal source of revenue.

The Connétable of St. Brelade:

Do you think there is capacity for the Government in Jersey to be spending more as a contribution to Jersey Finance?

Mr. G. Cook:

There are things emerging which I think we should be considering doing, some of which Rob as already touched upon, and I think you could make a compelling business case for doing more and having a funding increase to a degree. That is something that we are working on internally at the moment. We have to look after today while we are building tomorrow. It is very important in any walk of life, in any organisation, if you are purely focused on today and you do not think about tomorrow eventually your model will run out of steam and you will run into problems. But I think our approach will probably be more -- rather than saying: "Right give us a significant increase in our grant and we will go and decide what to do with it" we probably will come forward with specific proposals about specific activities that have some kind of measurable benefit attached to them to make a business case.

The Connétable of St. Brelade:

Perhaps an office in India or something like that?

Mr. G. Cook:

That is certainly one of the areas that we are actively looking at at the moment as to whether we should make a specific recommendation about overseas representation.

Deputy G.P. Southern:

Certainly Financial Direction 5.4 will indicate that the business plan better be locked in there. Yes, okay. Thank you, that has been an interesting hour and a half. More interesting than perhaps I expected. But anything that you would like to add that you think we have not touched on, any point you might want to make?

Mr. G. Cook:

No, we are just very appreciative of the opportunity to come and explain what we do.

Deputy G.P. Southern:

In which case I thank you all.