JFSC

CONSULTATION PAPER
NO. 8 2015

BASEL III: CAPITAL ADEQUACY AND LEVERAGE

Consultation on the implementation of revised Basel Committee standards relating to capital adequacy and leverage, following on from the publication of Discussion Papers on these subjects.

ISSUED JULY 2015

CONSULTATION PAPER

The Jersey Financial Services Commission **(**the **"Commission")** invites comments on this consultation paper ("**CP**"). William Byrne at Jersey Finance Limited **("Jersey Finance")** is co-ordinating an industry response that will incorporate any matters raised by local businesses. Comments should reach Jersey Finance by 23 October 2015.

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It is the policy of the Commission to make the content of all responses available for public inspection unless specifically requested otherwise.

GLOSSARY OF TERMS

ACR	agreed capital resources, the capital base for Large Exposures
Additional Tier 1 capital	Items permitted within Tier 1 capital, other than CET1 capital
AT1	Additional Tier 1
Banking Codes	Codes of Practise for Deposit-taking Business
Basel Committee	Basel Committee on Banking Supervision
Basel II	"*International Convergence of Capital Measurement and Capital Standards*", re-issued in comprehensive form in June 2006 by the Basel Committee
Basel III	collectively, a series of documents issued by the Basel Committee that either revise Basel II or establish new international standards regarding the financial management of international banks
Basel III capital adequacy standard	"*A global regulatory framework for more resilient banks and banking systems*", issued in December 2010 by the Basel Committee and revised in June 2011
Basel III DP	DP on Basel III, issued by the Tri-party Group in September 2012.
CA DP	DP on "*Basel III: Capital Adequacy*", distributed in December 2013 by the Tri-Party Group
Capital Disclosure Rules	"*Composition of capital disclosure requirements*", issued by the Basel Committee in June 2012
CDs	Crown Dependencies – Guernsey, Isle of Man and Jersey
CET1	Common Equity Tier 1
Commission	Jersey Financial Services Commission
Commission Law	Financial Services Commission (Jersey) Law 1998
CP	Consultation Paper
CRD IV	EU proposals to introduce Basel III requirements
DP	Discussion Paper
DTAs	deferred tax assets (used in Appendices only)
DTLs	deferred tax liabilities (used in Appendices only)
DVA	debit valuation adjustment
DVA Statement	Press release issued by the Basel Committee following its consultation on the treatment of DVAs
GFSC	Guernsey Financial Services Commission
ICAAP	Internal Capital Adequacy Assessment Process
IOMFSC	Isle of Man Financial Supervision Commission

IRB	Internal Ratings Based (advanced approach to calculating asset risk weightings)
Jersey Bank	A Jersey incorporated company that is registered by the Commission to undertake deposit-taking business
Jersey Finance	Jersey Finance Limited
Leverage DP	DP on "*Basel III Leverage Ratio*", distributed in June 2014 by the Tri-Party Group
Leverage Disclosure Rules	"*Basel III leverage ratio framework and disclosure requirements*", issued by the Basel Committee in January 2014
Pillar 2 GN	Guidance Note "*Pillar 2 in Jersey*", issued by the Commission in July 2013
RARs	risk asset ratios, the proposed collective term for the CET1, Tier 1 and Total capital ratios.
RWAs	Risk Weighted Assets
SREP	Supervisory Review and Evaluation Process
Tri-Party Group	comprises the GFSC, IOMFSC and the Commission
T2	Tier 2 capital (used in Appendices only)
TLAC	Total Loss Absorbing Capacity

Terms only used in Appendix G (Leverage Ratio)

AGross	the sum of all add-ons for all netted transactions under a MNA
ANet	calculated add on for all netted transactions under a MNA
CCF	Credit Conversion Factor
CCP	Central Clearing Counterparty
CM	Clearing Member
MNA	Master Netting Agreement
NGR	ratio of the level of net replacement costs to the level of gross replacement costs for all netted transactions under a MNA
PFE	Potential Future Exposure
QCCP	Qualifying CCP
RC	Replacement Cost
SFT	Securities Financing Transaction

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1 EXECUTIVE SUMMARY

1.1 Overview

1.1.1 This CP sets out proposals to amend the capital adequacy requirements that apply to registered deposit takers that are incorporated in Jersey ("**Jersey Banks**"). If implemented, the proposals would address changes to the international standard for capital adequacy ("**Basel II**")[1], published by the Basel Committee on Banking Supervision ("**Basel Committee**") as part of its package of reforms that it describes as "**Basel III"**.

1.1.2 It also proposes that Jersey Banks should report a leverage ratio, in line with that described in Basel III. The information provided will inform the Commission's supervision of banks but, at this time, no decision has been taken regarding whether to impose a minimum standard for this ratio

1.1.3 The proposals are derived primarily from those contained in three Discussion Papers ("**DPs**"), issued jointly with the Isle of Man Financial Supervision Commission ("**IOMFSC**") and the Guernsey Financial Services Commission (the "**GFSC**") (jointly the "**Tri-Party Group**"), and from feedback received. The DPs were:

1.1.3.1 an initial DP on Basel III issued in September 2012 ("**Basel III DP**");

1.1.3.2 "*Basel III: Capital Adequacy*", issued in December 2013 ("**CA DP**"); and

1.1.3.3 "*Basel III Leverage Ratio*", distributed in June 2014 ("**Leverage DP**").

1.1.4 As established in the Basel III DP, each jurisdiction will conduct its Basel III implementation consultation process separately, to its own timetable, in order to ensure local matters are fully addressed, but it is the intention to maintain alignment of the proposals across the jurisdictions wherever possible.

1.1.5 Throughout the main body of this CP, proposals that significantly vary to the DPs are highlighted in the same fashion as this paragraph. Most changes have been made in response to feedback received to the relevant DP, with others reflecting further consideration of the Basel Committee's standards.

1.2 What is proposed and why?

1.2.1 This CP proposes the introduction of (1) a definition of the highest quality capital: Common Equity Tier 1 ("**CET1**") capital, (2) tighter eligibility conditions for Tier 1 and Tier 2 capital (and hence total capital) and (3) the introduction of minima for CET1 capital and Tier 1 capital, alongside the existing minimum total capital requirement.

[1] "**Basel II**" is the commonly used name for "*International Convergence of Capital Measurement and Capital Standards*", re-issued in comprehensive form in June 2006 by the Basel Committee.

1.2.2 The changes will:

1.2.2.1 remove "prudential filters" (adversely impacting banks with pension deficits or mark-to-market losses on available for sale instruments, which will now be recognised in full, whereas part of these can currently be written back for prudential purposes);

1.2.2.2 tighten eligibility constraints for issued capital instruments;

1.2.2.3 introduce new deductions for deferred tax assets and minority interests, amongst others; and

1.2.2.4 require that a higher proportion of capital is of the highest quality (CET1).

1.2.3 To monitor the new requirements, it is proposed to revise prudential reporting formats and completion guidance covering capital adequacy to be in line with the specifications in Basel III. At the same time, prudential reporting of leverage will be introduced, in line with Basel III, though without any minimum level being established.

1.2.4 These changes will be effected by amending the Codes of Practice for Deposit-taking Business ("**Banking Codes**"), making consequential amendments to the Guidance Note "*Pillar 2 in Jersey*", issued July 2013 ("**Pillar 2 GN**"), and establishing new prudential reporting formats and associated completion guidance.

1.2.5 This CP also:

1.2.5.1 addresses related issues regarding Large Exposures; and

1.2.5.2 provides an outline of the other component parts of Basel III and a brief description of how the Commission envisages these might be addressed locally.

1.2.6 The proposals are intended to align local prudential requirements with international standards, the Crown Dependencies ("**CDs**") and home jurisdictions. The latter have all either already implemented Basel III in this area or have committed to do so, including the EU (where the "**CRD IV"** package – a revised directive and a new regulation – was enacted to implement this part of Basel III).

1.2.7 The revised and new international standards for capital quality and leverage are contained within the Basel Committee's paper "*A global regulatory framework for more resilient banks and banking systems*"[2], issued in December 2010 ("**Basel III Capital Adequacy Standard**") and revised in June 2011.

1.2.8 Feedback to the CA DP suggested simplifying transitional adjustments and some banks sought more time to comply.

[2] http://www.bis.org/publ/bcbs189.pdf

1.2.9 It is therefore proposed to implement the revisions in 2017, providing banks (and the Commission) with more time to make changes to reporting systems and carry out testing. The latter will include a parallel run.

1.2.10 Consequently, it is not now planned to implement transitional measures. This is intended to simplify reporting requirements and will have only a modest impact on capital requirements, since by 2017 the transitional provisions in Basel III provide only limited relief when compared to full implementation. In the case of issued debt, it is considered that affected issuance can reasonably be replaced within the extended timeline.

1.2.11 Further elements of Basel III will be addressed in due course, including the new liquidity standard, as set out in **Section 10**.

1.3 Who will be affected?

1.3.1 The proposals will have an impact on capital adequacy for Jersey Banks that:

1.3.1.1 have issued ineligible capital (under the proposed rules);

1.3.1.2 currently rely to a high extent on lower quality capital; or

1.3.1.3 currently benefit significantly from the use of prudential filters.

1.3.2 Prudential data and feedback to the CA DP indicate that expected impacts are manageable, particularly given that no change is proposed to the overall level of capital required.

1.3.3 All Jersey Banks will be impacted by the requirement to produce new prudential reports, with substantially revised formats and completion guidance.

2 CONSULTATION

2.1 Basis for consultation

2.1.1 The Commission has issued this CP in accordance with Article 8(3) of the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law")**, as amended, under which the Commission "*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 The Commission invites comments in writing from interested parties on the proposals included in this CP. Where comments are made by an industry body or association, that body or association should also provide a summary of the type of individuals and/or institutions that it represents.

2.2.2 To assist in analysing responses to the CP, respondents are asked to:

2.2.2.1 prioritise comments and to indicate their relative importance; and

2.2.2.2 respond as specifically as possible and, where they refer to costs, to quantify those costs.

2.3 Next steps

2.3.1 The Commission will consider feedback received and provide industry with an outline of the way forward, reflecting any changes to the plans set out herein.

2.3.2 This will involve the publication of revised Banking Codes, Pillar 2 GN, prudential reporting formats and completion guidance. The last two will be based on the versions set out in **Appendix L.**

2.3.3 The Commission will itself need to revise the prudential reporting system, enabling Jersey Banks to submit the new reports.

2.3.4 Continued work on other aspects of Basel III, including the new liquidity standard, is likely to lead to further related consultations.

3 THE COMMISSION

3.1 Overview

3.1.1 The Commission is a statutory body corporate established under the Commission Law. It is responsible for the supervision and development of financial services provided in or from within Jersey.

3.2 Commission's functions

3.2.1 The Commission Law prescribes that the Commission shall be responsible for:

3.2.1.1 the supervision and development of financial services provided in or from within Jersey;

3.2.1.2 providing the States, any Minister or any other public body with reports, advice, assistance and information in relation to any matter connected with financial services;

3.2.1.3 preparing and submitting to the Chief Minister recommendations for the introduction, amendment or replacement of legislation appertaining to financial services, companies and other forms of business structure;

3.2.1.4 such functions in relation to financial services or such incidental or ancillary matters –

- as are required or authorised by or under any enactment, or
- as the States may, by Regulations, transfer; and

3.2.1.5 such other functions as are conferred on the Commission by any other Law or enactment.

3.3 Guiding principles

3.3.1 The Commission's guiding principles require it to have particular regard to:

3.3.1.1 the reduction of risk to the public of financial loss due to dishonesty, incompetence, malpractice, or the financial unsoundness of persons carrying on the business of financial services in or from within Jersey;

3.3.1.2 the protection and enhancement of the reputation and integrity of Jersey in commercial and financial matters;

3.3.1.3 the best economic interests of Jersey; and

3.3.1.4 the need to counter financial crime in both Jersey and elsewhere.

4 CAPITAL QUALITY

4.1 Overview

4.1.1 The CA DP set out in detail proposed new capital definitions and a revised reporting format and associated completion guidance.

4.1.2 Feedback from industry broadly supported the proposed approach. It is therefore intended to introduce a definition of capital that is based closely on Basel III and in particular the paper *"Composition of capital disclosure requirements"*[3], issued by the Basel Committee in June 2012 **("Capital Disclosure Rules**"), except as noted herein.Full details regarding all definitions are set out in:

4.1.2.1 **Appendix B** - Common Equity Tier 1 capital: reporting form and completion guidance;

4.1.2.2 **Appendix C** - AT1 and total Tier 1 capital: reporting form and completion guidance; and

4.1.2.3 **Appendix D** - Tier 2 and total capital: reporting form and completion guidance.

4.1.3 The numbering of items mirrors that used in the Capital Disclosure Rules for the majority of items (the exceptions being those omitted or added).

4.2 Transition

4.2.1 Feedback from industry suggested simplifying transitional adjustments and avoiding adoption in Q4 2015 (the originally suggested implementation deadline), citing the heightened workloads around the year-end.

4.2.2 The Tri-Party Group's response was that a later transition would be considered. Therefore, it is proposed to delay transition until 2017. This provides additional time to (1) carry out changes to reporting systems and processes and (2) replace or amend the terms of capital instruments that become ineligible under these proposals.

4.2.3 This significantly reduces the impact of transitional provisions in Basel III when compared to full implementation. For issued debt, there is a longer term transition period but all existing significant Jersey issuance is within group and the period to 2017 should provide adequate time to replace this with Basel III compliant instruments.

4.2.4 It is therefore proposed not to introduce transitional provisions. This will simplify the reporting process and the reporting format; for example, lines used only to report transitional items have been removed.

[3] http://www.bis.org/publ/bcbs221.pdf

Question 1. **Would a 1 January 2017 deadline provide sufficient time to replace affected instruments? If not, please provide an alternative.**

4.3 Prohibition of funding own capital

4.3.1 The eligibility criteria in Basel III for all forms of regulatory capital explicitly prohibit instruments being included where funding has been provided by the bank itself, directly or indirectly, for the purchase of the instrument.

4.3.2 In practice, capital instruments issued by Jersey Banks are held by group holding companies and, in some instances, funding is provided to these companies by the issuing bank. Usually this represents only a small portion of the holding company's funding.

4.3.3 The Commission intends to adopt a simple, conservative, approach whereby if funding is provided by a Jersey Bank, directly or indirectly, to a holding company (direct or ultimate), that is not itself a regulated bank, that holds capital instruments issued by the Jersey Bank, directly or indirectly, then an amount of those instruments equal to the amount of that funding will become ineligible for inclusion in the Jersey Bank's regulatory capital.

4.3.4 This approach is intended to ensure compliance with Basel III and address the risks posed by circular capital funding. In recent times, such arrangements are understood to have exacerbated the failures of several banking groups.

4.3.5 The proposal to permit capital instruments held by regulated banks to remain eligible reflects the fact that their regulatory capital requirements take into account such holdings, which adequately addresses this risk.

Question 2. **Does your bank provide any funding to non-bank holding companies that directly or indirectly hold capital instruments issued by your bank? If so, please comment on the impact of these proposals and steps that you can take to mitigate the impact.**

4.4 Write-down at point of non-viability

4.4.1 Tier 1 capital other than CET1 (referred to as "**Additional Tier 1**" or "**AT1**" capital) and issued Tier 2 capital must be capable of being written down or converted to common equity. The difference between them is that, for AT1 capital, the trigger for such action is higher, with the aim of maintaining CET 1 capital adequacy; whereas for Tier 2 capital the trigger is non-viability.

4.4.2 Two routes are permitted in Basel III – either: (1) debt instruments can have contractual provisions for write-down at the trigger point or (2) the jurisdiction must have a statutory power to write down relevant instruments.

4.4.3 Currently, there is no statutory route available in Jersey. Whilst this remains the case, debt instruments must, to be eligible, have embedded contractual terms that would trigger a conversion or write-down at an appropriate point.

For AT1 instruments, the trigger should be a breach of the minimum CET1 capital ratio (8.5%).

4.4.4 For Tier 2 instruments, it is proposed to require that the trigger be set at a CET1 capital ratio of 4.25%, i.e. a point where the bank has become very significantly in breach of the minimum required.

Question 3. **Are the proposed contractual conversion trigger levels for AT1 and Tier 2 instruments reasonable? If not, please propose an alternative.**

Question 4. **Does the extended timeline for implementation (to 2017) provide sufficient time to replace or amend any capital issuance that does not meet the proposed standards for regulatory capital?**

4.5 Other Issues

4.5.1 **Common reporting standards in the CDs**. Respondents to the CA DP were supportive of the aim of establishing common reporting requirements in the CDs, going as far as suggesting the development of common software. Reporting formats and guidance have been shared with our counterparts.

4.5.2 **Disclosures regarding certain higher risk items**. The CA DP proposed that, where the sum of three higher risk items exceeds 15% of CET1 capital, the amount of the excess should be reported on one line (Item 22), the underlying individual amounts should be reported (Items 73 to 75) and a breakdown provided of the excess (Items 23 to 25). On reflection, the last of these seems impractical as no methodology is provided for determining how to attribute any excess and hence these lines (Items 23 to 25) have been omitted.

4.5.3 **Deduction of Debit Valuation Adjustments** ("**DVAs**"). In line with the CA DP (and Basel Committee requirements) and feedback provided to industry, banks will be required to report and eliminate from capital all amounts relating to debit valuation adjustments regarding derivatives contracts, including those that arise on origination. This reflects the Basel Committee's July 2012 press release (the "**DVA statement**"), which specified that all DVAs should be removed when calculating regulatory capital.

4.5.4 **Other changes to the definition of regulatory capital.** All other changes are in line with the proposals set out in the CA DP (and Basel Committee requirements), with the biggest impact likely to arise from:

4.5.4.1 the introduction of a new sub-category of capital with the highest quality (CET1);

4.5.4.2 tighter definitions for issued debt (AT1 and Tier 2); and

4.5.4.3 removal of prudential filters (regarding pensions and held-for-sale reserves); and

4.5.4.4 new requirements for deductions in connection with deferred tax assets and minority interests.

Question 5. **Is the detailed guidance in Appendices B, C and D sufficiently clear? If not, please outline which areas you consider not to be so and any suggestions as to how this should be resolved.**

5 CAPITAL MINIMA

5.1 Ratios and minima

5.1.1 The CA DP set out proposed minima of 8.5% for CET1 and Tier 1 capital and 10% for total capital, with definitions in line with those established in the Capital Disclosure Rules.

5.1.2 The overwhelming majority of respondents accepted these proposals and it is intended to adopt these.

5.1.3 Full details of the calculations are set out in **Appendix E -** Capital ratios: reporting form and completion guidance.

5.1.4 The alignment of CET1 and Tier 1 requirements means that there is no specific role for hybrid capital instruments that meet AT1 eligibility requirements, though any such issuance would be eligible to meet total capital requirements. This reflects the view that these new instruments were designed to be issued by large international banks, rather than by local subsidiaries.

5.1.5 The new standard will be introduced by amending the Banking Codes, as follows:

In Section 5, from:

- *"5.2 Risk asset ratio ("**RAR**")*
- *5.2.1 A Jersey Bank must maintain a level of capital commensurate with the nature and scale of its business and full risk profile. Notwithstanding this, the Jersey Bank's minimum RAR must be maintained at all times, at or above 10% or such other ratio as agreed with the Commission and established by application of a registration condition in accordance with Article 11 of the Banking Law."*

to:

- *"5.2 Risk asset ratios **("RARs")***
- *5.2.1 A Jersey Bank must maintain a level of capital commensurate with the nature and scale of its business and full risk profile. Three Notwithstanding this, the following RARs must be maintained at all times, at or above the levels prescribed here or such other levels as agreed with the Commission and established by application of a registration condition in accordance with Article 11 of the Banking Law:*
- *5.2.1.1 Common Equity Tier 1 ("**CET1**") ratio: 8.5%;*
- *5.2.1.2 Tier 1 ratio: 8.5%; and*
- *5.2.1.3 Total capital ratio: 10%."*

Elsewhere in the Banking Codes, references to RAR in the singular will be replaced with references to RARs in the plural.

5.2 Pillar 2

5.2.1 In line with feedback provided to industry, it is proposed that any bank-specific required deductions would typically need to be deductions from CET1 capital and hence be reported on the line provided in the template (Item 26 "*National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital*").

5.2.2 Similar lines are provided in the templates for Additional Tier1 and Tier 2 capital to cater for instances where the Commission considers that deductions from these are more appropriate. An example would be where there was an adjustment required to the value ascribed to capital instruments falling in to these categories.

5.2.3 The Pillar 2 GN currently establishes that the minimum RAR and a buffer will be set in accordance with the Commission's Supervisory Review and Evaluation Process (**"SREP"),** based on an assessment of the bank's Internal Capital Adequacy Assessment Process ("**ICAAP**") documentation.

5.2.4 The Pillar 2 GN will be amended to reflect the introduction of multiple minimum RARs; minimum agreed RARs (CET1 capital, Tier 1 capital and total capital) will be set for each bank.

5.2.5 Instead of setting buffer levels for each of the three RARs, a single incremental buffer requirement will be set. Each Jersey Bank will be expected to maintain, in normal times, RARs that are above the agreed minimum RARs by percentage amounts that all exceed the incremental buffer set.

5.2.6 To ease monitoring, it is proposed to include formulae in the reporting form to calculate and display the RAR that has the lowest percentage surplus over (or greatest deficit to) the required minimum.

Question 6. Is the guidance in Appendix E sufficiently clear? If not, please detail areas where you consider that not to be the case and any suggestions you have as to how this should be resolved.

6 CAPITAL MEMORANDA ITEMS

6.1 Overview

6.1.1 The CA DP set memoranda items, mirroring those in the Capital Disclosure Rules.

6.1.2 No feedback received questioned the value of these. However, the memoranda items relating to transitional values have been omitted owing to the decision to implement fully from the transition date.

6.1.3 Full details regarding the definitions are set out in **Appendix F** - Capital memoranda items: reporting form and completion guidance.

Question 7. Is the detailed guidance in Appendix F sufficiently clear? If not, please detail areas where you consider that not to be the case and any suggestions you have as to how this should be resolved.

7 LEVERAGE

7.1 Overview

7.1.1 The Leverage DP set out proposals for reporting of a leverage ratio, derived from those in the Basel Committee paper "*Basel III leverage ratio framework and disclosure requirements*"[4] ("**Leverage Disclosure Rules**"), issued January 2014.

7.1.2 Feedback was generally positive, with concerns centring on the level of any minimum requirement introduced. At this time no decision has been made regarding this.

7.1.3 Feedback questioned the lack of full recognition of the value of bilateral master netting agreements governing derivative contracts; the Leverage DP only proposed permitted netting of the amount relating to replacement costs.

7.1.4 The completion guidance has consequently been amended to permit netting to be fully recognised to the extent permitted by the Leverage Disclosure Rules.

7.1.5 No decision has been taken with regard to capital adequacy rules, where a similar issue exists. This reflects the likely need to carry out a full review, as part of future work on Basel III, in response to the Basel Committee's publication of a substantially revised standard for the calculation of counterparty risk under the standardised approach, as set out in the paper "*The standardised approach for measuring counterparty credit risk exposures*"[5], issued March 2014 (and revised April 2014).

7.1.6 Full details regarding all definitions are set out in **Appendix G** - Leverage ratio: reporting form and completion guidance.

Question 8. Is the detailed guidance in Appendix G sufficiently clear? If not, please detail areas where you consider that not to be the case and any suggestions you have as to how this should be resolved.

[4] http://www.bis.org/publ/bcbs270.pdf

[5] http://www.bis.org/publ/bcbs279.pdf

8 LARGE EXPOSURES AND THE WIDER BASEL III PACKAGE OF REFORMS

8.1 Large Exposures

8.1.1 The Basel Committee's standard "*Supervisory framework for measuring and controlling large exposures*"[6], published April 2014, established that Large Exposure restrictions should apply to exposures that exceed 25% of Tier 1 capital (as opposed to total capital). The stated rationale for this is:

8.1.1.1 *"The aim of a large exposures standard is to ensure that a bank can absorb losses resulting from the sudden failure of a single counterparty or group of connected counterparties without itself failing. Consistent with this aim, the Committee believes that the capital base on which the large exposure limit is calculated should consist only of capital that can absorb unexpected losses on a going-concern basis".*

8.1.2 The Commission's Large Exposures regulations, established in the Banking Codes, currently refer to 25% of total capital. It is intended to amend the Banking Codes so that the capital base for Large Exposure purposes is Tier 1 capital (i.e. CET1 plus AT1, after relevant deductions).

8.1.3 Specifically, in "*Appendix II -Large Exposures: Definitions*", agreed capital resources ("**ACR**") will be defined by reference to Tier 1 capital, as defined for prudential reporting purposes.

8.1.4 This will represent a tightening of the Large Exposures regime for banks that have issued significant levels of Tier 2 debt. Affected banks should take steps to reduce exposures or seek renewed permission for them, under any of the routes that might be available, prior to the introduction of the changes in 2017.

8.1.5 Excepting in this area, the Large Exposures framework in Jersey is already broadly aligned with the revised standard. Moreover, the revised standard does not address either sovereign or intra-group exposures and hence would not be relevant to the Concession Limit approach adopted locally.

Question 9. Is the period to 2017 sufficient to manage any impact arising from the change to using Tier 1 capital for the purpose of determining the capital base for large exposures?

[6] http://www.bis.org/publ/bcbs283.pdf

8.2 Other capital adequacy related proposals in Basel III

8.2.1 The Basel III package of reforms includes various standards published by the Basel Committee (either in final form or for consultation) that will supplant those established in Basel II. The main papers that revise elements relevant to capital adequacy are:

8.2.1.1 Credit risk:

- "*Revisions to the standardised approach for credit risk - consultative document*", issued December 2014;
- "*Capital floors: the design of a framework based on standardised approaches - consultative document*", issued December 2014;
- "*Revisions to the securitisation framework*", issued December 2014;
- "*The standardised approach for measuring counterparty credit risk exposures*", issued March 2014;
- "*Capital requirements for banks' equity investments in funds - final standard*", issued December 2013;
- "*Capital requirements for bank exposures to central counterparties*", issued July 2012;
- "*Basel III: A global regulatory framework for more resilient banks and banking systems*" issued December 2010 and revised June 2011 (the first Basel III publication); and
- "*Enhancements to the Basel II framework*", issued July 2009 (known as Basel 2.5).

8.2.1.2 Market risk:

- "*Revisions to the Basel II market risk framework*", issued July 2009 (part of Basel 2.5);
- "*Fundamental review of the trading book - second consultative document*", issued October 2013; and
- "*Fundamental review of the trading book: outstanding issues - consultative document*", issued December 2014.

8.2.1.3 Operational risk:

- "*Operational risk - Revisions to the simpler approaches - consultative document*", issued October 2014.

8.2.2 Of these, the paper "*Revisions to the standardised approach for credit risk - consultative document*", issued December 2014 has the largest potential impact on Jersey Banks, since:

8.2.2.1 it sets out proposals for a new standardised approach for calculating risk weighted assets in respect of credit risk. These represent by far the largest component of RWAs for all Jersey Banks; and

8.2.2.2 it is likely to result in large changes to the calculations for the types of exposure typically held.

8.2.3 Proposals will be addressed through DPs and CPs issued by the Commission. It is intended to issue Tri-Party DPs on issues where a common approach is identified as being necessary.

Question 10. Have you any views as to which of the remaining elements of Basel III should either (1) be introduced at the earliest opportunity or (2) not be introduced locally?

8.3 Other elements of the Basel III package of reforms and related proposals

8.3.1 The Basel III package sits alongside wider work by the Financial Stability Board on issues such as:

8.3.1.1 central clearing of derivatives;

8.3.1.2 shadow banking; and

8.3.1.3 Recovery and Resolution which, in turn, encompasses:

- identification of systemic banks;
- new requirements for such banks to hold "Total Loss Absorbing Capacity" ("**TLAC**"); and
- wider work on the establishment of international standards for bank resolution.

8.3.2 Government in Jersey has taken the lead on the last of these.

8.3.3 There are also two non-capital elements of the Basel III reform package that might have a significant impact locally:

8.3.3.1 **liquidity standard:** "*Basel III: International framework for liquidity risk measurement, standards and monitoring*", issued December 2010; and

8.3.3.2 **derivatives margining requirements**: "*Margin requirements for non-centrally cleared derivatives*", issued March 2015.

8.3.4 Regarding the first of these, the liquidity standard is comprised of two liquidity metrics, with minima for each: a short term metric (LCR) and a structural metric (NSFR). A Tri-Party DP is to be issued in July 2015 that addresses both.

8.3.5 The second of these is potentially significant for a small number of banks in Jersey and will be considered alongside other changes to counterparty credit risk.

Question 11. **In order to gauge better the potential impact of new international standards regarding derivatives, could respondents indicate: (1) whether or not their bank has significant volumes of derivatives contracts and (2) the extent these are already centrally cleared or margined.**

9 COST BENEFIT ANALYSIS

9.1 Costs to industry

9.1.1 Based on feedback provided by industry and data collected, the direct capital related costs of the changes to capital quality requirements would be limited because:

9.1.1.1 the expected impact on capital requirements is small or, in the case of ineligible issued debt, can be alleviated by replacing affected instruments; and

9.1.1.2 Jersey banks are part of groups that are, or will be, subject to similar capital standards.

9.1.2 Therefore, it is anticipated that the principal cost will relate to the production of revised prudential reporting, both in connection with capital quality and leverage. Delaying implementation to 2017 and removing transitional adjustments are steps that have been taken to ease this process and enable costs to be contained.

9.2 Costs to the Commission

9.2.1 The Commission will need to substantially revise its prudential reporting system. Delaying implementation to 2017 will ease this process and enable costs to be contained.

9.3 Benefits to industry

9.3.1 Industry benefits indirectly from demonstrable compliance with international standards, reinforcing Jersey's reputation, and that of its banking industry, as a safe, well regulated home for deposits. Specifically, compliance should assist in securing a positive outcome from any future international assessment of Jersey.

9.3.2 Enhancing capital quality reduces the likelihood of bank failures. This benefits banks, through guarding against the consequences of a failure.

9.4 Benefits to the Commission

9.4.1 The Commission does not consider capital quality to currently be a significant issue in respect of any Jersey Bank, since they currently hold high proportions of higher quality capital. However, introducing these proposals guards against the risk that capital quality deteriorates over time.

Question 12. Are there any specific measures that should be considered that would either increase the benefits of the proposals or reduce any of the associated costs of implementation?

10 SUMMARY OF QUESTIONS

Number	Page	Question
Question 1	**14**	Would a 1 January 2017 deadline provide sufficient time to replace affected instruments? If not, please provide an alternative.
Question 2	**14**	Does your bank provide any funding to non-bank holding companies that directly or indirectly hold capital instruments issued by your bank? If so, please comment on the impact of these proposals and steps that you can take to mitigate the impact.
Question 3	**15**	Are the proposed contractual conversion trigger levels for AT1 and Tier 2 instruments reasonable? If not, please propose an alternative.
Question 4	**15**	Does the extended timeline for implementation (to 2017) provide sufficient time to replace or amend any capital issuance that does not meet the proposed standards for regulatory capital?
Question 5	**16**	Is the detailed guidance in **Appendices B, C** and **D** sufficiently clear? If not, please outline which areas you consider not to be so and any suggestions as to how this should be resolved.
Question 6	**18**	Would a 1 January 2017 deadline provide sufficient time to replace affected instruments? If not, please provide an alternative.
Question 7	**19**	Is the detailed guidance in **Appendix F** sufficiently clear? If not, please detail areas where you consider that not to be the case and any suggestions you have as to how this should be resolved.
Question 8	**20**	Is the detailed guidance in **Appendix G** sufficiently clear? If not, please detail areas where you consider that not to be the case and any suggestions you have as to how this should be resolved.
Question 9	**21**	Is the period to 2017 sufficient to manage any impact arising from the change to using Tier 1 capital for the purpose of determining the capital base for large exposures?
Question 10	**23**	Have you any views as to which of the remaining elements of Basel III should either (1) be introduced at the earliest opportunity or (2) not be introduced locally?
Question 11	**24**	In order to gauge better the potential impact of new international standards regarding derivatives, could respondents indicate: (1) whether or not their bank has significant volumes of derivatives contracts and (2) the extent these are already centrally cleared or margined.
Question 12	**25**	Are there any specific measures that should be considered that would either increase the benefits of the proposals or reduce any of the associated costs of implementation?

Appendix A: List of representative bodies who have been sent this CP

- Jersey Finance
- Jersey Bankers Association

Appendix B: Common Equity Tier 1 capital: reporting form and completion guidance

B.1 Reporting form 1: Common Equity Tier 1 capital

Item	Description	Value
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	
2	Retained earnings	
3	Accumulated other comprehensive income (and other reserves)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**Sum 1 to 5**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles, other than mortgage-servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
14a	*of which: amount relating to DVAs recognised on origination*	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	

18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	
23	*of which: significant investments in the common stock of financials*	
24	*of which: mortgage servicing rights*	
25	*of which: deferred tax assets arising from temporary differences*	
26	National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	**equal to Item 43a**
28	**Total regulatory adjustments to Common equity Tier 1**	**Sum 7 to 27**
29	**Common Equity Tier 1 capital (CET1)**	**6 minus 28**

B.2 Reporting form 1 – Common Equity Tier 1 capital: completion guidance

Item	Completion Guidance
1	**Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus**. Enter the total common share capital plus related share premium that meet the following CET1 qualifying criteria: 1. Represents the most subordinated claim in liquidation of the bank. 2. Entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (ie has an unlimited and variable claim, not a fixed or capped claim). 3. Principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law). 4. The bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation. 5. Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a bank is unable to pay distributions that exceed the level of distributable items). 6. There are no circumstances under which the distributions are obligatory. Non-payment is therefore not an event of default. 7. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital. 8. It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari-passu with all the others. 9. The paid in amount is recognised as equity capital (ie not recognised as a liability) for determining balance sheet insolvency. 10. The paid in amount is classified as equity under the relevant accounting standards. 11. It is directly issued and paid-in and the bank cannot directly or indirectly have funded the purchase of the instrument. For example, if the equity is held by a holding company, any lending to the holding company by the bank (directly or indirectly) will result in an amount equal to that lending becoming ineligible (except where the holding company is itself registered as a bank). 12. The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim. 13. It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorised by the owners. 14. It is clearly and separately disclosed on the bank's balance sheet.

2	**Retained earnings**. Enter retained earnings from prior years, net of any current year losses but only including profits that have been auditor certified.
3	**Accumulated other comprehensive income (and other reserves).** Enter the total of all other reserves that meet the CET1 qualifying criteria (as set out for Item 1), net of any reduction in the current year but only including increases that are auditor certified.
5	**Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1).** Data should only be entered by banks that own subsidiaries that have issued common share capital that is held by third parties, and only then in the case of prudential reporting submitted on a consolidated basis. The amount allowed would be limited to the amount required to meet regulatory requirements in respect of CET1 capital.
6	**Common Equity Tier 1 capital before regulatory adjustments**. Computed as the sum of items 1 to 5.
7	**Prudential valuation adjustments**. Data should be entered if the bank holds any assets at fair value that are illiquid. Banks should consider the guidance contained in section VIII, "*Treatment for illiquid positions*", of the Basel Committee paper titled "*Revisions to the Basel II market risk framework*", issued July 2009.
8	**Goodwill (net of related tax liability).** Enter the amount of goodwill held, net of any related deferred tax liability.
9	**Other intangibles, other than mortgage-servicing rights (net of related tax liability).** Enter the amount of other intangible assets held (except mortgage servicing rights – "**MSRs**"– see Item 20 for the treatment of these), net of any related deferred tax liability.
10	**Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability).** Enter all deferred tax assets ("**DTAs**") that rely on future profitability of the bank. For this purpose, DTAs may be netted with associated deferred tax liabilities ("**DTLs**)" but only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by that taxation authority. (See Item 21 for the treatment of DTAs that relate to temporary differences).
11	**Cash-flow hedge reserve.** Report adjustments to the amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) and hence derecognised in the calculation of CET1 capital. This means that positive amounts should be deducted and negative amounts should be added back.
12	**Shortfall of provisions to expected losses**. Only applicable for banks using advanced approaches. Enter the amount (if any) that expected losses, as calculated under IRB rules, exceed the stock of provisions. No adjustment can be made for any tax effects that could be expected to occur if provisions were to rise to the level of expected losses.
13	**Securitisation gain on sale (as set out in paragraph 562 of Basel II framework**. Only applicable for banks that issue securitised debt instruments. Report any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income.

14	**Gains and losses due to changes in own credit risk on fair valued liabilities.** Report gains or losses resulting from revaluation of own fair valued liabilities that arise due to own-credit related factors. Gains will be deducted and losses will be added back. This must include the part of a derivative valuation that relates to own-credit risk (referred to as a "debit valuation adjustment, or "**DVA**"), including any DVA that arises on origination (see Item 14a.)
14a	**of which: amount relating to DVAs recognised on origination**. Report the amount of all DVAs that arose on origination (and include in the amount reported for Item 14).
15	**Defined-benefit pension fund net assets.** Applicable only for banks that have a defined benefit asset on their balance sheets. For each defined benefit pension fund that is an asset on the balance sheet, the asset should be entered here, net of any associated deferred tax liability which would be extinguished if the asset should become impaired or derecognised under the relevant accounting standards. For the treatment of liabilities, see Item 26a.
16	**Investments in own shares (if not already netted off paid-in capital on reported balance sheet**). Applicable only for banks that hold treasury shares. Report here only if the bank's accounting standard does not require such holdings to be deducted from common equity.
17	**Reciprocal cross-holdings in common equity.** Report reciprocal cross holdings in common equity issued by banking, financial and insurance entities.
18	**Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold).** Applicable for banks that have multiple non-significant (below 10% of the issuing entity's issued share capital) holdings of capital instruments issued by banking, financial and insurance entities. Report the amount by which the total of all such holdings exceeds 10% of total CET1. Where the holding is partly or wholly comprised of Tier 2 or AT1 instruments, report the amount by which total holdings exceed 10% of CET1, divided in the same proportions as the relevant holdings. Holdings that are part of the obligor's capital but do not fall within the definitions of AT1 or Tier 2 capital should be treated as holdings in CET1 capital.
19	**Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold).** Applicable where either: • an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entity's issued share capital; or • the holding is in the entity that is an associate, which includes all subsidiaries of the bank. In both cases, report the full amount of all such holdings less an allowance of 10% of the banks CET1 capital, after deductions (but see Item 22 regarding this allowance).
20	Mortgage servicing rights (amount above 10% threshold). Only applicable where an intangible asset is held that arose in connection with providing mortgage servicing, typically in connection with the mortgage assets transferred to a securitisation vehicle. Report the full amount of all such assets less an allowance of 10% of CET1 capital, after deductions (but see Item 22 regarding this allowance).

21	**Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability).** Applicable where deferred tax assets do not rely on future profitability (and see Item 10). Report the full amount of all such assets less an allowance of 10% of CET1 capital, after deductions (but see Item 22 regarding this allowance).
22	**Amount exceeding the 15% threshold.** Report an amount equal to: • the sum of the exposures connected to the above three Items (19, 20 and 21) that fall within the individual allowances (10% of CET1 capital, after deductions); less • an allowance of 15% of CET1 capital, after deductions. For example, if DTAs were 21% and the other two items were 7% MSRs and 5% significant investments, then the deductions required would be: • 11% reported under Item 21 (after applying the 10% allowance); and • 7% reported under Item 22 (10% plus 7% plus 5% less the 15% allowance). All exposures of these natures (19, 20 and 21) that are not deducted (here or in Items 19, 20 and 21) would be risk weighted at 250% (see Table 5).
26	**National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital**. Report deductions required by the Commission, including as a result of the ICAAP /SREP process.
27	**Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions**. Computed, being equal to the sum calculated for Item 43a, "**of which: excess AT1 deductions".** This corresponds to the amount of any deductions that would ordinarily be eligible to be deducted from lower quality capital but could not be, due to the deduction exceeding the amount of such capital.
28	**Total regulatory adjustments to Common equity Tier 1**. Computed as the sum of items 7 to 27, excepting those relating to sub-categories.
29	**Common Equity Tier 1 capital (CET1).** Computed as Item 6, "***Common Equity Tier 1 capital before regulatory adjustments***", minus Item 28, "***Total regulatory adjustments to Common equity Tier 1***".

Appendix C: AT1 and total Tier 1 capital: reporting form and completion guidance

C.1 Reporting form 2: AT1 and total Tier 1 capital

Item	Description	Value
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	*of which: classified as equity under applicable accounting standards*	
32	*of which: classified as liabilities under applicable accounting standards*	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	
36	**Additional Tier 1 capital before regulatory adjustments**	**Sum 30 and 34**
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	**equal to Item 57a**
43	**Total regulatory adjustments to Additional Tier 1 capital**	**Sum 37 to 42**
43a	**of which: excess AT1 deductions**	**43 minus 36, minimum of zero**
44	**Additional Tier 1 capital (AT1)**	**36 minus 43, minimum of zero**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**29 plus 44**

C.2 Reporting form 2 – AT1 and total Tier 1 capital: completion guidance

<table>
<tr><th>Item</th><th>Completion Guidance</th></tr>
<tr><td>30</td><td>Directly issued qualifying Additional Tier 1 instruments plus related stock surplus. Report amounts of eligible instruments that had been issued by the Jersey Bank itself.
The eligibility requirements for Additional Tier 1 capital are:
1. Issued and paid-in.
2. Subordinated to depositors, general creditors and subordinated debt of the bank.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.
4. Is perpetual, ie there is no maturity date and there are no step-ups or other incentives to redeem.
5. May be callable at the initiative of the issuer only after a minimum of five years, provided:
• to exercise a call option a bank must receive prior supervisory approval;
• a bank must not do anything which creates an expectation that the call will be exercised; and
• banks must not exercise a call unless:
o They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
o The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
6. Any repayment of principal (eg through repurchase or redemption) must be with prior approval from the Commission and banks should not assume or create market expectations that approval will be given.
7. Dividend/coupon discretion:
• the bank must have full discretion at all times to cancel distributions/payments;
• cancellation of discretionary payments must not be an event of default;
• banks must have full access to cancelled payments to meet obligations as they fall due; and
• cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders.
8. Dividends/coupons must be paid out of distributable items.
9. The instrument cannot have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.
10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.</td></tr>
</table>

<table>
<tr><th>Item</th><th>Completion Guidance</th></tr>
<tr><td>30
(cont)</td><td>11. Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares at an objective pre-specified trigger point or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down must have the following effects:
• reduce the claim of the instrument in liquidation;
• reduce the amount re-paid when a call is exercised; and
• partially or fully reduce coupon/dividend payments on the instrument.
In addition:
• the trigger level for write-down/conversion of loss absorbing instruments classified as liabilities must be at least the minimum for Common Equity Tier 1 capital (8.5% of RWAs);
• the write-down/conversion must generate CET1 under the relevant accounting standards and the instrument will only receive recognition in Additional Tier 1 up to the minimum level of CET1 generated by a full write-down/conversion of the instrument; and
• the aggregate amount to be written-down/converted for all such instruments on breaching the trigger level must be at least the amount needed to immediately return the bank's CET1 ratio to the minimum ratio required or, if this is not possible, the full principal value of the instrument.
12. The terms and conditions must have a provision that enables such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event, where:
• any compensation paid to the instrument holders as a result of the write-off must be paid immediately in the form of common stock (or its equivalent in the case of non-joint stock companies);
• the prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur; and
• the trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority.
13. Neither the Jersey Bank nor a related party over which it exercises control or significant influence can have purchased the instrument, nor can it directly or indirectly have funded the purchase of the instrument. For example, if the instrument is held by a holding company, any lending to the holding company by the Jersey Bank (directly or indirectly) will result in an amount equal to that lending becoming ineligible (except where the holding company is itself registered as a bank).
14. The instrument cannot have any features that hinder recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.
15. If the instrument is not issued by the bank itself, proceeds must be immediately available without limitation to the bank in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 capital.</td></tr>
</table>

Item	Completion Guidance
31 & 32	Item 31, "***of which: classified as equity under applicable accounting standards***" and Item 32, "***of which: classified as liabilities under applicable accounting standards***" should be used to report the breakdown of Item 30 into equity and liability items.
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1). only applies in the case of prudential reporting submitted on a consolidated basis where the Jersey Bank owns a subsidiary that is itself a regulated bank that has issued: • AT1 instruments that are held by third parties; or • Common share capital that is held by third parties but exceeds the amount eligible in Item 5 (i.e. the amount needed to meet regulatory requirements in respect of CET1 capital). The amount allowed is limited to the amount required to meet the subsidiary's regulatory requirements in respect of Tier 1 capital.
36	**Additional Tier 1 capital before regulatory adjustments**. Computed as the sum of Item 30, "***Directly issued qualifying Additional Tier 1 instruments plus related stock surplus***", and Item 34, "***Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)***".
37	**Investments in own Additional Tier 1 instruments**. Report any holdings of instruments issued, including any held through consolidated subsidiaries.
38	**Reciprocal cross-holdings in Additional Tier 1 instruments**. Report any reciprocal cross holdings in AT1 instruments issued by banking, financial and insurance entities.
39	**Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold).** Relevant for Jersey Banks that have holdings of AT1 issued by banking, financial and insurance entities. Less significant holdings (those below 10% of the issuing entity's issued share capital) that total in excess of an allowance equal to 10% of the bank's total CET1 should be reported here, net of the allowance. If the investments are a mix of CET1, AT1 and Tier 2 instruments, the amount reported here is the excess of total holdings above the allowance, divided in the same proportions as the holdings.
40	**Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions**). Report holdings where: • an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entities issued share capital; or • the issuing entity is an associate, which includes all subsidiaries of the Jersey Bank.
41	**National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital**. Report any deductions required by the Commission, including as a result of the ICAAP /SREP process.

Item	Completion Guidance
42	**Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions**. Computed, being equal to the sum calculated for Item 57a, "**of which: excess Tier 2 deductions".** This corresponds to the amount of any deductions that would ordinarily be eligible to be deducted from lower quality capital but could not be, due to the deduction exceeding the amount of such capital.
43	**Total regulatory adjustments to Additional Tier 1 capital.** Computed as the sum of Items 37 to 42.
43a	**of which: excess AT1 deductions**: computed as Item 43, "***Total regulatory adjustments to Additional Tier 1 capital***", minus Item 36, "***Additional Tier 1 capital before regulatory adjustments***", subject to a minimum of zero.
44	**Additional Tier 1 capital (AT1).** Computed as Item 36, "***Additional Tier 1 capital before regulatory adjustments***", minus Item 43, "**Total regulatory adjustments to Additional Tier 1 capital**", subject to a minimum of zero.
45	**Tier 1 capital (T1 = CET1 + AT1**). Computed as Item 29, "***Common Equity Tier 1 capital (CET1)***", plus Item 44, "***Additional Tier 1 capital (AT1)***".

Appendix D: Tier 2 and total capital: reporting form and completion guidance

D.1 Reporting form 3: Tier 2 and total capital

Item	Description	Value
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
50	Provisions	
51	**Tier 2 capital before regulatory adjustments**	**Sum 46 to 50**
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital	
57	**Total regulatory adjustments to Tier 2 capital**	**Sum 52 to 56**
57a	**of which: excess Tier 2 deductions**	**57 minus 51, minimum of zero**
58	**Tier 2 capital (T2)**	**51 minus 57, minimum of zero**
59	**Total capital (TC = T1 + T2)**	**45 plus 58**

D.2 Reporting form 3 - Tier 2 and total capital: completion guidance

<table>
<tr><th>Item</th><th>Completion Guidance</th></tr>
<tr><td>46</td><td>Directly issued qualifying Tier 2 instruments plus related stock surplus. Report amounts of eligible instruments that had been issued by the bank itself.
The eligibility requirements for issued Tier 2 capital are:
1. Issued and paid-in.
2. Subordinated to depositors and general creditors of the bank.
3. Neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors.
4. Maturity:

a. minimum original maturity of at least five years;
b. recognition in regulatory capital in the remaining five years before maturity will be amortised on a straight line basis; and
c. there are no step-ups or other incentives to redeem.

Where an instrument's maturity date is less than five years away, report the value of the instrument multiplied by the remaining residual maturity (in years) divided by five.
5. May be callable at the initiative of the issuer only after a minimum of five years:

To exercise a call option a bank must receive prior approval from the Commission;
A bank must not do anything that creates an expectation that the call will be exercised; and
Banks must not exercise a call unless:

They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

6. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.
7. The instrument cannot have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.
8. Neither the Jersey Bank nor a related party over which it exercises control or significant influence can have purchased the instrument, nor can it directly or indirectly have funded the purchase of the instrument. For example, if the instrument is held by a holding company, any lending to the holding company by the Jersey Bank (directly or indirectly) will result in an amount equal to that lending becoming ineligible (except where the holding company is itself registered as a bank).
9. If the instrument is not issued by the Jersey Bank itself, proceeds must be immediately available without limitation to the bank in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 Capital.</td></tr>
</table>

Item	Completion Guidance
46 (cont)	10. The terms and conditions must have a provision that enables such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event, where: • Any compensation paid to the instrument holders as a result of the write-off must be paid immediately in the form of common stock (or its equivalent in the case of non-joint stock companies). • The prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur. For this purpose, a trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority; or (3) minimum Common Equity Tier 1 capital is significantly below the level required in order to continue to operate, which for these purposes is defined at 50% of the minimum level required (4.25% of RWAs).
48	**Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2).** Applies to Jersey Banks that report on a consolidated basis and own subsidiaries that have issued: • Tier 2 instruments that are held by third parties; or • Common share capital or AT1 instruments that are held by third parties but exceed the amount eligible in Item 5 or Item 33 (i.e. the amount needed to meet regulatory requirements in respect of CET1 capital/AT1 capital). Report the sum of all such amounts, subject to a limit of the amount required to meet those subsidiaries' regulatory requirements in respect of total capital.
50	**Provisions.** Report the amount of provisions allowed, according to the following rules: For Jersey Banks using the Standardised Approach for credit risk: • Provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialise qualify for inclusion within Tier 2. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded. Furthermore, general provisions/general loan-loss reserves eligible for inclusion in Tier 2 will be limited to a maximum of 1.25 percentage points of credit risk-weighted risk assets (Item 60c) calculated under the standardised approach. For Jersey Banks using an Internal Ratings Based ("**IRB**") Approach • Where the total expected loss amount is less than total eligible provisions, as explained in paragraphs 380 to 383 of the June 2006 Comprehensive version of Basel II, banks may recognise the difference in Tier 2 capital up to a maximum of 0.6% of credit risk-weighted assets calculated under the IRB Approach.

Item	Completion Guidance
51	**Tier 2 capital before regulatory adjustments.** Computed as the sum of Item 46, "***Directly issued qualifying Tier 2 instruments plus related stock surplus***, Item 48, "***Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)***", and Item 50, "***Provisions***".
52	**Investments in own Tier 2 instruments.** Report holdings of instruments issued, including any held through consolidated subsidiaries.
53	**Reciprocal cross-holdings in Tier 2 instruments.** Report cross holdings in Tier 2 instruments issued by banking, financial and insurance entities.
54	**Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold).** Only applicable to Jersey Banks that have holdings of Tier 2 capital issued by banking, financial and insurance entities. Less significant holdings (those below 10% of the issuing entity's issued share capital) that total in excess of an allowance equal to 10% of the Jersey Bank's total CET1 should be reported here, net of the allowance. If the investments are a mix of CET1, AT1 and Tier 2 instruments, the amount reported here should be the excess of total holdings above the allowance, divided in the same proportions as the holdings.
55	**Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions**). Report holdings where: • an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entities issued share capital; or • the issuing entity is an associate, which includes all subsidiaries of the Jersey Bank.
56	**National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital.** Report any deductions required by the Commission, including as a result of the ICAAP /SREP process.
57	**Total regulatory adjustments to Tier 2 capital.** Computed as the sum of Items 52 to 56.
57a	**of which: excess Tier 2 deductions.** Computed as Item 57, "***Total regulatory adjustments to Tier 2 capital***", minus Item 51, "***Tier 2 capital before regulatory adjustments***", subject to a minimum of zero.
58	**Tier 2 capital (T2).** Computed as Item 51, "***Tier 2 capital before regulatory adjustments***", minus Item 57, "***Total regulatory adjustments to Tier 2 capital***", subject to a minimum of zero.
59	**Total capital (TC = T1 + T2).** Computed as Item 45, "***Tier 1 capital (T1 = CET1 + AT1)***", plus Item 58, "***Tier 2 capital (T2)***".

Appendix E: Capital ratios: reporting form and completion guidance

E.1 Reporting form 4: Capital ratios

Item	Description	Value
60	**Total risk weighted assets**	
60a	***of which: 250% risk weighted items***	
60b	***of which: 1250% risk weighted items***	
60c	***of which: credit risk***	
60d	***of which: operational risk***	
60e	***of which: market risk***	
60f	***of which: Pillar 2 risks***	
	Capital ratios	
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**29 divided by 60**
62	**Tier 1 (as a percentage of risk weighted assets)**	**45 divided by 60**
63	**Total capital (as a percentage of risk weighted assets)**	**59 divided by 60**
64	Institution specific CET 1 minimum ratio	
65	Institution specific Tier 1 minimum ratio	
66	Institution specific total capital minimum ratio	
67	Institution specific buffer	
68	**Capital available to meet the required buffer (as a percentage of risk weighted assets)**	**Lowest of:** • **61 minus 64** • **62 minus 65** • **63 minus 66**
	National minima	
69	**National Common Equity Tier 1 minimum ratio**	8.5%
70	**National Tier 1 minimum ratio**	8.5%
71	**National total capital minimum ratio**	10%

E.2 Reporting form 4 - Capital ratios: completion guidance

<table>
<tr><th>Item</th><th>Completion Guidance</th></tr>
<tr><td>60</td><td>Total risk weighted assets. Report the sum of all risk weighted assets (“RWAs”), including those arising from credit risk (including counterparty credit risk), operational risk and market risk.</td></tr>
<tr><td>60a</td><td>of which: 250% risk weighted items. Report the amount of RWAs that relates to items that would be deducted from CET 1 capital but where a threshold applies; report here the amount below the threshold multiplied by 250% (see Item 22 for details regarding the thresholds).</td></tr>
<tr><td>60b</td><td>of which: 1250% risk weighted items Report the amount of RWAs that relates to four afforded a risk weight of 1250% (In all cases report any relevant amount multiplied by 1250%):
any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognised in regulatory capital;
banks using advanced approaches only, for which deduction is mandated in Basel II (generally, the amount by which expected losses exceed general provisions)
deductions from capital arising from settlement risk; and
significant (minority and/or majority) investments in commercial entities (those which exceed materiality levels). Materiality levels are:
15% of the bank’s capital for individual investments in commercial entities; and
60% of the bank’s capital for the aggregate of such investments.
The amount to be deducted will be that portion of the investment that exceeds the materiality level.</td></tr>
<tr><td>60c</td><td>of which: credit risk. Report the amount of RWAs that relates credit risk, inclusive of counterparty credit risk, across both the banking and any trading book.</td></tr>
<tr><td>60d</td><td>of which: operational risk. Report the amount of RWAs that relates operational risk.</td></tr>
<tr><td>60e</td><td>of which: market risk Report the amount of RWAs that relates market risk, across both the banking and any trading book.</td></tr>
<tr><td>60f</td><td>of which: Pillar 2 Report the amount of RWAs that relate to risks identified through the Pillar 2 process (ICAAP and SREP).</td></tr>
<tr><td>61</td><td>Common Equity Tier 1 (as a percentage of risk weighted assets). Computed as Item 29, “Common Equity Tier 1 capital (CET1)”, divided by Item 60, “Total risk weighted assets”.</td></tr>
<tr><td>62</td><td>Tier 1 (as a percentage of risk weighted assets). Computed as Item 45, “Tier 1 capital (T1 = CET1 + AT1)”, divided by Item 60, “Total risk weighted assets”.</td></tr>
<tr><td>63</td><td>Total capital (as a percentage of risk weighted assets). Computed as Item 59, “Total capital (TC = T1 + T2)”, divided by Item 60, “Total risk weighted assets”.</td></tr>
<tr><td>64</td><td>Institution specific CET 1 minimum ratio. Input the minimum set as a result of the Pillar 2 process (ICAAP plus SREP).</td></tr>
</table>

65	**Institution specific Tier 1 minimum ratio.** Input the minimum set as a result of the Pillar 2 process (ICAAP plus SREP).
66	**Institution specific total capital minimum ratio.** Input the minimum set as a result of the Pillar 2 process (ICAAP plus SREP).
67	**Institution specific buffer.** Input the buffer required as a result of the Pillar 2 process (ICAAP plus SREP).
68	**Capital available to meet the required buffer (as a percentage of risk weighted assets** Computed as the lowest amount of surplus capital for any of the minima, i.e.: **1.** Item 61, "***Common Equity Tier 1 (as a percentage of risk weighted assets)***", minus Item 64, "***Institution specific CET 1 minimum ratio*";** **2.** Item 62, "***Tier 1 (as a percentage of risk weighted assets)***", minus Item 64, "***Institution specific Tier 1 minimum ratio*"; and** **3.** Item 61, "***Total capital (as a percentage of risk weighted assets)***", minus Item 64, "***Institution specific total capital minimum ratio*".**
69	**National Common Equity Tier 1 minimum ratio**. Fixed at 8.5%.
70	**National Tier 1 minimum ratio.** Fixed at 8.5%.
71	**National total capital minimum ratio.** Fixed at 10%.

Appendix F: Capital memoranda items: reporting form and completion guidance

F.1 Reporting form 5: Capital memoranda items

Item	Description	Value
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financial institutions	
73	Significant investments in the common stock of financial institutions	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	

F.2 Reporting form 5 - Capital memoranda items: completion guidance

Item	Completion Guidance
72	**Non-significant investments in the capital of other financial institutions.** Report the total amounts of all such investments, as relevant to Items 18, 40 and 54.
73, 74 & 75	Report the relevant amounts used to compute Items 19 to 22 • Item 73, "**Significant investments in the common stock of financials**"; • Item 74, "**Mortgage servicing rights (net of related tax liability)**": and • Item 75, "**Deferred tax assets arising from temporary differences (net of related tax liability**)". Continuing the example set out for Item 22, the amounts reported here would be: • Item 73: the amount of MSRs (equal to 5% of CET1 capital); • Item 74: the amount of significant investments (equal to 7% of CET1 capital); and • Item 75: the amount of DTAs (equal to 21% of CET1 capital).
76	**Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap).** For banks applying the standardised approach only: report total eligible provisions, before applying the applicable maximum for inclusion (as relevant to Item 50).
77	**Cap on inclusion of provisions in Tier 2 under standardised approach.** For banks applying the standardised approach only: report an amount equal to 1.25% of Item 60c.
78	**Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap).** For banks applying an IRB Approach only: report total eligible provisions less total expected losses (as relevant to Item 50).
79	**Cap for inclusion of provisions in Tier 2 under internal ratings-based approach.** For banks applying the Standardised Approach only: report an amount equal to 0.6% of Item 60c.

Appendix G: Leverage ratio: reporting form and completion guidance

G.1 Reporting form 6: Leverage ratio

Item	Description	Value
	On-balance sheet exposures	
101	On-balance sheet items (exclude derivatives and SFTs; include collateral)	
102	(Assets deducted in determining Basel III Tier 1 capital)	
103	**Total on-balance sheet exposures** (excluding derivatives and SFTs)	**101 minus 102**
	Derivative exposures	
104	Replacement cost (net of eligible cash variation margin)	
105	Add-on amount	
106	Gross up for derivatives collateral provided	
107	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
108	(Exempted CCP leg of client-cleared trade exposures)	
109	Gross notional credit derivatives sold	
110	(Notional offsets and add-on deductions for written credit derivatives)	
111	**Total derivative exposures**	**Sum 104 to 110**
	Securities financing transaction exposures	
112	Gross SFT assets (with no recognition of accounting netting), after adjusting for sale accounting transactions	
113	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
114	SFT counterparty exposure	
115	Agent transaction exposures	
116	**Total securities financing transaction exposures**	**Sum 112 to 115**
	Other off-balance sheet exposures	
117	Off-balance sheet exposure at gross notional amount	
118	Adjustments for conversion to credit equivalent amount	
119	**Other off-balance sheet exposures**	**117 plus 118**

Item	Description	Value
Capital and Total Exposures		
120	**Tier 1 capital** (end of reporting period value)	**equal to Item 45**
121	**Total Exposures** (end of reporting period value)	**sum of 103, 111, 116 and 119**
Leverage Ratio		
122	**Basel III leverage ratio (%)**	**120 divided by 121**

G.2 Reporting form 6 - Leverage ratio: completion guidance

Item	Completion Guidance
101	**On-balance sheet assets.** Report all on-balance sheet assets, including on-balance sheet derivative collateral and collateral for securities financing transactions ("**SFTs**") (but excluding on-balance sheet derivative and SFT assets that are covered Items 104 to 115.
102	**Assets deducted in determining Basel III Tier 1 capital**. Report on-balance sheet assets deducted from Tier 1 capital.
103	**Total on-balance sheet exposures**. Computed, being Item 101 minus Item 102.
104 and 105	**Replacement cost** and **Add-on amount**. Report the Jersey Bank's replacement cost ("**RC**") for all of its derivatives exposures, including where credit derivatives. This should be equivalent to the "Positive Mark-to-Market" element of the Credit Equivalent Amount calculated under the Standardised Approach to Credit Risk. Collateral received may not be netted against derivatives exposures whether or not netting is permitted under its accounting framework. When calculating the exposure amount a Jersey Bank must not reduce the exposure amount by any collateral received from the counterparty. Furthermore, the RC must be grossed up by any collateral amount used to reduce its value, including when collateral received has reduced the derivatives assets reported on-balance sheet under its accounting framework. Report the sum of all add-ons for Potential Future Exposure ("**PFE**"). This should be equivalent to the "Add-on Amount" element of the Credit Equivalent Amount calculated under the Standardised Approach to Credit Risk. When an eligible bilateral netting contract is in place the Credit Equivalent Amount calculated under the Standardised Approach to Credit Risk, the RC for the set of derivative exposures covered by the contract will be the net replacement cost for all contracts governed by it. The add-on for netted transactions ("**ANet**") will equal the weighted average of the gross add-on ("**AGross"**) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost ("**NGR**"). This is expressed through the following formula: ***ANet* = 0.4 x *AGross* + 0.6 x *NGR* x *AGross*** where: *NGR* = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements with the counterparty; and **AGross** = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors) of all transactions subject to legally enforceable netting agreements with the counterparty.
106	**Gross up for derivatives collateral provided.** Report the amount of any derivatives collateral provided where the provision of that collateral has reduced the value of their balance sheet assets under their operative accounting framework.

107	**Deductions of receivables assets for cash variation margin provided in derivatives transactions.** Report adjustments permitted regarding the treatment of cash variation margin. In the treatment of derivative exposures for the purpose of the leverage ratio, the cash portion of variation margin exchanged between counterparties may be viewed as a form of pre-settlement payment (and hence not as collateral), if the following conditions are met: • For trades not cleared through a qualifying central counterparty ("**QCCP**")[7] the cash received by the recipient counterparty is not segregated. • Variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivatives positions. • The cash variation margin is received in the same currency as the currency of settlement of the derivative contract. • Variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the counterparty. • Derivatives transactions and variation margins are covered by a single master netting agreement ("**MNA**")[8] between the legal entities that are the counterparties in the derivatives transaction. The MNA must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty. The MNA must be legally enforceable and effective in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency. If these conditions are met, the cash portion of variation margin received may be used to reduce the RC reported in Item 104, and the receivables assets from cash variation margin provided may be deducted from the leverage ratio exposure measure using Item 107, as follows: • In the case of cash variation margin received, the receiving bank may reduce the RC (but not the PFE reported) of the exposure amount of the derivative asset by the amount of cash received if the RC of the derivative contract(s) has not already been reduced by the same amount of cash variation margin received under the bank's operative accounting standard. • In the case of cash variation margin provided to a counterparty by a Jersey Bank, the posting bank may deduct the resulting receivable from its leverage ratio exposure measure, where the cash variation margin has been recognised as an asset under the bank's operative accounting framework. For the avoidance of doubt, cash variation margin may not be used to reduce the PFE amount.

[7] A qualifying central counterparty ("**QCCP**") is an entity that is licensed to operate as a central counter party ("**CCP**") (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

[8] To the extent that the criteria in this paragraph include the term "master netting agreement", this term should be read as including any "netting agreement" that provides legally enforceable rights of offsets.

108	**Exempted CCP leg of client-cleared trade exposures.** Report certain deductions relating to the treatment of clearing services. Where a bank acting as clearing member ("**CM**")[9] offers clearing services to clients, the clearing member's trade exposures to the CCP that arise when the clearing member is obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults, must be captured by applying the same treatment that applies to any other type of derivatives transactions. However, if the clearing member, based on the contractual arrangements with the client, is not obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that a QCCP defaults, the clearing member need not recognise the resulting trade exposures to the QCCP in the leverage ratio exposure measure. Hence it should include the exposure in Items 104 and 105 but enter an offsetting negative amount in Item 108. Where a client enters directly into a derivatives transaction with the CCP and the CM guarantees the performance of its clients' derivative trade exposures to the CCP, the bank acting as the clearing member for the client to the CCP must calculate its related leverage ratio exposure resulting from the guarantee as a derivative exposure, as if it had entered directly into the transaction with the client, including with regard to the receipt or provision of cash variation margin, and include the amounts within Items 104 to 107.
109	**Gross notional credit derivatives sold.** Report the full effective notional value[10] referenced by a written credit derivative. This amount is in addition to any exposure amount reported in relation to the same derivative in Items 104, 105 and 106 and represents the credit exposure arising from the credit worthiness of the reference entity.

[9] A clearing member ("**CM**") is a member of, or a direct participant in, a CCP that is entitled to enter into a transaction with the CCP, regardless of whether it enters into trades with a CCP for its own hedging, investment or speculative purposes or whether it also enters into trades as a financial intermediary between the CCP and other market participants.

[10] The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

110	**Notional offsets and add-on deductions for written credit derivatives.** Report a negative amount with amount determined as the sum of:
	• the effective notional amounts which may be reduced by purchased credit protection (The effective notional amount of a written credit derivative may be reduced by the effective notional amount of a purchased credit derivative on the same reference name provided:
	  o the credit protection purchased is on a reference obligation which ranks pari-passu with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives; and
	  o the remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative;
	• the effective notional amounts, which may be reduced by any negative change in fair value amount that has been incorporated into the calculation of Tier 1 capital with respect to the written credit derivative; and
	• the individual add-on amount relating to a written credit derivative (not offset by eligible purchased credit protection) reported under Item 105.

111	**Total derivative exposures**. Computed as the sum of Items 104 to 110.
112	Gross SFT assets (with no recognition of accounting netting). Report gross SFT assets recognised for accounting purposes (i.e. with no recognition of accounting netting)[11] adjusted to exclude the value of securities received in an SFT where the bank has recognised the securities as an asset on its balance sheet (e.g. under IFRS US GAAP). Where sale accounting is achieved for an SFT under the bank's operative accounting framework, the bank must first reverse all sales-related accounting entries, and then calculate its exposure as if the SFT had been treated as a financing transaction under the accounting framework (i.e. in this last step, the bank must include the sum of exposure amounts here, calculated using the same methodology as that for such a SFT) for the purposes of determining its Exposure Measure.

[11] Gross SFT assets recognised for accounting purposes should reflect no recognition of the accounting netting of (cash) payables against (cash) receivables (e.g. as currently permitted under the IFRS and US GAAP accounting frameworks). This regulatory treatment is prudent and has the additional benefit of avoiding inconsistencies from netting which may arise across different accounting regimes.

113	**Netted amounts of cash payables and cash receivables of gross SFT assets.** Report gross SFTs cash payables and cash receivables in SFTs with the same counterparty measured net, if all the following criteria are met: • Transactions have the same explicit final settlement date; • The right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of: (i) default; (ii) insolvency; and (iii) bankruptcy; and • The counterparties intend to settle net, settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the transactions are equivalent, in effect, to a single net amount on the settlement date. To achieve such equivalence, both transactions are settled through the same settlement system and the settlement arrangements are supported by cash and/or intraday credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day and the linkages to collateral flows do not result in the unwinding of net cash settlement.

114	**SFT counterparty exposure**. Report a measure of counterparty credit risk as current exposure, to be calculated as follows: • Where no qualifying MNA is in place, the current exposure (E*) for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each transaction is treated as its own netting set, as shown in the following formula: $E^* = \max \{0, [(E) - (C)]\}$ where E is the total fair value of securities and cash lent and C is the total fair value of cash and securities received under the transaction. • Where a qualifying MNA[12] is in place, the current exposure (E*) is the greater of zero and the total fair value of securities and cash lent to a counterparty for all transactions included in the qualifying MNA (Σ(E)) less the total fair value of cash and securities received from the counterparty for those transactions (Σ(C)). This is illustrated in the following formula: $E^* = \max \{0, [\Sigma(E) - \Sigma(C)]\}$
115	**Agent transaction exposure.** Report exposures arising where a Jersey Bank acts as an agent in an SFT and provides a guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of collateral the borrower has provided. This exposure should be calculated using the same methodology as that used for Item 114.
116	**Total securities financing transaction exposures. C**omputed as the sum of Items 112 to 115.
117	**Off-balance sheet exposure at gross notional amount.** Report total off-balance sheet ("**OBS**") exposure on a gross notional basis, before any adjustment for credit conversation factors.
118	**Adjustments for conversion to credit equivalent amount.** Report a negative amount representing the reduction in gross amount of OBS exposures due to the application of credit conversion factors ("**CCFs**"). The CCFs are those that apply under the Standardised Approach to Credit Risk, except that they are subject to a floor of 10%.

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[12] Qualifying master netting agreement: agreements must be legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt. In addition, netting agreements must:
(a) provide the non-defaulting party with the right to terminate and close out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty;
(b) provide for the netting of gains and losses on transactions (including the value of any collateral) terminated and closed out under it so that a single net amount is owed by one party to the other;
(c) allow for the prompt liquidation or setoff of collateral upon the event of default; and
(d) be, together with the rights arising from provisions required in (a) and (c) above, legally enforceable in each relevant jurisdiction upon the occurrence of an event of default regardless of the counterparty's insolvency or bankruptcy.
Netting across positions in the banking book and trading book will only be recognised when the netted transactions fulfil the following conditions:
(a) All transactions are marked to market daily, and
(b) The collateral instruments used in the transactions are recognised as eligible financial collateral in the banking book.

119	**Other off-balance sheet exposure**. Computed as the sum of Items 117 and 118.
120	**Tier 1 capital.** Computed, equal to Item 45.
121	**Total Exposures.** Computed as the sum of Items 103, 111, 116 and 119.
122	**Basel III leverage ratio.** Computed as Item 120 divided by Item 121, with the ratio expressed as a percentage.