Jersey Financial Services Commission

Guidance Note

IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") ON BANKING PRUDENTIAL REPORTING

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Contents

1 Background

Introduction

1.1 The JFSC accepts quarterly prudential returns from Jersey Incorporated deposit takers where the measurements are in accordance with IFRS. A Guidance Note was published in January 2006 on five areas in connection with prudential reporting by Jersey incorporated deposit-takers (**JIBs**).

1.2 Following the implementation of Basel III, the areas where the JFSC requires modified treatments to maintain consistency with the prudential requirements under Basel III are amended for reporting in respect of periods in 2019 and thereafter, addressing five areas:

1.2.1 treatment of cash flow hedges under IAS 39;

1.2.2 treatment of available for sale assets under IAS 39;

1.2.3 use of the fair value option under IAS 39 with respect to a bank's own liabilities;

1.2.4 accounting for defined benefit pension schemes; and

1.2.5 derivative assets.

1.3 This replaces the 2006 Guidance Note. For the avoidance of doubt, it is only relevant to reporting by JIBs.

1.4 References to Sheets herein are to worksheets in the Prudential Return Submission Template, available at:

1.4.1 https://www.jerseyfsc.org/banking-business/prudential-reporting/2019-requirements-for-jersey-incorporated-banks-jibs/

2 Guidance

Treatment of cash flow hedges under IAS 39

2.1 The revised treatment is specified in the Capital Ratios Guide, being that for Item 11 'Cash-flow hedge reserve' in Sheet '6.1 Capital Adequacy'. No other adjustments are required.

Treatment of available for sale assets under IAS 39

2.2 No adjustments required/permitted following the implementation of Basel III.

The use of the fair value option under IAS 39 with respect to a bank's own liabilities

2.3 Under IAS 39 there are already rules on the use of the fair value option with respect to a bank's own liabilities. The JFSC expects these to be strictly adhered to. Additionally, where the fair value option is used for a bank's own qualifying liabilities, unrealised gains or losses that relate to the bank's own credit risk should be eliminated from regulatory capital. Thus the only revaluation should be to reflect movements in the reference benchmark interest rates.

Accounting for defined benefit pension schemes

2.4 The revised treatment in respect of defined benefit assets is specified in the Capital Ratios Guide, being that for Item 15 'Defined-benefit pension fund net assets' in Sheet '6.1 Capital Adequacy'. No other adjustments are required/permitted, including in respect of defined benefit liabilities.

Derivative items

2.5 These may have a fair value assigned under IAS and hence be recorded in the balance sheet (Sheet '2.1 BS Assets', Item F.9 'Derivative assets' or Sheet '2.3 BS Liabilities', Item C.7.3 'Derivative liabilities', as appropriate).

2.6 The prudential treatment in respect of derivative assets is specified in the Guidance Note: Prudential Reporting of Credit Risk under the Standardised Approach to Credit Risk.

2.7 In order to avoid double counting, all on balance sheet assets resulting from the fair valuation of derivative transactions should be assigned a risk weight of 0% in Sheet '3.1 SAC BS', Item L.4.1.

Other areas

2.8 The JFSC is aware that there may be prudential issues created by reporting under IFRS that have not been covered here. Where a material change results from such an issue, the reporting bank should consult with the JFSC. If necessary, the JFSC will issue further general guidance on any specific issues that arise.