Jersey Financial Services Commission

Guidance note

Prudential Reporting of Market Risk Data

Issued August 2019

Glossary

The following abbreviations are used within the document:

Branch	Jersey operations of an OIB
DvP	Delivery versus Payment
JFSC	Jersey Financial Services Commission
OIB	Overseas Incorporated Bank
OTC	Over the counter

Contents

1 Overview

Introduction

1.1 Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This guide addresses the JFSC’s requirements of Jersey operations of the OIBs who are referred to herein as Branches. There is no variance in the return or the guidance dependent on whether or not the Branch has a trading book.

1.2 The JFSC's reporting requirements are intended to provide it with an indication of the Branch's market risk profile.

1.3 The rules set out here relate to the completion of four data entry sheets in the Prudential Return. These are:

1.3.1 5.1 FX & Gold

1.3.2 5.2 Commodities

1.3.3 5.5 Branch Settlement Risk

1.3.4 5.6 OTC

1.4 Settlement risk is the risk that arises through free delivery transactions and failed delivery versus payment (**DvP)** transactions.

1.5 Counterparty risk relating to derivatives is the risk of incurring the cost of having to replace derivatives transactions in the event of the failure of a counterparty.

2 '5.1 FX and Gold'

Introduction

2.1 The risks arising from foreign currency and gold exposures are similar and hence the form addresses both. In both cases, current and future exposures may be offset so as to arrive at a net figure.

Foreign Exchange Positions

2.2 Do not report any position for the reporting currency of your Branch; the return calculates a balancing item corresponding to the effective position in this currency. For most Branches, this means that row A.1 (Pounds Sterling) should be blank.

2.3 The major currencies should be reported separately, namely Pounds Sterling (**GBP**), US Dollars (**USD**), Euros (**EUR**), Swiss Francs (**CHF**), Canadian Dollars (**CAD**), Japanese Yen (**JPY**) and Australian Dollars (**AUD**). Other currencies should be split into two groups according to whether the bank is long or short, as follows:

2.3.1 **Other – Long Currencies**: group together currencies where the net overall position in each individual currency is positive;

2.3.2 **Other – Short Currencies**: group together currencies where the net overall position in each individual currency is negative.

2.4 Note that the "net overall position" is the sum of all balance sheet assets less balance sheet liabilities plus/minus net forward purchases/sales.

2.5 All input figures should correspond to the gross amount.

Detailed Guidance

Item	Completion Notes
A.1 to A.9	**Balance Sheet Assets.** Total balance sheet assets denominated in the foreign currency or group of currencies.
	Balance Sheet Liabilities. Total balance sheet liabilities denominated in the foreign currency or group of currencies.
	Spot - Net. A calculated field, being equal to Balance Sheet Assets" less Balance Sheet Liabilities and representing the net spot position.
	Forward Gross Purchases. All forward purchases of the foreign currency or group of currencies.
	Forward Gross Sales. All forward sales of the foreign currency or group of currencies.
	Forward - Net. A calculated field, being equal to Forward Gross Purchases less Forward Gross Sales and representing the net forward position.
	Overall Total. A calculated field, being the sum of the Spot - Net position and the Forward - Net position. NB a negative value here indicates a short position; a positive value indicates a long position.

Item	Completion Notes
A.10	**Balancing item.** A calculated field, being the position required to make the overall total of net long and short positions, in all currencies taken together equal to zero.
A.0	**Aggregate net long open positions.** A calculated field being the sum of all long positions including the entry for the "sterling balancing item" if it is positive.

Gold

2.6 Report any position for gold. Note that the net overall position in gold is the sum of all balance sheet gold assets less balance sheet gold liabilities plus/minus net forward purchases/sales of gold.

2.7 All input figures should correspond to the gross amount.

Detailed guidance

Item	Completion Notes
B.0	**Balance Sheet Assets.** Total balance sheet gold assets
	Balance Sheet Liabilities. Total balance sheet gold liabilities.
	Spot - Net. A calculated field, being equal to Balance Sheet Assets less Balance Sheet Liabilities and representing the net spot position.
	Forward Gross Purchases. All forward purchases of gold.
	Forward Gross Sales. All forward sales of gold.
	Forward - Net. A calculated field, being equal to Forward Gross Purchases less Forward Gross Sales and representing the net forward position.
	Overall Total. A calculated field, being the sum of the Spot - Net position and the Forward - Net position. A negative value here indicates a short position; a positive value indicates a long position.

3 '5.2 Commodities'

Introduction

3.1 All commodity positions should be reported using this part of the form except gold, which is treated as a currency and reported within sheet 5.1 FX & Gold – see Section 2. The Branch is required to offset current and future exposures to arrive at a net position, and the capital charge is made up of elements for the net and gross positions.

Reporting and calculation of capital charge

3.2 The groupings are:

3.2.1 A.1: Precious metals (excluding gold)

3.2.2 A.2: Base metals

3.2.3 A.3: Energy contract

3.2.4 A.4: Other contracts

3.3 All input figures should correspond to the gross amount.

Detailed guidance

Item	Completion Notes
A.1 to A.4	**Gross Long.** All long positions of each commodity group.
	Gross Short. All short positions of each commodity group.
	Net Open Position. A calculated field, being equal to Gross Long less Gross Short.
A.0	**Gross Long.** A calculated field, being the sum of the Gross Long positions entered for all commodity groups (A.1 to A.4).
	Gross Short. A calculated field, being the sum of the Gross Short positions entered for all commodity groups (A.1 to A.4).
	Net Open Position. A calculated field, being the sum of the Net Open Positions derived for all commodity groups (A.1 to A.4).

4 '5.5 Branch Settlement Risk'

Introduction

4.1 Settlement risk arises through non-DvP trades (free deliveries) and failed DvP trades.

Non-DvP trades (free deliveries)

4.2 A free delivery occurs when a Branch has paid away (or received) its side of a transaction and has yet to receive (or pay away) the securities/cash concerned. For free deliveries, an immediate exposure arises where a Branch has settled its side of the transaction but has yet to receive the countervalue. The Branch will be deemed to have a claim on the other party for the amount of the cash or equivalent to the current market value of the securities, whichever is still outstanding.

4.3 Disclosure of all such trades is required, allocated between:

4.3.1 Four working days or less past settlement date; and

4.3.2 More than four working days past settlement date.

4.4 For clarity, this treatment should also be applied to exchange traded contracts involving physical delivery. No capital charges in respect of delivery risk on spot and forward foreign exchange transactions are considered necessary.

4.5 Where the transaction is effected across a national border, the JFSC considers that there is a window of one working day before the exposure should be included in the return.

Failed DvP trades

4.6 A failed trade is one where delivery of the instrument is due to take place against the receipt of cash, but which remains unsettled five business days after the due settlement date.

4.7 No disclosure is required in respect of settlement risk on spot and forward foreign exchange transactions.

Disclosure requirements

4.8 Unsettled transactions should be reported according to the number of working days after the due settlement date.

4.9 The figures that must be reported are:

Item	Completion Notes
A.1 to A.4 B.1 to B.2	**Number of Trades.** Report number of failed trades, by date.
	At risk amount: Loss if trade fails/Mark-to-Market Receivable. For failed DvP trades, enter the Mark-to-Market loss of each trade and report the sum of these, ignoring gains. For non-DvP trades, enter the Mark-to-Market Receivable.
C.0	**Number of Trades.** Calculated as the total Number of Trades for A.1 to A.4 plus B.1 to B.2.
	Loss if trade fails/Mark-to-Market Receivable. Calculated as the total Loss if trade fails/Mark-to-Market Receivable for A.1 to A.4 plus B.1 to B.2.

5 '5.6 OTC'

Introduction

5.1 This worksheet sets out a required breakdown of OTC contracts held by type and by maturity. This provides to the JFSC an indication of activity undertaken and the risks that are present within the Branch. Contracts should be reported gross, with no netting.

OTC contracts, except for credit derivatives

5.2 Report the amount (nominal) of all outstanding contracts and the total of all positive mark-to-market values (i.e. ignoring any offsetting negative mark-to-market values). Contracts should be separated into:

5.2.1 N.1: Interest rate contracts; where the value of the contract is predominantly or only determined by interest rates;

5.2.2 N.2: FX & Gold; where the value of the contract is predominantly or only determined by foreign exchange rates or the value of gold;

5.2.3 N.3: Equities contracts; where the value of the contract is predominantly or only determined by the value of precious metals;

5.2.4 N.4: Precious metals contracts; where the value of the contract is predominantly or only determined by the value of precious metals; and

5.2.5 N.5: Commodities contracts; where the value of the contract is predominantly or only determined by the value of other commodities

Detailed guidance

Item	Completion Notes
N.1.1 to N.1.3 N.2.1 to N.2.3 N.3.1 to N.3.3 N.4.1 to N.4.3 N.5.1 to N.5.3	**Amount.** Report the total Amount for contracts expiring within the relevant time period.
	Positive Mark-to-Market. Report the total positive Mark-to-Market for contracts expiring within the relevant time period.
N.1.0 N.2.0 N.3.0 N.4.0 N.5.0	**Amount.** Calculated as the total Amounts for N.1.1 to N.1.3, N.2.1 to N.2.3, N.3.1 to N.3.3, N.4.1 to N.4.3 and N.5.1 to N.5.3 respectively.
	Positive Mark-to-Market. Calculated as the total Positive Mark-to-Market for N.1.1 to N.1.3, N.2.1 to N.2.3, N.3.1 to N.3.3, N.4.1 to N.4.3 and N.5.1 to N.5.3 respectively.

Credit derivatives

5.3 Report the amount (nominal) of all outstanding contracts booked within a trading book and the total of all positive mark-to-market values for these (i.e. ignoring any offsetting negative mark-to-market values). There is no requirement to report banking book transactions. Contracts should be separated into:N.6: Total return swaps; swaps and other contracts where the total return of the underlying position is hedged for a set period; and

› N.7: Credit default swaps; swaps and other contracts where the contract is only exercisable in the event of a default.

Detailed guidance

Item	Completion Notes
N.6.1. to N.6.2 N.7.1 to N.7.2	**Amount.** Report the total Amount, split between those where the OIB will receive (protection buyer) or pay (protection seller) in the event of a loss in value/default.
	Positive Mark-to-Market. Report the total positive Mark-to-Market, split between those where the OIB will receive (protection buyer) or pay (protection seller) in the event of a loss in value/default.

Item	Completion Notes
N.6.0 N.7.0	**Amount.** Calculated as the total Amounts for N.6.1 to N.6.2 and N.7.1 to N.7.2 respectively.
	Positive Mark-to-Market. Calculated as the total Positive Mark-to-Market for N.6.1 to N.6.2 and N.7.1 to N.7.2 respectively.