

Basel III feedback paper

Feedback on consultation papers No. 1 2024 and No. 2 2024, on the implementation of Basel III in Jersey.

In this feedback paper, we set out our intended approach, a timeline, and specific proposals for greater near-term alignment on key matters, including capital minima and buffers.

Glossary

Defined terms are indicated throughout this document as follows:

Abbreviation	Full name
Banking Code: Main Body	Code of practice for deposit-taking business
Basel framework	international standard for the prudential supervision of internationally active banks, issued by the Basel Committee on banking supervision
Basel III position paper	Our position paper “ Basel III: Further proposals ”.
Basel III Prudential Roadmap (or Roadmap)	Consultation paper No. 1 2024 on a roadmap for the implementation of Basel III in Jersey, including principles, timeline and signposting on key matters https://www.jerseyfsc.org/industry/sectors/banking/basel-iii-prudential-roadmap/
Commission Law	Financial Services Commission (Jersey) Law 1998
CP	consultation paper
HQLA	high quality liquid assets, being those required to be held to meet the LCR
ICAAP	internal capital adequacy assessment process, being a JIB’s self-assessment of its prudential requirements
JBA	Jersey Bankers Association
JBARTG	JBA Prudential and Banking Reform Technical Group
JFSC, we, us	Jersey Financial Services Commission
JIB	Jersey Incorporated Bank
JRA	Jersey Resolution Authority
LCR	liquidity coverage ratio, a short-term liquidity metric
Leverage Ratio	non-risk-based capital ratio
MDB	multilateral development bank
NSFR	net stable funding ratio, a long-term liquidity metric
Pillar 2	in the Basel framework, this refers to the setting of prudential requirements to take into account the review of each bank’s ICAAP
PRA	UK’s Prudential Regulatory Authority
PSE	public sector entity

quick wins CP	Our Basel III: immediate implementation (quick wins) CP issued in April 2024.
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1 Overview

1.1 Executive summary

- 1.1.1 The Basel Committee has revised the international standard for prudential supervision of internationally active banks, the Basel framework, through its package of reforms referred to as Basel III.
- 1.1.2 Jersey banks are part of large international banking groups that are subject to consolidated supervision that is increasingly moving towards Basel III. Basel III builds on the current prudential requirements, delivering a framework for capital allocation that better reflects the risks.
- 1.1.3 We are monitoring international developments, and the current expectation is that the UK, EU and US are targeting implementation from 2025 onwards, with the:
 - › UK targeting implementation on 1 January 2026
 - › EU targeting 1 January 2025 for most elements, but the trading book reforms delayed until 1 January 2026
- 1.1.4 The US position is unclear, with changes expected and an election at the end of this year.
- 1.1.5 In March and April 2024, we issued Basel III consultation papers on the Prudential Roadmap and proposals for immediate implementation.
- 1.1.6 The “Basel III: Prudential Roadmap” consultation included a timeline for detailed consultations, ahead of implementation in H2 2027 (with flexibility for banks to transition from H2 2026). It set out that our approach would:
 - › be based on the UK’s implementation
 - › be proportionate, flexible and simple
 - › address competitive disadvantages
- 1.1.7 The “Basel III: immediate implementation” consultation proposed certain quick wins, drawing on and consistent with our 2021 position paper and industry feedback. The quick wins proposed:
 - › aligning capital minima to Basel III
 - › introducing the Basel III capital conservation buffer
 - › making amendments to the liquidity coverage ratio (LCR) and large exposures regimes
- 1.1.8 Industry feedback on both consultations was broadly positive. As a result, we will proceed with the Roadmap as set out. However, we have revised our position on quick wins based on the feedback received.
- 1.1.9 Sections 2 and 3 of this paper presents details of the feedback received on the two consultations and our respective responses.
- 1.1.10 In H2 2024, we will consult, as planned by the Roadmap, on large exposures, operational risk and credit risk. With effect from 1 January 2025, in accordance with the quick wins CP, we will align capital minima and introduce the capital conservation buffer.

1.2 Developments

- 1.2.1 The EU announced a delay to its market risk reforms; now due 1 January 2026 (previously 1 January 2025).
- 1.2.2 The PRA delayed publication of its second near-final statement on Basel 3.1 until 12 September 2024 ([PS9/24](#)), covering (amongst other things):
 - › credit risk – standardised approach
 - › credit risk – internal ratings based
 - › credit risk mitigation
 - › output floor
 - › reporting

1.3 Next steps

- 1.3.1 In line with the Roadmap, we will engage with Jersey Incorporated Banks (JIBs) on large exposures, operational risk and credit risk, ahead of consultation in Q4 2024.
- 1.3.2 We will reach out to all stakeholders in Q4 2024 on systemic importance, in advance of the planned consultation in H1 2025.
- 1.3.3 By the end of October 2024, we will publish final documentation regarding the quick wins, and provide JIBs with finalised minima and buffer requirements. These changes will take effect from 1 January 2025.


2 Roadmap


2.1 Overview

2.1.1 Our strategy is based around the following principles:

- › using the UK's implementation as the basis for our framework
- › proportional, flexible and simple - adopting a regime which is pragmatic to implement, suitable for the banking business profiles we have in Jersey and can be operated efficiently within banks' and our capacity and resources
- › address competitive disadvantages - amending the UK's framework to remove UK specific measures or those which may not enhance the competitiveness of Jersey as a jurisdiction, without impairing the overall resilience of our banking system

2.1.2 The timeline for the implementation of the various elements is set out below:





	Consultation		Implementation	MREL
H1 2024	(1) Capital Minima, Capital Conservation Buffer and Quick Wins			Consultation on Position Paper
H2 2024	(2) Standardised Credit Risk, (3) Standardised Operational Risk and (4) Large Exposures		Capital Minima, Capital Conservation Buffer and Quick Wins	Consultation on Policy Statement
H1 2025	(5) Systemic importance, (6) Leverage Ratio, (7) Liquidity, (8) Advanced Approach & Output floor, (9) Trading Book & Market Risk, Counterparty Credit Risk			
H2 2025	(10) Pillar 2 / IRRBB	(11) Prudential reporting	Publication of Prudential Handbook	Reporting commences
H1 2026			Pillar 2 Guidance, Prudential templates and guides	
H2 2026			Transitional phase	Interim MREL
H1 2027				
H2 2027			Live	
H1 2028				
H2 2028				Full MREL

- 2.1.3 The timeline includes the Jersey Resolution Authority's (JRA) indicative timeline for the implementation of minimum requirements for own funds and eligible liabilities (MREL), in order to provide a more comprehensive picture.
- 2.1.4 For full details, [see our Prudential Roadmap](#).

2.2 Feedback

- 2.2.1 Respondents generally agreed with the proposals.
- 2.2.2 We met with all JIBs and received their input. No issues were raised in respect of the timeline or the principles in our Basel III Roadmap.
- 2.2.3 Three areas were flagged as being of particular importance to get right when implementing the Roadmap:
 - › large exposures
 - › systemic importance
 - › prudential reporting
- 2.2.4 More clarity was sought on our plans for workshops and consultations.
- 2.2.5 Concern was expressed regarding our fees increasing, including where JIBs use advanced approaches.

Our response

- 2.2.6 We need to retain flexibility to react to international developments, such as those outlined in 1.2. We have however, provided greater clarity below on the next steps and will continue to do so.
- 2.2.7 The feedback on our fees will inform our general work on fees and will be addressed within that work.

2.3 Next steps

- 2.3.1 We will undertake workshops and consult with JIBs on large exposures, operational risk and credit risk. This will be focussed on the PRA rules and prudential reporting obligations, and is intended to identify concerns regarding the specifics of the UK approach, as set out in the relevant parts of the PRA Rulebook and near-final position.
- 2.3.2 This will be followed by a consultation in Q4 2024 on the detailed requirements, which will include near-final drafts of those requirements.
- 2.3.3 The feedback on prudential reporting will inform the consultation scheduled for H2 2025 on this subject, and we will consider reporting matters within the workshops and consultation planned before then.
- 2.3.4 We will also reach out to all stakeholders including the government and the JRA in Q4 2024 on systemic importance, in advance of the planned consultation in H1 2025.

3 Quick wins consultation

3.1 Overview and feedback

- 3.1.1 This section restates our position and summarises the comments received in response to the quick wins CP, and our response to those comments in relation to the three subject areas.
- 3.1.2 Reflecting the feedback, we have revised plans in respect of:
- › widening further the eligibility of PSE exposures
 - › addressing more comprehensively the risk of a UK/US downgrade
 - › seeking to make practical improvements to our large exposures approval processes

3.2 Capital minima and buffers

- 3.2.1 We will revise the code of practice for deposit-taking business and our [Pillar 2 in Jersey guidance note](#) to align capital minima with the Basel Framework, and establish a capital conservation buffer at 2.5%.
- 3.2.2 Our [prudential reporting of capital ratios for JIBs guidance note](#) will be revised to reflect the changed minima and capital conservation buffer.
- 3.2.3 We will determine the initial levels for transition as set out below, and communicate these to JIBs in a revised conditions notification (which will then be subject to revision at future ICAAPs):
- › CET1 minima reduced by 4%
 - › tier 1 minima reduced by 2.5%
 - › total capital minima reduced by 2%
 - › required buffer increased by 1.5% to at least 2.5%, being the capital conservation buffer
- 3.2.4 The table below summarises the changes.

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

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

3.2.5 No banks objected to the proposal.

3.2.6 All sought further clarity on the systemic buffer.

Our response

3.2.7 In H1 2025, we will formally consult on systemic importance. As set out in the Basel III Roadmap, this will include:

- › the systemic risk buffer
- › more generally on our model for assessing whether a bank is systemically important
- › other measures to address systemic risk

3.2.8 In the meantime, we will seek input from all stakeholders including the government, the JRA and all banks, not just JIBs, on their views to inform our development of the proposal.

3.2.9 One bank sought confirmation that the capital conservation buffer must be met solely by CET1 capital, in line with international standards.

Our response

3.2.10 The requirement is for the capital conservation buffer to exceed 2.5% for all capital minima (CET1, Tier 1 and total capital), which has the effect of requiring CET1 to exceed the minimum by 2.5%, in line with the international standards. It is not enough for total capital (alone) to exceed the minimum by 2.5%.

3.2.11 One bank sought greater clarity and guidance from us on our expectations in respect of the usability of buffers, particularly in stress.

Our response

3.2.12 We will clarify our expectations in stressed conditions, should those conditions be identified. Outside of times of stress, we expect banks to notify us of their plans to restore capital to above buffers, which we will assess on a case-by-case basis based on the relevant circumstances.

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

3.2.13 No banks objected to the proposal.

3.2.14 One bank sought greater clarity regarding how and when the revised requirements will be implemented.

Our response

3.2.15 We will provide draft documents and specific revised requirements to JIBs in early October and aim to finalise those by the end of October, alongside publication of final policy documentation on our website. The new requirements will come into effect from 1 January 2025.

3.3 LCR

- 3.3.1 Holdings of Public Sector Entity (PSE) issued or guaranteed securities are to be included as high-quality liquid assets (HQLA), even if it is a financial institution (currently prohibited), provided that
- › the PSE is not regulated as a bank
 - › it has a clear public remit
- 3.3.2 We will widen the list of eligible top tier multilateral development banks (MDBs) to align with the current Basel framework, and for capital purposes.
- 3.3.3 We will address the risk of a credit rating agency downgrading the UK or US to below AA- by allowing short-term government Bills (under 1 year maturity) to continue to be included in level 1 HQLA (the highest tier) for six months following a downgrade. This will ensure that relevant assets are available for purchase, and allow us time to determine any required action. This will be achieved by revising the prudential guides (the Liquidity Ratios Guide and the Standardised Approach to Credit Risk Guide).

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

- 3.3.4 No banks objected to the proposals.
- 3.3.5 One bank suggested extending the changes proposed in respect of PSE exposures to Level 2B HQLA, rather than only Level 1 and 2A.

Our response

- 3.3.6 We acknowledge that the inclusion of PSE exposures in Level 2B is consistent with [the Basel Committee's FAQ](#), which addresses this issue within 5(b).
- 3.3.7 We will therefore clarify that PSE exposures are eligible in Level 2B, as well as corporate exposures.
- 3.3.8 To do this, we will amend our [Prudential Reporting of Liquidity Ratios](#) guidance note (Appendix A-3 to the quick wins CP), permitting inclusion of PSE exposures within 2B.3 (provided the other criteria set out for 2B.3 apply). As part of this, we will include a provision enabling inclusion where a PSE is a financial institution, provided it has a public remit and is not regulated as a bank (as proposed for Level 1 and 2A exposures).

- 3.3.9 Regarding our proposal to provide 6 months grace for short-term bonds in the case of a downgrade, one bank queried whether in the event of a US and/or UK downgrade to less than AA-, longer term sovereign debt instruments issued by these governments would become ineligible for inclusion within the HQLA portfolio.
- 3.3.10 One bank noted that HQLA rules cross-refer to the risk weights from the standardised approach and there will be knock on consequences as these will change, subject to consultation on the standardised approach to credit risk, planned in H2 2024.

Our response

- 3.3.11 We acknowledge that even after the proposed changes, a downgrade could cause disruption where a JIB relied on debt that became ineligible following a downgrade.
- 3.3.12 Therefore, and broadly consistently with the PRA's rulebook, our [draft Liquidity Ratios Guide](#) will be revised to address this concern by instead allowing the following claims to remain eligible Level 1 HQLA at all times:
- › US dollar denominated bonds issued by the US government

- › sterling denominated bonds issued by the UK government
 - › central bank reserves held with the Federal Reserve or the Bank of England
- 3.3.13 The Basel III Roadmap calls for consultation on liquidity matters in H1 2025. Whilst the Roadmap noted no plans to change the LCR rules, we will consider at that time if any further changes are necessary to either address other potential impacts of sovereign downgrades, or address any impacts from changes to the credit risk regime.

3.4 Large exposures

- 3.4.1 We will permit approval of PSE concession limits. Any limit would be required to be included when calculating the exposure to the relevant sovereign, and the approval for any one PSE should not ordinarily exceed the lower of:
- › 50% of the concession limit approved for the relevant sovereign
 - › 50% of capital
- 3.4.2 A carved-out concession limit framework will be created for short-term government Bills (under 1 year to maturity) and central bank reserves. This would be separate to any concession limit for general exposures to the sovereign.
- We will:
- › set limits for exposure of this nature to be up to twice that currently set for a country
 - › widen the sovereign concession limit regime to include MDBs and supranational entities, such as the EU
- 3.4.3 These will be achieved by revising our [approval of concession limits for governments and connected banks](#) guidance note.
- 3.4.4 We will amend the [Banking Code: Main Body](#) (Section 5 and Appendix II “Large exposures definitions” to:
- › permit (but not require) reverse repo exposures to be reduced by the amount of collateral received, in accordance with credit mitigation rules, but
 - › require that, where this is applied, an exposure be recognised to the collateral provided equal to the amount of the reduction in exposure, in line with the Basel framework
- 3.4.5 For the avoidance of doubt, this will be limited only to reverse repo transactions.

Question 4: Do you have concerns regarding the proposals on large exposures?

- 3.4.6 No bank objected to the proposals concerning PSE, and short-term exposures.
- 3.4.7 One bank queried whether the definition of short-term exposures was meant to be on a residual or original maturity basis.

Our response

- 3.4.8 The original maturity should be used and we note that:
- › the consultation paper refers to ‘short-term government Bills’
 - › this is clear in paragraph 4.6 of the [draft concession limit guidance note](#), which will not be amended

- 3.4.9 Two banks had concerns regarding the proposed lessening of the rules in respect of the recognition of collateral for reverse repo transactions, desiring a simpler process that did not require indirect exposures to be recognised to the collateral (and hence a relevant concession limit). More generally, they sought greater alignment with the UK/Basel III approach.

Our response

- 3.4.10 Our proposal works within our existing regime for large exposures. It mirrors the approach for guaranteed exposures. A wider change away from concession limits would need to be developed along with changes to our prudential reporting and Pillar 2 processes. We will proceed as planned in the short-term.
- 3.4.11 To provide a longer-term solution, and as set out in the Basel III Roadmap, we will consult on large exposure in H2. We intend to broadly align with the UK in due course, which has implemented this aspect of Basel 3.1.
- 3.4.12 We reached out to JIBs on this in August to identify any concerns ahead of the consultation in Q4, including any concerns regarding the details of the UK/Basel III approaches.
- 3.4.13 We will also consider whether, in the meantime, there are practical measures that would expedite the approval processes, including in relation to the new concession limits proposals.
- 3.4.14 Finally, it is noted that both Basel III and the UK require that exposure be calculated inclusive of indirect exposures, though neither imposes limits on sovereign exposures.

- 3.4.15 One bank queried the capital base used for large exposures purposes.

Our response

- 3.4.16 Our large exposures requirements use Tier 1 capital for the capital base, in line with the UK and Basel III. We will consider the small differences regarding the details of the UK large exposure regime definition, but no fundamental revision seems necessary. See Appendix II, [paragraph 1.1 of our Deposit-taking business Code of Practice](#).