

## Consultation paper

# Basel III: immediate implementation (quick wins)

We are asking for feedback on the implementation of proposals detailed in our 2021 [“Basel III: Further proposals”](#) position paper. The proposals impact our:

- › deposit-taking business code of practice
- › prudential reporting guidance
- › Pillar 2 and concession limits guidance notes

## Consultation

The Jersey Financial Services Commission (**JFSC**) invites comments on this consultation paper by **30 June 2024**. If you require any assistance, clarification or wish to discuss any aspect of the proposal prior to formulating a response, it is of course appropriate to contact us.

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## Glossary of terms

Defined terms are used throughout this document as follows:

Abbreviation	Full Name
Banking Code: Main Body	Code of practice for deposit-taking business
Basel Framework	International standard for the prudential supervision of internationally active banks, issued by the Basel Committee on Banking Supervision
Basel III position paper	The position paper " <a href="#">Basel III: Further proposals</a> ", issued in June 2021 by the JFSC
Commission Law	Financial Services Commission (Jersey) Law 1998
D-SIB	Domestic Systemically Important Bank
G-SIB	Globally Systemically Important Bank
HQLA	High Quality Liquid Assets, being those required to be held to meet the LCR
ICAAP	Internal Capital Adequacy Assessment Process, being a JIB's self-assessment of its prudential requirements
IFC	International Finance Centre
JBA	Jersey Bankers Association
JBARTG	JBA Prudential and Banking Reform Technical Group
JFSC, we, us	The Jersey Financial Services Commission is a statutory body corporate established under the Commission Law and responsible for the supervision and development of financial services provided in or from within Jersey
JIB	Jersey Incorporated Bank
JRA	Jersey Resolution Authority
LCR	Liquidity Coverage Ratio, a short-term liquidity metric
Leverage Ratio	Non-risk-based capital ratio
MDB	Multilateral Development Bank
NSFR	Net Stable Funding Ratio, a long-term liquidity metric
Pillar 2	In the Basel Framework, this refers to the setting of prudential requirements to take into account the review of each bank's ICAAP
PSE	Public Sector Entity

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# 1 Executive summary

## 1.1 Overview

- 1.1.1 We are committed to meeting international standards, supporting the Government of Jersey's strategy for sustainable development, and its objective for Jersey to play its role in the international community as a globally focussed International Finance Centre (IFC). This will protect our global reputation and help ensure our economy continues to appeal to multinational corporations and investors.
- 1.1.2 The rules have moved on to be more risk-based so they offer a way for banks in Jersey to maintain their financial resilience through improved risk-based capital allocations. Making their business models more efficient and supporting the provision of cross border and local services.
- 1.1.3 Specifically, the Basel Committee has revised the international standard for prudential supervision of internationally active banks, the **Basel Framework**, through its package of reforms referred to as Basel III.
- 1.1.4 We are monitoring international developments, and the current expectation is that the EU is targeting adoption from 1 January 2025. There is more uncertainty regarding the UK, but they are likely to adopt the framework no sooner than mid-2025.
- 1.1.5 We have already implemented several elements of the Basel III reforms, including:
- › capital definitions
  - › short term liquidity requirements (the Liquidity Coverage Ratio or LCR)
  - › reporting of the long-term liquidity position (the Net Stable Funding Ratio or NSFR)
  - › the Leverage Ratio, a non-risk based capital ratio
- 1.1.6 This paper proposes the implementation of several "quick wins". These are elements of the Basel III reforms which may, based on feedback from our previous consultation, be easily and quickly implemented.

## 1.2 What is proposed and why?

- 1.2.1 In June 2021, we issued our [Basel III: Further proposals \(Basel III position paper\)](#).
- 1.2.2 This proposed a number of quick wins and sought feedback on them from Jersey incorporated banks (JIBs). These encompassed elements that could be implemented relatively easily, improve alignment with the Basel Framework and address issues identified by JIBs through ongoing dialogue.
- 1.2.3 This paper proposes to implement those quick wins in 2024, as revised to reflect feedback. The proposals are set out in sections 3 to 5 of this consultation paper.
- 1.2.4 Our proposed [Basel III prudential roadmap](#), published in March 2024, explains the consultations planned and addresses the full implementation of the rest of Basel III.

## 1.3 Who would be affected?

- 1.3.1 The proposals in this consultation paper only directly impact JIBs. As such, it has been circulated to them and the Jersey Bankers Association (JBA), including the relevant

JBA sub-committee, the JBA Prudential and Banking Reform Technical Group (JBARTG).

## 2 Consultation

### 2.1 Basis for consultation

- 2.1.1 We have issued this consultation paper in accordance with Article 8(3) of the Commission Law, as amended, under which the JFSC “may, in connection with the carrying out of its functions ...consult and seek the advice of such persons or bodies whether inside or outside Jersey as it considers appropriate.”

### 2.2 Responding to the consultation

- 2.2.1 We invite comments in writing by email from banks or via meetings, including with the JBARTG.
- 2.2.2 Comments should be submitted by 30 June 2024.

### 2.3 Next steps

- 2.3.1 We aim to publish feedback and final documentation in Q3 2024.
- 2.3.2 We propose that the changes would come into effect from 1 January 2025.

## 3 Capital minima and buffers

### 3.1 Basel III position paper proposal

- 3.1.1 We proposed to align capital minima with the Basel Framework and establish a capital conservation buffer, at 2.5%.
- 3.1.2 We also proposed to establish a systemic buffer for banks identified as being of systemic importance.

### 3.2 Considerations

- 3.2.1 JIBs, as part of the response to the [Basel III position paper](#), were broadly neutral or in favour, although noting the need for time to prepare.
- 3.2.2 The buffer for a JIB should be the sum of (1) any Pillar 2 buffer and (2) the capital conservation buffer.
- 3.2.3 Capital minima and buffers are normally reset annually, via the Pillar 2 process.
- 3.2.4 The JRA has been established, hence the rationale for divergence on issued capital has largely been removed and therefore the remaining differences can be removed.
- 3.2.5 Consideration of systemic importance has been deferred, as per [the Basel III prudential roadmap](#), until H1 2025.

### 3.3 Revised proposals

- 3.3.1 We will revise the code of practice for deposit-taking business ([Banking Code: Main Body](#)) (specifically, [Section 5](#)) and the guidance note “[Pillar 2 in Jersey](#)” to reflect this proposal from 1 January 2025. In addition, the prudential reporting guide “[prudential](#)

[reporting of capital ratios](#)” will be revised to reflect the changed minima and capital conservation buffer.

3.3.2 Revised documents, showing tracked changes are available via the [Basel III page](#) on our website and links are provided in **appendix A**.

3.3.3 We will determine the initial levels for transition as follows and communicate these to JIBs in a revised conditions notification (which will then be subject to revision at future ICAAPs):

- › CET1 minima reduced by 4%
- › tier 1 minima reduced by 2.5%
- › total capital minima reduced by 2%
- › required buffer increased by 1.5% to at least 2.5%, being the capital conservation buffer

3.3.4 The table below summarises the changes.

	CET1	Tier 1	Total	Buffer		Total
Current	8.5%	8.5%	10%	1%		11%
Basel III	4.5%	6%	8%	CCB: 2.5%	Pillar 2: 0%	10.5%
Difference	(4%)	(2.5%)	(2%)	+1.5%		(0.5%)

**3.3.5 Question 1:** Do you have any concerns regarding the proposal to align capital minima and introduce buffers in line with the Basel Framework? If so, please provide any suggestions regarding how these might be addressed.

**3.3.6 Question 2:** Do you have concerns regarding the transitional approach described for capital minima and buffers?

## 4 LCR changes

### 4.1 Basel III position paper proposals

4.1.1 We proposed permitting holdings of a Public Sector Entity’s (PSE) issued or guaranteed securities to be included as High-Quality Liquid Assets (HQLA), even where it is a Financial Institution (currently prohibited), provided that (1) the PSE is not regulated as a bank and (2) it has a clear public remit.

4.1.2 We proposed widening the list of eligible top tier Multilateral Development Banks (MDBs) to align with the current Basel Framework (also for capital purposes).

4.1.3 We addressed the risk of a downgrade of the UK or US to below AA- by credit rating agencies by allowing short-term government Bills (under 1 year maturity) to continue to be included in level 1 HQLA (the highest tier) for a period of six months following such a downgrade, ensuring that relevant assets are available for purchase and allowing time for the JFSC to determine any required action.

## 4.2 Considerations

- 4.2.1 Respondents to the [Basel III position paper](#) welcomed the changes.
- 4.2.2 The changes are relatively easy to implement by amending our prudential guides.

## 4.3 Revised proposals

- 4.3.1 To reflect these proposals, we will revise the prudential guides:
  - › [prudential reporting of liquidity ratios](#)
  - › [prudential reporting of credit risk under the standardised approach to credit risk](#)

Revised documents, showing tracked changes are available on [our Basel III page](#) and links are provided in **appendix A**.

- 4.3.2 As per the roadmap, the need for any further refinements of the LCR will form part of consultation in H1 2025.

**4.3.3 Question 3:** Do you have concerns regarding the proposals on the LCR?

# 5 Large exposures changes

## 5.1 Basel III position paper proposals

- 5.1.1 Permit PSE concession limits to be approved. Any limit would be required to be included when calculating the exposure to the relevant sovereign and the approval for any one PSE should not ordinarily exceed the lower of (1) 50% of the concession limit approved for the relevant sovereign and (2) 50% of capital.
- 5.1.2 Create a carved-out concession limit framework for short-term government Bills (under 1 year to maturity) and central bank reserves. This would be separate to any concession limit for general exposures to the sovereign. It is proposed to (1) set limits for exposure of this nature to be up to twice that currently set for a country and (2) widen the sovereign concession limit regime to include MDBs and supranational entities, such as the EU.

## 5.2 Considerations

- 5.2.1 Respondents to the [Basel III position paper](#) welcomed the changes.
- 5.2.2 The changes are easy to implement by amending the relevant section of the banking codes and the guidance note in respect of concession limits.
- 5.2.3 JIBs have also suggested relaxing the rules around reverse repos, currently limited to 100% of capital, which is onerous compared to the Basel Framework.

## 5.3 Revised proposals

- 5.3.1 We will revise our [approval of concession limits for governments and connected banks](#) guidance note to implement the Basel III position paper proposals.
- 5.3.2 It is also proposed to amend the [Banking Code: Main Body](#) (Section 5 and Appendix II “Large Exposures definitions” to permit (but not require) reverse repo exposures to be reduced by the amount of collateral received, in accordance with credit mitigation rules, but requiring that where this is applied an exposure be recognised to the collateral provided equal to the amount of the reduction in exposure, in line with the

Basel Framework (but, for the avoidance of doubt, at this time, limited only to reverse repo transactions).

- 5.3.3 Revised documents, showing tracked changes are available on our [Basel III page](#) of and links are provided in **appendix A**.
  - 5.3.4 Further consultation on large exposures will follow in H2 2024, as set out in the roadmap, with consequential changes likely to Pillar 2 and prudential reporting, which will be consulted on in H1 2026, ahead of transition to Basel III from H2 2026.
- 5.3.5 Question 4:** Do you have concerns regarding the proposals on large exposures?

## 6 Systemic importance, Leverage Ratio, trading book, market risk, counterparty credit risk and the Net Stable Funding Ratio (NSFR)

### 6.1 Way forward

- 6.1.1 The [Basel III position paper](#) sets out proposals for addressing systemic risk, the Leverage Ratio, trading book / market risk matters and the NSFR.
- 6.1.2 These are not being taken forward at this time but are included in the [Basel III prudential roadmap](#) published by us in March 2024.
- 6.1.3 The relevant consultations are scheduled for H1 2025.

## 7 Costs and benefits

### 7.1 Costs and benefits to the JFSC

- 7.1.1 The current proposals involve only limited changes and as such will not lead to material increases in costs.

### 7.2 Costs and benefits to JIBs

- 7.2.1 We recognise the potential costs and benefits to JIBs when amending prudential requirements and have sought feedback on the principles via the [Basel III position paper](#). All these proposals are intended to assist banks, and adverse effects are expected to be limited to the need to revise reporting.

### 7.3 Wider benefits

- 7.3.1 The proposals in this paper will help the island maintain international standards with respect to the prudential soundness of JIBs. This provides wider benefits in relation to the perception of Jersey's capacity to meet international standards in areas of regulation relevant to the global IFC nature of our industry.
- 7.3.2 The work is also intended to ensure the competitiveness of our banking sector, which supports other financial and non-financial services business and the provision of retail banking services.

## 8 Summary of Questions

Page	Question
7	<b>Question 1:</b> Do you have any concerns regarding the proposal to align capital minima and introduce buffers in line with the Basel Framework? If so, please provide any suggestions regarding how these might be addressed.
7	<b>Question 2:</b> Do you have concerns regarding the transitional approach described for capital minima and buffers?
8	<b>Question 3:</b> Do you have concerns regarding the proposals on the LCR?
9	<b>Question 4:</b> Do you have concerns regarding the proposals on large exposures?

**Appendix A: Amended documents, with changes tracked**

All available from our Basel III webpage: [Basel III — \(jerseyfsc.org\)](http://jerseyfsc.org)

A-1 [Draft Banking Code: Main Body, showing amendments](#)

Three draft reporting guides, showing proposed amendments:

A-2 [Prudential Reporting of Capital Ratios](#)

A-3 [Prudential Reporting of Liquidity Ratios](#)

A-4 [Prudential Reporting of Credit Risk under the Standardised Approach to Credit Risk](#)

Two revised guidance notes:

A-5 [Draft Guidance Note “Pillar 2 in Jersey”, showing proposed amendments](#)

A-6 [Draft Guidance Note “Approval of Concession Limits for Governments and Connected Banks”, showing proposed amendments](#)