Jersey Financial Services Commission

Consultation paper

Basel III Prudential Roadmap: 2024 H2

No. 6 2024

We are asking for feedback on the implementation of Basel III, in line with our Basel III Prudential Roadmap, specifically on:

- Standardised Approach to Credit Risk
- Standardised Approach to Operational Risk
- Large Exposures regulations

Issued: December 2024

Consultation

The Jersey Financial Services Commission (**JFSC**) invites comments on this consultation paper by **28 March 2025**. If you require any assistance, clarification or wish to discuss any aspect of the proposal prior to formulating a response, it is of course appropriate to contact us.

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Alternatively, Lisa Springate at Jersey Finance Limited (**JFL**) is coordinating an industry response that will incorporate any matters raised by local businesses. Comments should be submitted to JFL by **28 March 2025**.

The JFL contact is:

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It is the policy of the JFSC to make the content of all responses available for public inspection (unless specifically requested otherwise by the respondent).

It is the policy of JFL (unless otherwise requested or agreed) to collate all responses and share them verbatim with the JFSC on an anonymised basis (with reference made only to the type of respondent, e.g. individual, law firm, trust company etc.). This collated, anonymised response will, typically, be placed in JFL's permanent electronic archive which is currently open to all JFL members.

Glossary

Defined terms are indicated throughout this document as follows:

Banking Code	Code of Practice for Deposit-taking Business, as set out in the Banking Code: Main Body and several other documents addressing specific matters
Basel Framework	International standard for the prudential supervision of internationally active banks, issued by the Basel Committee on Banking Supervision
Basel III Prudential Roadmap (or Roadmap)	The plan for the implementation of Basel III in Jersey, set out in CP No. 1 2024, available at Basel III Prudential Roadmap — Jersey Financial Services Commission (jerseyfsc.org)
BI	Business Indicator
CCF	Credit Conversion Factor
CIU	Collective Investment Unit
CRM	Credit Risk Mitigation
Commission Law	Financial Services Commission (Jersey) Law 1998
ECAI	External Credit Assessment Institution
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
JIB	Jersey incorporated bank
JFSC, we, us	Jersey Financial Services Commission
HMT	UK Treasury
Large Exposure	Exposure in excess 10% of a JIB's tier 1 capital
PRA	UK Prudential Regulation Authority, part of the Bank of England
PRA CP13/24	PRA consultation paper CP13/24 Remainder of CRR: restatement of assimilated law
PRA CP14/24	PRA consultation paper CP14/24 Large Exposures Framework
PRA PS9/24	PRA's policy statement PS9/24 Implementation of the Basel 3.1 standards near-final part 2
PSE	Public Sector Entity
RWAs	Risk Weighted Assets
SACR	Standardised Approach to Credit Risk

SAOR	Standardised Approach to Operational Risk
SMEs	Small and Medium-sized Enterprises
UCC	Unconditionally Cancellable Commitment

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1 Executive summary

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.

All Jersey incorporated banks (JIBs) 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.

We are monitoring international developments, and the current expectation is that the UK and EU are targeting implementation as follows:

› UK targeting implementation on 1 January 2026
› EU targeting 1 January 2025 for most elements, but the trading book reforms are delayed until 1 January 2026.

The United States' position is unclear, with changes expected and the election of a new president a further potential complication. We will monitor further announcements including from the incoming administration about its plans.

In March and April 2024, we issued Basel III consultation papers on the Prudential Roadmap and proposals for immediate implementation.

Our proposed 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.

We published our Basel III feedback on these consultations and subsequently undertook bilateral dialogue with JIBs, which has been extremely useful in developing our proposals.

This consultation paper seeks feedback on proposals to implement three areas of the Basel Framework, being:

› the Standardised Approach to Credit Risk (SACR) (Section 4)
› the Standardised Approach to Operational Risk (SAOR) (Section 5)
› Large Exposures regulations (Section 6)

Section 3 addresses general matters regarding how we will implement changes to prudential regulation.

What are the key proposals and why?

For the SACR and SAOR, we intend to closely follow the PRA's near-final rulebook, see Appendix A-1, published in September 2024 as part of the PRA's policy statement PS9/24 Implementation of the Basel 3.1 standards near-final part 2 (PRA PS9/24).

This is in line with the Roadmap consultation, reflecting the positive feedback on this received during the consultation and bilateral dialogue. Feedback is sought on the proposed alignment with the detailed UK framework including on the impact on JIBs' capital requirements. In light of the specific proposals recently finalised in the UK, please consider if the UK position remains appropriate for JIBs or indeed where simplifications can be made or modifications are needed to address competitive disadvantages. We will work with a JIB working group on the detailed wording.

For Large Exposures, the situation is complicated by the PRA consulting on its Large Exposures rules, which was not anticipated. This includes the recognition of indirect exposures, something that JIBs have, and a relaxation to policies regarding cross border exposures within groups, both of which are matters that JIBs have raised.

We will therefore finalise our proposals in H1 2025, drawing on the PRA's final position but seek high level feedback from JIBs now on the key elements of the PRA's current and proposed regimes.

This consultation only briefly touches on Pillar 2 and prudential reporting, which will both be consulted on in H2 2025. It provides a high-level plan for greater UK alignment, so that banks can provide early input on these topics.

We have not addressed securitisations at this time as the PRA's CP13/24 Remainder of CRR: restatement of assimilated law, issued in October 2025 (PRA CP13/24) consults on (amongst other things) replacing the current UK legislation on securitisations with broadly similar PRA rules. We will consult once the PRA has finalised its position, expected to be in H1 2025.

Who would be affected?

The proposals in this consultation paper only directly impact JIBs. It has been circulated to them and the Jersey Bankers Association (JBA), including the relevant JBA sub-committee, the JBA Prudential and Banking Reform Technical Group (JBARTG).

The implementation of the Basel Framework will indirectly impact the customers of banks in Jersey, whether it be our implementation or implementation by home countries in respect of branches.

Next steps

Following this consultation, we will publish feedback in Q2 2025, along with our near final draft documentation on the SACR and SAOR.

In line with the Basel III Roadmap, we will then:

- in H1 2025, consult on the remaining Codes changes required to implement the Basel III rules, including securitisations and Large Exposures
- in H2 2025, publish near-final Codes, to come into effect from 1 July 2027, with transitional provisions that enable earlier transitions from 1 July 2026
- in H2 2025 consult on changes to Pillar 2 (including Interest Rate Risk in the Banking Book) and Prudential Reporting
- in H1 2026, implement changes to Pillar 2 and Prudential Reporting so that JIBs can transition in H2 2026.

All aspects will be fully live for all JIBs in H2 2027.

2 Consultation

2.1 Responding to the consultation

2.1.1 We invite comments in writing from interested parties on the proposals included in this consultation paper. Where comments are made by an industry body or association, that body or association should also provide a summary of the type of individuals and/or institutions that it represents.

2.1.2 Comments should be submitted to us no later than **28 March 2025**.

2.1.3 We also invite JIBs to arrange meetings with us during the consultation period to discuss these proposals. We intend to establish a working group, including representatives of all JIBs, to facilitate discussions around these proposals and for future engagement on the implementation of the Roadmap.

2.2 The JFSC

2.2.1 The JFSC is a statutory body corporate established under the Commission Law. It is responsible for the supervision and development of financial services provided in or from within Jersey.

2.3 Basis for consultation

2.3.1 The JFSC has issued this consultation paper in accordance with Article 8(3) of the Commission Law, as amended, under which the JFSC "may, in connection with the carrying out of its functions …consult and seek the advice of such persons or bodies whether inside or outside Jersey as it considers appropriate".

3 General matters

3.1 Established via Banking Codes

3.1.1 Currently, our prudential requirements are established as Banking Code requirements set out in specific documents that also serve as prudential return reporting guidance, rather than being rules (as in the UK).

3.1.2 We intend to issue Banking Code requirements to establish prudential requirements but separate this from prudential reporting.

3.1.3 We intend to issue separate Banking Code documents on (1) credit risk and (2) operational risk, addressing the SACR and SAOR respectively. We will work on the details with a working group comprised of representatives of the JIBs, with the starting point being a transposition of the relevant parts of the PRA rulebook.

3.1.4 We will publish a single Glossary, which will include both new definitions and relevant definitions already used in existing Banking Code documents.

3.1.5 We will publish near-final drafts of the Code documents and the Glossary on our website, alongside publication of feedback to this consultation.

3.1.6 We do not at this time address the “Own Funds” part of the PRA rulebook, which brings together the various requirements as well as defining capital. This will be developed as part of the H1 2025 consultation, drawing on both the PRA rules and our existing definitions of capital and buffers. It is anticipated that this would be a separate document, provisionally titled the “Banking Codes: Own Funds”.

3.1.7 This is not a consultation focussed on prudential reporting or Pillar 2, which are scheduled for consultation in H2 2025. However, some initial ideas are included on those matters in each section and feedback is sought on these.

Question 1. Do you have any concerns regarding the proposals to establish our prudential requirements through use of Banking Code requirements as described in Section 3.1?

3.2 Consolidation of subsidiaries

3.2.1 We intend to address the rules for the consolidation of JIBs’ subsidiaries within the proposed “Banking Codes: Own Funds” and seek feedback on the approach to consolidation.

3.2.2 Currently, the Banking Code requires both solo and consolidated requirements to be assessed but only where banks have material banking subsidiaries.

3.2.3 In contrast the PRA requires consolidated, solo-consolidated and solo requirements to be assessed in relevant circumstances.

3.2.4 The Basel Framework calls for consolidated supervision.

3.2.5 Our initial proposal is that we will require consolidation as the norm for capital requirements but allow for variations where (1) there are no material subsidiaries, (2) where some subsidiaries are immaterial, or (3) where consolidation does not best reflect the risks.

3.2.6 If (1) applies, a JIB would be permitted to report on a solo basis. If (2) applies, a JIB would be permitted to report on a solo-consolidated basis (i.e. not consolidating immaterial subsidiaries). For (3), the variation would be determined on a case-by-case basis.

3.2.7 For the purposes of our initial proposal, an indicator that a subsidiary is immaterial would be if all of the following apply:

- exposures to the subsidiary are less than 5% of Tier 1 capital of the JIB
- the equity invested in the subsidiary by the JIB is less than 5% of the JIB's CET1 capital
- income of the subsidiary is less than 5% of total income of the JIB.

3.2.8 This proposal will be developed and consulted on in H1 2025, taking into account feedback provided.

Question 2. Do you consider that our initial proposal for consolidation is appropriate? If not, please explain what changes you would like to see.

3.3 Equivalence of overseas prudential regulators

3.3.1 The PRA rules allow banks to take into account the rules of equivalent prudential regulators.

3.3.2 The UK Treasury (HMT) determines equivalence for the UK.

3.3.3 We intend to follow this approach – we will link to the HMT decision.

3.3.4 We will endeavour to publish and update a document detailing the relevant HMT equivalence decisions to help firms but, for the avoidance of doubt, the requirement would in all cases be to use the relevant HMT decision.

Question 3. Do you have concerns around the use of HMT equivalence decisions? If so, please explain how these be addressed?

3.4 Impact

3.4.1 Our understanding is that the overall impact of Basel III is unlikely to increase capital requirements for JIBs.

3.4.2 We wish to understand the impact of individual elements in terms of the estimated change in capital requirements. It is appreciated that there may be areas that have not been fully assessed yet. There are further questions in the relevant sections of this paper on the impact of specific elements.

Question 4. For JIB respondents, please advise of work undertaken or planned to assess the impact of the Basel III Roadmap?

4 Standardised Approach to Credit Risk

4.1 Overview

4.1.1 The near-final PRA rulebook published as part of PRA PS9/24 (see Appendix A-1) is more risk sensitive and more detailed than our current regulations. There are a few aspects here where the changes have the potential to be more significant. We have summarised key changes and seek feedback on whether there are any aspects that should be simplified or modified, to avoid competitive disadvantage.

4.2 Credit Conversion Factors (CCFs) and Credit Risk Mitigation (CRM)

4.2.1 The PRA's near-final rules set a 10% CCF for Unconditionally Cancellable Commitments, (UCCs) versus 0% under our current requirements. See Article 111 in Annex D in Appendix A-1. We do not hold sufficient data to assess the impact on individual JIBs, which will be to increase capital requirements, with the scale dependent on the degree to which a JIB provides UCCs.

Question 5. Do you have concerns regarding the proposed changes to CCFs and in particular the 10% CCF for Unconditionally Cancellable Commitments?

4.2.2 Annex F in Appendix A-1 addresses CRM. Appendix 1 to Annex F outlines which CRM approaches are available to firms calculating credit risk capital requirements under the SACR and conversely those relating to counterparty credit risk or advanced approaches. At this time, we only seek feedback on those relevant to the SACR, with the rest being addressed in our H1 2025 consultation, when we address counterparty credit risk and advanced approaches.

4.2.3 The changes to CRM versus our current regulations are likely to be operationally challenging, with numerous changes made – see Annex F in Appendix A-1 for full details. The changes are not expected to be significant for typical, over collateralized exposures, nor are the rules significantly more complex than our current regulations.

4.2.4 However, two changes might be more significant:

› Article 223 addresses the overlap of CCF and CRM adjustments and means that, in the case of the comprehensive method for financial collateral, the PRA does not allow banks to also apply a CCF to the exposure when a deduction is made for collateral. This is more conservative than our current approach.
› Article 213, on guarantees, requires that the terms of the guarantee must not (amongst other matters) permit changes to be made to the protection provided. The PRA has provided a transitional provision around this, enabling recognition for a period even if the guarantee can be changed (but not cancelled).

Question 6. Do you have concerns around the proposed changes to CRM provisions? In particular, we seek feedback on the interaction with CCFs and the requirement for guarantees to be proofed against changes.

4.3 Due diligence, ECAIs and exposures to sovereigns, PSEs, banks and corporates

4.3.1 Thes PRA's near-final rules for these are set out in Annex D in Appendix A-1, within Articles 110A to 122.

4.3.2 The changes are limited, with a rating-based approach required that is broadly consistent with our current regime.

4.3.3 The PRA rules include due diligence requirements that link directly into risk weightings, unlike in our current regime. We expect JIBs to draw on their existing practices for determining the credit worthiness of counterparties, and on group experience, to be able to carry out the required work.

4.3.4 The PRA enables use of a wider range of External Credit Assessment Institution (ECAI) ratings (than the three we currently permit - Moody's, S&P and Fitch) when determining risk weights. This does not mean that JIBs would have to use more or different ECAIs, but they will be able to consider a wider range of ECAIs and select those considered to be most appropriate from a wider list. PRA CP13/24 transposes provisions into PRA rules, and it is intended to address the finalised changes regarding ECAIs in H1 2025.

4.3.5 For sovereign exposures, the PRA risk weights sterling exposures to the UK Government and reserves held with the Bank of England at 0%. We will extend this to the Government of Jersey. The PRA rules also assign a 0% risk weight where an equivalent jurisdiction has assigned a lower risk weight for local currency exposures. Jersey is listed as equivalent so this also would have the effect of enabling UK banks to risk weight sterling exposures to the States of Jersey at 0%.

4.3.6 The PRA's approach to UK PSEs ignores implicit support from the UK Government, noting that banks can reflect guarantees as CRM. However, it permits recognition of more favourable approaches adopted by equivalent jurisdictions. We propose to follow the UK approach.

4.3.7 The PRA's approach to banks is slightly less conservative than our current requirements, with the risk weight for single 'A' rated exposures being 30% (vs 50% in our current requirements), and a more nuanced approach for unrated banks that is likely to result in lower risk weights that meet regulatory standards. However, for typical short-term exposures, the risk weight would be unchanged at 20%.

4.3.8 The PRA applies this approach to all institutions, including investment firms, whereas our requirements only apply to exposures to banks. This is because the UK applies similar capital requirements to banks and investment firms. It also enables recognition of equivalently regulated firms outside of the UK.

4.3.9 We intend to copy the PRA with respect to UK institutions and equivalently regulated firms outside of the UK but clarify that for Jersey firms this only applies to JIBs, and not Jersey investment firms who are not subject to the banking capital requirements. This slightly relaxes our current regime, which only permits banks to be included, regardless of where they are regulated.

4.3.10 The PRA's approach to corporates is less conservative than our current requirements, with a lower risk weight for Small and Medium-sized Enterprises (SMEs,as defined by the PRA) of 85% (vs 100% in our current requirements), a new 75% risk weight for 'BBB' rated corporates (currently 100% risk weight) and a potentially better treatment of unrated exposures. The last depends on case-by-case regulatory approval and we will mirror this; JIBs will need our approval and we expect applications to draw on group policies but also address relevant local circumstances.

4.3.11 In summary, the changes in this part of the SACR would make it more risk sensitive; less conservative in some areas as a starting point than our current requirements, particularly for exposures to 'A' rated banks, 'BBB' rated corporates, SMEs and unrated exposures, but set against the new requirements relating to due diligence.

	Question 7. Do you have any concerns regarding the changes to the requirements re sovereigns, PSEs, banks and corporates, including due diligence? **Question 8**. Do you envisage seeking approvals from us in connection with unrated corporate exposures?
	Question 9. For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to sovereign, PSE, bank and corporate exposures.

4.4 Retail and mortgage exposures

4.4.1 The PRA's rules are set out in its near-final rulebook, see Annex D in Appendix A-1, as follows:

- retail exposures: Articles 123 to 123A.
- mortgages: Articles 124 to 124L
- Article 123B, on foreign currency lending.

4.4.2 The PRA's rules for retail exposures are broadly similar to our current requirements and the risk weight of 75% for most retail exposure would be unchanged. Key differences are:

- there is a new, lower, risk weight for transactors (customers who repay every month) of 45%, though the definition is narrow, including only (1) facilities where the balance to be repaid is the drawn amount and where this has been repaid in full for the previous year and (2) overdrafts that have not been drawn in the previous year
- the scope of retail is widened to include low value exposures to SMEs as opposed to our current rules only including exposures to small businesses.

4.4.3 For residential mortgages that are not dependent on income from the property, the PRA rules set a 20% risk weight for exposure up to 55% of the value of the property and treat any remainder as unsecured. In contrast, our current regulations set a 35% risk weight for the portion below 80% of the value of the property. The PRA rule is more risk sensitive and will likely lead to significantly lower risk weights overall.

4.4.4 The treatments for other types of mortgages vary, with higher risk weights for commercial mortgages than for residential mortgages and for where there is dependency on income from the property. However, the impact is likely to be positive as our current rules have no preferential risk weights for these categories.

4.4.5 Article 123B applies a multiplier of 1.5 to the risk weight (up to a maximum of 150%) where the obligor is an individual and the borrowing is not in the currency in which the obligor derives income, or an SPV guaranteed by an induvial where the borrowing is not in the currency in which the guarantor derives income. This would be adverse as we currently have no such rule but we also do not have a clear picture of whether there are material exposures that would be impacted.

	Question 10. Do you have any concerns regarding the changes to the requirements for retail exposures and mortgages, including the rules for foreign currency lending?
	Question 11. For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to retail exposures and mortgages.

4.5 Other categories

4.5.1 Outside of the above categories, our prudential data shows limited exposures so the changes are unlikely to have a significant impact on capital requirements. The PRA rules are more comprehensive and more risk sensitive. Two key changes are:

- Exposures to Collective Investment Units (CIUs), the PRA's rules are more complicated that our current rules, enabling a look through to the underlying assets where this is known, which would likely yield a lower risk weight than under our current rules. But applying this requires greater knowledge of the composition of the CIU's assets than our current regulations.
- Exposures to equity are treated more conservatively, being 250% risk weight (vs 100% in our current requirements) except that more risky exposures would be 400% risk weight (150% in our current requirements). This is subject to a transitional provision, phasing in the increase over five years.

Question 12. Do you have any concerns regarding the changes to other categories, including CIU and equity exposures? In particular, we seek feedback on the need for transitional provisions regarding the treatment of equity exposures, given current/envisaged exposure holdings.

Question 13. For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to other categories.

4.6 Pillar 2 and prudential reporting

4.6.1 The PRA's approach to Pillar 2 differs from our current approach and is set out in its Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital' (PRA P2 SoP), see Appendix A-2.

4.6.2 In line with the EU, it has an incremental capital requirement for risks not covered in Pillar 1, which it calls Pillar 2A (P2R in the EU) and, separately, an incremental buffer (the PRA Buffer, P2G in the EU).

4.6.3 For credit risk, the PRA's Pillar 2A approach relies on it having a comprehensive picture of UK lending, including on various banks' advanced approaches assessments. It relies on both the firm's ICAAPs and also additional reporting by firms.

4.6.4 The Pillar 2A requirement applies to total capital, but 75% must also be met by Tier 1 capital, and 56.25% (4.5% CET1 minimum ratio divided by 8% total capital ratio) must be met by CET1 capital.

4.6.5 The PRA Buffer is forward looking, taking into account standardised stress testing but also other matters, including any significant risk management and governance weaknesses.

4.6.6 The PRA Buffer increases the amount by which capital must exceed the minima and must be met by CET1 capital. This is similar to our existing approach to buffers.

4.6.7 For credit risk, we rely more heavily on JIB's own assessments. We are minded to follow the PRA's general approach and establish a Pillar 2A add-on to minima and separately consider if a 'JFSC Buffer' should also be applied and this will be addressed by the consultation in H2 2025.

4.6.8 At this time, we have not developed firm proposals for how Pillar 2A and the JFSC Buffer would be calculated but will consider (1) how to make greater use of available data from peers, (2) whether stress testing can be further standardised, and (3) how to better reflect any identified weaknesses.

Question 14. Do you have any concerns regarding the high-level proposal to explore further alignment with the PRA approach to Pillar 2, including the separation into a Pillar 2A buffer and a JFSC buffer?

4.6.9 For prudential reporting, we intend to use the PRA's reports as a starting point but also consider what existing reporting requirements or revised requirements are necessary to support our ongoing assessment of credit risk, including with respect to Pillar 2.

Question 15. For JIB respondents only, please can you provide a high-level view on what metrics you use to assess credit risk and that you think would be useful to include within prudential reporting. In addition, are there existing reporting requirements that you consider should be replaced?

5 Standardised Approach to Operational Risk

5.1 Changes to capital requirements

5.1.1 The PRA rules are set out in its near-final rulebook, see Annex L in Appendix A-1 as follows:

› there is a single business indicator (BI), calculated as the sum of three components, averaged over the past three years
› the three components are linked to three categories of income but there are some nuances in the calculations; for example, net interest income is capped at 2.25% of the interest earning assets
› the BI is then multiplied by: (1) 12% if the BI is less than £0.88 billion, (2) 18% if the BI exceeds £26 billion, or, otherwise (3) 15%
› there are provisions dealing with corporate events.

5.1.2 The PRA has chosen not to link the requirement to the level of operational losses.

5.1.3 Currently, our regulations allow a choice between the Basic Indicator Approach and a Standardised Approach, but these use similar concepts and therefore we do not envisage that this will greatly impact capital requirements or be significantly more difficult to calculate so we are not minded to make any changes.

5.1.4 The rules are more detailed but we have not identified any area where there is an evident need for simplification, nor any aspects where they would place JIBs at a significant competitive disadvantage.

Question 16. For JIB respondents only, do you have any concerns regarding using the PRA's rules for the calculation of the operational risk capital requirement?

5.2 Pillar 2 and prudential reporting - loss history

5.2.1 The PRA's approach to Pillar 2A is based on a firm's ICAAP and its loss history. It seems reasonable to start from this, provided that we hold relevant loss history information.

5.2.2 The PRA requires firms to create a record of their operational losses that exceed £20,000 in the previous 10 years and provide this to the PRA annually.

5.2.3 We will address Pillar 2 and prudential reporting in H2 2025, and our intention is to use the PRA requirements as a starting point except that we intend to allow discretion to deal with circumstances where firms cannot provide 10 years of loss history, provided that data is available for years from 2024 onwards.

Question 17. For JIB respondents only, do you have any concerns regarding using PRA's Pillar 2A approach and reporting requirements relating to operational risk as a starting point?

6 Large Exposures regulations

6.1 PRA current approach and changes

6.1.1 PRA CP14/24 sets out the PRA's proposal, with Appendix A-3 being its proposed supervisory statement on approvals, and Appendix A-4 being its proposed revised rules.

6.1.2 The changes in Appendix A-3 provide more scope for permissions regarding overseas group entities (250% of CET1 capital) but this would still be very restrictive when set against our current framework for Group Concession Limits.

6.1.3 Instead, we intend to explore providing more comprehensive guidelines for approvals, with tighter restrictions for low rated long-term exposures and a more relaxed approach, in line with our current approach, for high rated, short-term exposures.

6.1.4 The rules set out in Appendix A-4 would shift the definition of exposure to the exposure after CRM, using the SACR. In contrast, our current regulations require approval from the JFSC based on the exposure before taking account CRM and only providing routes to approval where there is high quality collateral, or the exposure is to group or guaranteed by group.

6.1.5 PRA CP14/24 proposes significant changes compared to the PRA's current regime that JIBs may be more familiar with, including two changes likely to be significant:

- firms are required to add indirect exposures (those relating to collateral), in line with Basel III but an area where we understand JIBs have concerns
- the ability to reduce mortgage exposures to reflect the value of property is removed, in line with Basel III.

6.1.6 It also proposes a much more limited Trading Book carve out, which we have no current equivalent of and will consider in H1 2025, alongside consideration of the Trading Book.

6.1.7 We intend to start from the PRA's final position, after it has taken into account UK bank feedback.

6.1.8 We will then consult on the details in H1 2025. But we seek feedback now to inform our development of proposals.

Question 18. In view of PRA CP14/24, do you have any concerns regarding its approach to Large Exposures? In particular, please provide feedback on the (1) approach to cross-border group exposures, (2) recognition of indirect exposures, and (3) treatment of mortgages.

6.2 Pillar 2 and prudential reporting

6.2.1 The PRA's Pillar 2A approach is centred around an assessment of how concentration impacts on models that assume advanced approach portfolios are diverse. We will consider this as part of our H2 2025 consultation as well as the need for more comprehensive ICAAP coverage to address this area if, as anticipated, we decide to shift to use a post-CRM definition of exposure.

6.2.2 The PRA's consultation addresses changes to reporting forms and we intend to replace our existing prudential reporting forms with new forms derived from the PRA forms and guidance (Appendix A-5).

	Question 19. Do you have any suggestions regarding Pillar 2 guidance on concentration risk? In particular, are you familiar with the PRA's approach and do you consider that any or all of it should be added to our approach?
	Question 20. Do you have any concerns regarding the PRA's proposed revised reporting guidance?

7 Summary of Questions

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13	**Question 7.** Do you have any concerns regarding the changes to the requirements re sovereigns, PSEs, banks and corporates, including due diligence?
13	**Question 8**. Do you envisage seeking approvals from us in connection with unrated corporate exposures?
13	**Question 9.** For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to sovereign, PSE, bank and corporate exposures.
13	**Question 10.** Do you have any concerns regarding the changes to the requirements for retail exposures and mortgages, including the rules for foreign currency lending?
13	**Question 11.** For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to retail exposures and mortgages.
14	**Question 12.** Do you have any concerns regarding the changes to other categories, including CIU and equity exposures? In particular, we seek feedback on the need for transitional provisions regarding the treatment of equity exposures, given current/envisaged exposure holdings.
14	**Question 13.** For JIB respondents only, please provide an estimate of the impact on risk weighted assets relating to other categories.
15	**Question 14.** Do you have any concerns regarding the high-level proposal to explore further alignment with the PRA approach to Pillar 2, including the separation into a Pillar 2A buffer and a JFSC buffer?

Page	Question
15	**Question 15.** For JIB respondents only, please can you provide a high-level view on what metrics you use to assess credit risk and that you think would be useful to include within prudential reporting. In addition, are there existing reporting requirements that you consider should be replaced?
16	**Question 16.** For JIB respondents only, do you have any concerns regarding using the PRA's rules for the calculation of the operational risk capital requirement?
16	**Question 17.** For JIB respondents only, do you have any concerns regarding using PRA's Pillar 2A approach and reporting requirements relating to operational risk as a starting point?
17	**Question 18.** In view of PRA CP14/24, do you have any concerns regarding its approach to Large Exposures? In particular, please provide feedback on the (1) approach to cross-border group exposures, (2) recognition of indirect exposures, and (3) treatment of mortgages.
18	**Question 19.** Do you have any suggestions regarding Pillar 2 guidance on concentration risk? In particular, are you familiar with the PRA's approach and do you consider that any or all of it should be added to our approach?
18	**Question 20.** Do you have any concerns regarding the PRA's proposed revised reporting guidance?

Appendix A: Relevant UK documentation

A-1. Near-final PRA Rulebook (from PS9/24)

A-2. The PRA's methodologies for setting Pillar 2 capital

A-3. PRA CP14/24; proposed supervisory statement

- Draft amendments to supervisory statement 16/14 – Large Exposures (pdf)Opens in a new window

A-4. PRA CP14/24: proposed rulebook

- PRA Rulebook: CRR Firms: Large Exposure Omnibus Instrument 2025 (pdf)Opens in a new window

A-5. PRA CP14/24: Proposed changes to reporting guidance

- Amendments to Annex IX – Instructions for Reporting on Large Exposures and Concentration risk (pdf)Opens in a new window