Jersey Financial Services Commission

Guidance Note:

Prudential Reporting of Interest Rate Risk in the Banking Book

Issued March 2019

Glossary

The following abbreviations are used within the document:

CD	Certificate of Deposit
FRN	Floating Rate Note
JFSC	Jersey Financial Services Commission
JIB	Jersey incorporated registered deposit taker

Contents

1 Overview

Introduction

1.1 The JFSC requires disclosure of interest rate risk within the prudential return, in accordance with the BCBS recommendations contained within its paper "*Principles for the Management and Supervision of Interest Rate Risk*", published in July 2004.

2 General Guidance

2.1 The purpose of this part of the prudential return is to suggest a methodology which might be used by Jersey incorporated registered deposit takers (**JIBs**) to determine the degree of interest rate risk they have assumed, and to calculate the amount of capital required to support the risk.

2.2 Under this methodology, JIBs report interest rate mismatch positions classified in specific maturity bands according to their residual maturity.

2.3 Maturity dates and interest rate repricing dates should be determined on a worst case basis, with assets being recorded at their latest maturity and deposit liabilities at their earliest. Due regard should also be taken of products that allow the customer to withdraw all, or a proportion of, their deposit prior to final maturity.

2.4 For the purpose of measuring interest rate risk, long positions in one currency cannot be offset against short positions in another currency. A separate return should be made for the accounting currency and each other currency that represents 25% or more of the JIB's deposit liabilities. All other currencies should be calculated individually and aggregated; the total should be reported in the sheet '7.6 IRRBB – Minor'. Currencies that constitute less than 5% of total deposit liabilities may be ignored.

2.5 Where derivatives are used to hedge interest rate risk, they should be regarded as synthetic assets or liabilities for reporting purposes. Thus, in a case where the bank has hedged a one year fixed rate asset against one month floating rate, it should report the hedging transaction as a liability in the "6 months to <12 months", and an asset in the "up to 1 month" band in the lines entitled "Interest Rate Contracts".

2.6 For the purposes of this report, references to "month" or "months" mean calendar month or months.

3 Reporting of Assets

3.1 Interest accrued on assets as at the reporting date should be reported in the "Up to 1 month" maturity band and should be reported in the appropriate asset category.

3.2 Similarly, in the absence of a separate column, non-interest bearing assets should be reported in the "Up to 1 month" maturity band in the appropriate asset category of the form, which attracts a zero capital charge.

Completion Notes:

3.3 Report deposits with credit institutions according to the next contractual repricing date or repayment date.

3.4 Report debt securities (e.g. CDs, FRNs and bills of exchange purchased) according to the next interest re-determination date or contractual repayment date, whichever is the earlier.

3.5 Overdrafts should be reported in the "Up to 1 month" maturity band. Loans should be reported by the earliest date at which the bank has the ability to obtain repayment or vary the interest rate.

3.6 Variable mortgages should be reported in the "Up to 1 month" maturity band. Floating rate mortgages should be reported according to the next interest rate re-determination date. Fixed rate mortgages should be reported to reflect the end of the fixed period.

3.7 Report all other assets according to contractual maturity or interest rate re-determination dates. The treatment of undated assets of material value should be agreed with the JFSC.

3.8 Report all notional amounts receivable under "Interest Rate Contracts".

3.9 Report forward foreign exchange purchases according to settlement date.

3.10 Report other derivative contracts amounts receivable by payment date.

4 Reporting of Liabilities

4.1 Interest accrued on liabilities as at the reporting date should be reported in the "Up to 1 month" maturity band. The interest accrued should be reported in the appropriate liability category of the form.

4.2 Similarly, non-interest bearing liabilities should be reported in the "Up to 1 month" maturity band in the appropriate liability category of the form.

Completion Notes:

4.3 Report total call and notice accounts according to the maturity band in which the interest rate payable on the deposit can be changed or varied by the bank. For example, if the JIB's procedure is to vary interest rates without giving notice to the customer, and the rate change takes immediate effect, the deposit should be reported in the "Up to 1 month" maturity band.

4.4 Report fixed term deposits according to contractual maturity.

4.5 Report all other deposits according to the next repricing date or repayment date, whichever is earlier.

4.6 Report all bonds issued according to the next repricing or repayment date, whichever is earlier.

4.7 Report all other liabilities, capital and reserves. For capital and reserves, shareholder's equity should be entered in the "Up to 1 month" maturity band. Variable and floating rate debt should be entered by next interest rate re-determination date.

4.8 Report all other notional amounts payable under Interest Rate Contracts.

4.9 Report forward foreign exchange sales by settlement date.

4.10 Report other derivative contracts amounts receivable by payment date.

5 Calculations

5.1 A weighted net position is calculated for each band.

5.2 The "amount at risk" is the sum of the weighted positions and is system generated for each currency plus the aggregate '7.6 IRRBB – Minor' sheet.

5.3 The summary sheet brings together the amount at risk from each currency report plus the aggregate '7.6 IRRBB – Minor' sheet.

5.4 The total interest rate risk is the sum of all these individual risks.

5.5 The JFSC is of the view that, if the risk reported here exceeds 5% of capital, this category should be specifically addressed within the ICAAP. Where that risk approaches 20% of capital, enhanced mitigation is likely to be required.