Banking Business (Jersey) Law 1991

Code of Practice For Deposit-taking Business

Prudential reporting

Issued: X 2021
Glossary of Terms

Defined terms are indicated throughout this document as per the following table.
If you hold down ‘Ctrl’ and then click on a defined term in the text (indicated by the use of italics, as per examples in the table), this will bring you to the definition in this table.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AoA Code</td>
<td>Banking Code: Appointment of auditor</td>
</tr>
<tr>
<td>Banking Code: Main Body</td>
<td>The Code of Practice for Deposit-taking Business: Main Body</td>
</tr>
<tr>
<td>Banking Code</td>
<td>The Code of Practice for Deposit-taking Business, comprising five parts, being:</td>
</tr>
<tr>
<td></td>
<td>› Banking Code: Main Body;</td>
</tr>
<tr>
<td></td>
<td>› AoA Code;</td>
</tr>
<tr>
<td></td>
<td>› DoC Code;</td>
</tr>
<tr>
<td></td>
<td>› FS Code; and</td>
</tr>
<tr>
<td></td>
<td>› PR Code.</td>
</tr>
<tr>
<td>Banking Law</td>
<td>Banking Business (Jersey) Law 1991</td>
</tr>
<tr>
<td>Basel Committee</td>
<td>Basel Committee on Banking Supervision</td>
</tr>
<tr>
<td>Branch Auditor</td>
<td>Auditor appointed in relation to an OIB’s Jersey business</td>
</tr>
<tr>
<td>Code requirement</td>
<td>Any requirement contained within the Banking Code</td>
</tr>
<tr>
<td>DoC Code</td>
<td>Banking Code: Declaration of Compliance</td>
</tr>
<tr>
<td>FS Code</td>
<td>Banking Code: Financial statements</td>
</tr>
<tr>
<td>JFSC</td>
<td>Jersey Financial Services Commission</td>
</tr>
<tr>
<td>JIB</td>
<td>Jersey Incorporated Bank: a Registered Person incorporated in Jersey</td>
</tr>
<tr>
<td>JIB Auditor</td>
<td>Auditor appointed in relation to a JIB’s business</td>
</tr>
<tr>
<td>BAO</td>
<td>Banking Business (Accounts, Auditors and Reports) Order</td>
</tr>
<tr>
<td>OIB</td>
<td>Overseas Incorporated Bank: a Registered Person incorporated overseas</td>
</tr>
<tr>
<td>PR Code</td>
<td>Banking Code: Prudential reporting – this document</td>
</tr>
<tr>
<td>Prudential Return</td>
<td>Return submitted by a Registered Person to the JFSC in accordance with Article 16 ‘Prudential returns’ of the BAO</td>
</tr>
<tr>
<td>Registered Person</td>
<td>A person registered under the Banking Law</td>
</tr>
</tbody>
</table>
# Table of Contents

## 1 Introduction
- Arrangement of the PR Code
- Revision of this document
- Effective Date

## 2 Jersey Incorporated Banks (JIBs)
- Statutory requirements
- Code requirements: quarterly prudential return
- Code Requirements: Year-end Prudential Return
- Guidance: Quarterly Year-end Prudential Return

## 3 Overseas Incorporated Banks (OIBs)
- Statutory requirements
- Code requirements: quarterly prudential return
- Code Requirements: Year-end Prudential Return
1 Introduction

Arrangement of the PR Code

1.1 The Jersey Financial Services Commission (JFSC) has issued a code of practice for deposit-taking business in five parts:

› the main body of the Code of Practice for Deposit-taking Business (Banking Code: Main Body); and

› Four Code documents addressing specific matters:
  • Banking Code: Appointment of Auditors (AoA Code)
  • Banking Code: Financial statements (FS Code);
  • Banking Code: Prudential reporting (PR Code – this document); and
  • Banking Code: Declaration of Compliance (DoC Code).

1.2 The defined term Banking Code refers to the entirety (all five parts).

1.3 Each Section of the PR Code is intended to be understood by reference to its full text, including any guidance.

1.4 A description is provided herein of relevant statutory requirements, being those established in the Banking Business (Accounts, Auditors and Reports) (Jersey) Order (BAO). Failure to follow a statutory requirement is a criminal offence and may also attract a regulatory sanction. The text included herein paraphrases provisions contained in the BAO and should always be read and understood in conjunction with the full text of the BAO, which is available from the Jersey Law website, at: https://www.jerseylaw.je.

1.5 The Introduction to the Banking Code: Main Body sets out the relevant considerations concerning:

› ‘Compliance with the Banking Code’, within the section with that title; and

› ‘Powers exercised and scope’, within the section with that title.

1.6 This document (the PR Code) sets out Code requirements and provides guidance. Code requirements must be complied with, unless variances or exemptions have been applied for and granted by the JFSC.

1.7 Guidance is provided on ways of complying with certain requirements and must always be read in conjunction with these. A Registered Person may adopt other appropriate measures, so long as it can demonstrate that such measures also achieve compliance with the statutory requirements and Code requirements.

1.8 This allows a Registered Person discretion as to how to apply requirements in the particular circumstances of its business. The soundly reasoned application of the provisions contained within the guidance will provide a good indication that a Registered Person is in compliance with the statutory requirements and Code requirements.
Revision of this document

1.9 In accordance with Article 19A(1)(b) of the Banking Law, the JFSC may, after consultation with such persons or bodies as appear to be representative of the interests concerned, revise the Banking Code by revoking, varying, amending or adding to provisions.

1.10 In December 2020 the JFSC published Consultation Paper No. 13 2020, proposing that this draft document, the PR Code, be issued to establish Code requirements regarding prudential reporting.

Effective Date

1.11 This part of the Banking Code, the PR Code, is effective from X 2021 for all Registered Persons.
2 Jersey Incorporated Banks (JIBs)

Statutory requirements

2.1 A JIB must complete –
› Quarterly Prudential Returns in the form required by the PR Code (i.e. as set out below) with respect to each of the following dates in each year:
   • 30th March,
   • 30th June,
   • 30th September, and
   • 31st December; and
› A year-end Prudential Return in the form required by the PR Code (i.e. as set out below)

2.2 The Prudential Returns must be provided to the JFSC in the manner required by the PR Code within 20 working days of the date with respect to which the return was prepared.

2.3 A JIB must provide its JIB Auditor with a copy of year-end Prudential Return.

2.4 The JIB Auditor is required to prepare reports on the JIB’s Prudential Return.

2.5 The JIB Auditor’s report in respect of the Prudential Return must be prepared having regard to whether the return reflects the accounting records and transactions to which the records relate taking into account:
› the accounting practices of the Registered Person; and
› any advice given by the JFSC.

2.6 The JIB Auditor’s report must include a statement that, in preparing the report:
› the JIB Auditor became aware of nothing that could be taken to indicate that any statement in the Prudential Return was incorrect or misleading; or
› JIB Auditor became aware of a matter that could be taken to indicate that a statement in the Prudential Return was incorrect or misleading and why the auditor is of that opinion.

2.7 Each JIB Auditor’s report must be signed and a copy provided to the Registered Person.

2.8 The JIB Auditor’s report on the Prudential Return must be provided to the JFSC, together with financial statements, directors’ report and the auditor’s reports in respect of the financial statements and the directors’ report.

2.9 Contravention of the above requirements would be an offence and the guilty party would be liable to a fine, excepting the requirement for the JIB Auditor to produce the JIB Auditor’s report.

2.10 The Banking Law (Article 22) makes it an offence to knowingly or recklessly provide information which is false or misleading in purported compliance with these statutory requirements.

2.11 Article 17 ‘Exemptions and variation’ of the BAO allows the JFSC, on the request of a JIB, to waive or vary requirements, provided that no customer or client is likely to be prejudiced if the exemption is granted.
Code requirements: quarterly prudential return

2.12 A JIB must produce its Prudential Return in accordance with the “JIB Reporting Guide”. This establishes general requirements, with guidance on the completion of specific sections being set out in the relevant prudential guides, all of which are available at:
   › https://jerseyfsc.org/industry/sectors/banking/prudential-reporting/jersey-incorporated-banks/

2.13 If a JIB becomes aware that it is likely to fail to meet the deadline, it must notify the JFSC immediately. The JFSC may agree to an extension, dependent on circumstances, in accordance with Article 17 of the BAO.

2.14 A JIB must:
   › have robust, documented processes for the production of its Prudential Return; and
   › as part of those processes, establish responsibility for sign off and for oversight of the processes.

2.15 Prudential Returns are to be prepared using accounting standards that are based on accounting principles and rules that are widely accepted internationally.

2.16 Where a JIB wishes to include interim profits in Tier 1 capital, the Prudential Return must be accompanied by an interim audit report from the JIB auditor.

2.17 The adequacy of the JIB’s capital and liquidity must be monitored daily and Prudential Returns provided every quarter on an individual company basis. Investments in subsidiaries will result in deductions from regulatory capital.

2.18 An additional consolidated return will normally only be required where the JIB has a material subsidiary that is itself a:
   › JIB or registered bank in any other jurisdiction; or
   › financial services business (as defined by Article 2 of the Financial Services (Jersey) Law 1998) that is not incorporated in Jersey.

2.19 In such circumstances, both the solo and consolidated position should be monitored internally and a consolidated return should be provided together with the solo return that coincides with the reporting bank’s financial year-end. If the reporting bank is uncertain as to whether it is required to complete an additional consolidated return then it should contact the JFSC and as to which subsidiaries of the JIB should be consolidated in the consolidated return.

2.20 Internal monitoring of capital and liquidity must be consistent with the prudential guides, all of which are available at:
   › https://jerseyfsc.org/industry/sectors/banking/prudential-reporting/jersey-incorporated-banks/

2.21 The relevant guidance for calculating capital ratios is set out in:
   › Capital Ratios Guide;
   › Standardised Approach to Credit Risk Guide;
   › Standardised Approach to Operational Risk Guide;
   › Standardised Approach to Market Risk Guide; and
Any guides or guidance specified by the JFSC in connection to an approval, such as in relation to a Trading Book or Advanced Approaches.

2.22 The relevant guidance for calculating liquidity ratios is the Liquidity Ratios Guide.

2.23 A JIB must maintain records relating to the above as business records.

**Code Requirements: Year-end Prudential Return**

2.24 A JIB must produce its year-end Prudential Return in accordance with the “JIB Reporting Guide”, This establishes general requirements, with guidance on the completion of specific sections being set out in the relevant prudential guides, all of which are available at:


2.25 Where the year-end date falls on a quarterly reporting date, the year-end Prudential Return should be the quarterly Prudential Return submitted for that reporting date.

2.26 A JIB must ensure that in respect of the year-end Prudential Return, full documentation is produced to enable its JIB Auditor to carry out the work necessary to produce its audit report; which should include:

- working papers showing how the Prudential Return was extracted from the Registered Person’s books and records
- copies of relevant procedures for the production and sign-off of the Prudential Return;
- changes made since the last year-end;
- changes made to the JFSC’s prudential guidance since the last year-end;
- any issues identified during the year concerning the Prudential Return process or in the prior year-end audit report, together with a description of how these have been addressed; and
- a copy of its financial statements.

2.27 A JIB’s instructions to its JIB Auditor, in respect of the audit of its year-end Prudential Return, must address the following matters:

- review of the adequacy and maintenance of the control framework relating to the production process for the Prudential Return in order to prevent material mis-statement and ensure adherence to relevant JFSC guidance;
- consideration of the adequacy of knowledge and experience of staff involved in the production process, the submission process and the approval process, including of any training provided;
- description of, and comment on any identified shortcomings of, IT applications involved in the production process, for example manual workarounds and areas identified for future development, with expected timeframes;
- overview, and sign off of the Report on the Prudential Return, to include completeness, accuracy and accessibility of key documentation which supports the process;
- backups and contingencies – both systems and key person reliance in relation to the prudential reporting;
- details of any audit, compliance monitoring and action plans that may have been produced following the changes detailed in the background section above;
the scope should include daily liquidity calculations; and
the report must include a reconciliation of reporting within the Prudential Return to relevant material in financial statements, including the balance sheet and profit and loss.

2.28 A JIB must establish responsibility for addressing any issues arising from relevant prior reports.

2.29 A JIB must maintain records relating to the above as business records.

Guidance: Quarterly Year-end Prudential Return

2.30 The guidelines published in March 2014 by the Basel Committee on Banking Supervision (Basel Committee) on ‘External audits of banks’ should be considered by JIBs. In particular those set out in ‘Section A – Supervisory guidelines with regard to a bank’s audit committee and its relationship with the external auditor’ within Part 1 ‘Supervisory guidelines with regard to a bank’s audit committee in relation to external audit, and the engagement of supervisors with auditors and audit oversight authorities’ should be considered to be guidance relevant to the Code and Statutory requirements.

2.31 The Basel Committee document is available on its website at:
https://www.bis.org/press/p140331a.htm

2.32 The guidelines in that document are predicated on a bank having an audit committee. Where this does not exist, the guidance should be considered as being applicable to the JIB’s board instead.
3 Overseas Incorporated Banks (OIBs)

Statutory requirements

3.1 An OIB must complete –

› Quarterly Prudential Returns in the form required by the PR Code (i.e. as set out below) with respect to each of the following dates in each year:
  • 30th March,
  • 30th June,
  • 30th September, and
  • 31st December; and

› A year-end Prudential Return in the form required by the PR Code (i.e. as set out below)

3.2 The Prudential Returns must be provided to the JFSC in the manner required by the PR Code within 20 working days of the date with respect to which the return was prepared.

3.3 An OIB must provide its Branch Auditor with a copy of year-end Prudential Return. The Branch Auditor is required to prepare reports on the OIB’s prudential return.

3.4 The Branch Auditor’s report in respect of the Prudential Return must be prepared having regard to whether the return reflects the accounting records and transactions to which the records relate taking into account:

› the accounting practices of the Registered Person; and

› any advice given by the JFSC.

3.5 The Branch Auditor’s report must include a statement that, in preparing the report:

› the Branch Auditor became aware of nothing that could be taken to indicate that any statement in the prudential return was incorrect or misleading; or

› the Branch Auditor became aware of a matter that could be taken to indicate that a statement in the prudential return was incorrect or misleading and why the auditor is of that opinion.

3.6 Each Branch Auditor’s report must be signed and a copy provided to the Registered Person.

3.7 The Branch Auditor’s report on the Prudential Return must be provided to the JFSC, together with financial statements, directors’ report and the auditor’s reports in respect of the financial statements and the directors’ report.

3.8 Contravention of the above requirements would be an offence and the guilty party would be liable to a fine, excepting the requirement for the Branch Auditor to produce the Branch Auditor’s report.

3.9 The Banking Law (Article 22) makes it an offence to knowingly or recklessly provide information which is false or misleading in purported compliance with these statutory requirements.

3.10 Article 17 ‘Exemptions and variation’ of the BAO allows the JFSC, on the request of an OIB, to waive or vary requirements, provided that no customer or client is likely to be prejudiced if the exemption is granted.


**Code requirements: quarterly prudential return**

3.11 An **OIB** must produce its **Prudential Return** in accordance with the “**OIB Reporting Guide**”. This establishes general requirements, with guidance on the completion of specific sections being set out in the relevant prudential guides, all of which are available at:


3.13 If an **OIB** becomes aware that it is likely to fail to meet the deadline, it must notify the **JFSC** immediately. The **JFSC** may agree to an extension, dependent on circumstances, in accordance with Article 17 of the **BAO**.

3.14 An **OIB** must:

   › have robust, documented processes for the production of its **Prudential Return**; and
   › as part of those processes, establish responsibility for sign off and for oversight of the processes.

3.15 **Prudential Returns** are to be prepared using accounting standards that are based on accounting principles and rules that are widely accepted internationally.

3.16 An **OIB** must maintain records relating to the above as business records.

**Code Requirements: Year-end Prudential Return**

3.17 An **OIB** must produce its year-end **Prudential Return** in accordance with the “**OIB Reporting Guide**”. This establishes general requirements, with guidance on the completion of specific sections being set out in the relevant prudential guides, all of which are available at:


3.18 Where the year-end date falls on a quarterly reporting date, the year-end **Prudential Return** should be the quarterly **Prudential Return** submitted for that reporting date.

3.19 An **OIB** must ensure that in respect of the year-end **Prudential Return**, full documentation is produced to enable its **Branch Auditor** to carry out the work necessary to produce its audit report; which should include:

   › working papers showing how the **Prudential Return** was extracted from the **Registered Person**’s books and records
   › copies of relevant procedures for the production and sign-off of the **Prudential Return**;
   › changes made since the last year-end;
   › changes made to the **JFSC**’s prudential guidance since the last year-end; and
   › any issues identified during the year concerning the **Prudential Return** process or in the prior year-end audit report, together with a description of how these have been addressed.
3.20 An OIB’s instructions to its Branch Auditor, in respect of the audit of its year-end Prudential Return, must address the following matters:

› review of the adequacy and maintenance of the control framework relating to the production process for the Prudential Return in order to prevent material mis-statement and ensure adherence to relevant JFSC guidance;
› consideration of the adequacy of knowledge and experience of staff involved in the production process, the submission process and the approval process, including of any training provided;
› description of, and comment on any identified shortcomings of, IT applications involved in the production process, for example manual workarounds and areas identified for future development, with expected timeframes;
› overview, and sign off of the Report on the Prudential Return, to include completeness, accuracy and accessibility of key documentation which supports the process;
› backups and contingencies – both systems and key person reliance in relation to the prudential reporting; and
› details of any audit, compliance monitoring and action plans that may have been produced following the changes detailed in the background section above.

3.21 An OIB must establish responsibility for addressing any issues arising from relevant prior reports.

3.22 A OIB must maintain records relating to the above as business records.