Feedback paper

Basel III Prudential Roadmap: H2 2024

Feedback on Consultation paper No. 6 2024, on the implementation of Basel III in Jersey.

In this feedback paper, we address industry responses to our proposals concerning:

- the standardised approach to credit risk (SACR)
- the standardised approach to operational risk (SAOR)
- Large Exposures

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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

Introduction

In March 2024, we published our consultation on the Basel III prudential roadmap. This included a timeline for a series of detailed consultations on matters, including capital requirements, operational and credit risk, liquidity and leverage requirements and prudential reporting, 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

In December 2024, in accordance with the Basel III consultations, we published a consultation paper on the standardised approaches to credit and operational risk, and Large Exposures regulations: Basel III Prudential Roadmap: 2024 H2 — Jersey Financial Services Commission

In mid-January 2025, the UK announced it would delay implementing Basel III until 1 January 2027.

This paper sets out our feedback in respect of our Basel III consultation published in December 2024.

UK implementation delay

In the UK, the PRA announced that it has delayed its Basel III implementation date until 1 January 2027. The delay was caused by uncertainty over how and to what extent the US would implement Basel III. The UK's position was also informed by a desire for harmonised implementation of trading book rules to avoid market impacts.

The EU took a similar view and also delayed the market risk elements of implementation, having already implemented everything else. The US position remains unclear.

We will address the consequential impact on our plans as part of our next planned consultation paper, which will be released in July 2025, slightly later than initially envisaged.

Consultation feedback

Sections 2, 3, 4, and 5 of this paper set out our response to the feedback received on our Basel III consultation published in December 2024:

- section 2 – General matters regarding how we will implement changes to prudential regulation (General Matters)
- section 3 - the Standardised Approach to Credit Risk (SACR)
- section 4 - the Standardised Approach to Operational Risk (SAOR)
- section 5 - Large Exposures regulations

What did we do?

We held a workshop open to all banks to explain and gather feedback on general matters, the SAOR, UK developments, and our high-level response to these. We later held further workshops with JIBs on the SACR, including CRM.

All JIBs were represented at the workshops, and all responded to the consultations. No other consultation feedback was received.

What was proposed, what feedback did we receive, and how will we proceed?

For the SACR and SAOR, we intend to closely follow the PRA's near-final rulebook, 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).

Respondents noted some areas of concern, which are set out in the relevant Section, along with our response. As none of those matters were identified as significant, we intend to circulate a near-final draft of the Codes and invite further feedback on how these Codes could be modified to address the specific areas of concern that were raised.

We will circulate a list of relevant PRA material that provides further guidance on various matters. We will also request feedback on whether this sufficiently clarifies matters or if further guidance from us is required. In July, the PRA material will initially be provided to JIBs. By the end of October 2025, we aim to finalise and publish this on our Basel III — Jersey Financial Services Commission page. Ultimately, this will be incorporated in our Prudential Handbook, which will be published in H1 2026.

For Large Exposures, the situation is complicated by the PRA's unanticipated consultation on its Large Exposures rules, which has not yet been finalised.

Respondents:

- were broadly positive about the UK's approach, particularly the use of a post-collateral measure of exposure, in contrast to our current pre-collateral measure of exposure
- welcomed the UK exemptions, particularly for sovereign exposures, in contrast to our sovereign concession limit approach
- expressed concerns regarding the PRA's consultation proposals regarding the recognition of indirect exposures
- expressed a preference for our current group concession limit rules over the PRA's consultation proposals (which are a relaxation of its current rules)

We will discuss detailed proposals in our H2 2025 consultation, drawing on the PRA's final position and this feedback.

The consultation briefly mentioned Pillar 2 and prudential reporting, which will both be consulted on in H1 2026. We will therefore only provide a brief summary of those responses, which will be used when developing proposals.

Who would be affected?

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

We engaged with the Jersey Resolution Authority to deliver a joined-up approach to appropriate prudential regulation.

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

Next steps

We will provide JIBs with near-final draft documentation on the SACR and SAOR in July 2025, covering both transposing PRA Rules into JFSC Codes and setting out PRA guidance.

Timeline:

- in July 2025, we will consult on advanced approaches to credit risk, systemic importance, and the linked proposals for the Net Stable Funding Ratio and the Leverage Ratio
- in H2 2025, we will consult on the remaining Codes changes required to implement the Basel III rules, including Large Exposures
- in H1 2026, we will publish near-final Codes, to come into effect from 1 July 2027, with transitional provisions that enable earlier transition from 1 January 2027
- in H1 2026, we will consult on changes to Pillar 2 (including Interest Rate Risk in the Banking Book) and Prudential Reporting
- in H2 2026, we will implement changes to Pillar 2 and Prudential Reporting so that JIBs can transition in H1 2027

All aspects for JIBS will be live in H2 2027.

2 General matters

2.1 Established via Banking Codes

2.1.1 We proposed issuing new Banking Code requirements to establish prudential requirements, but separate this from prudential reporting requirements, following the UK approach.

2.1.2 Respondents had no concerns.

Our response
We will proceed, initially by providing near-final drafts of the SAOR and SACR parts of the Code to JIBs in July 2025.

2.2 Consolidation of subsidiaries

2.2.1 We proposed requiring consolidation for capital requirements, but allow for variations where:

- there are no material subsidiaries
- some subsidiaries are immaterial
- where consolidation does not best reflect the risks

2.2.2 Details to be finalised within consultation on own funds in H2 2025.

2.2.3 Respondents had no concerns, having no relevant subsidiaries.

Our response
We will proceed, noting that the proposals have a degree of flexibility and that the final form is subject to further consultation in H2 2025

2.3 Equivalence of overseas prudential regulators

2.3.1 We proposed following the UK approach, linking our rules to UK HMT determination.

2.3.2 We aim to publish and update a document detailing the relevant HMT equivalence decisions to help firms, but, for the avoidance of doubt, the requirement would always be to use the relevant HMT decision.

2.3.3 Respondents had no concerns, but they expressed reservations about the UK processes we would be leveraging.

Our response
We will proceed with the intention of providing a document alongside the Prudential Handbook, drawing on UK material and will endeavour to maintain this to reflect changes. Our approach retains the flexibility to reflect Jersey specificities through our own list as needed.

2.4 Impact on JIBs

2.4.1 We gathered information on how individual elements affect the estimated change in capital requirements.

2.4.2 Respondents provided some information and indicated what work had been done to date.

Our response

The information is generally sufficient for policy purposes. Further information on the impact will be requested as part of the ongoing work.

Data on the impact on JIBs will be relevant to internal assessments of capital adequacy for 2027, and our Pillar 2 consultation will clarify our expectations around this and related topics.

3 Standardised Approach to Credit Risk

3.1 Overview

3.1.1 Our starting point was the near-final PRA rulebook published as part of PRA PS9/24, which is more risk-sensitive and detailed than our current regulations.

3.1.2 Respondents queried how to interpret the proposals, given that some are complex.

Our response

We will address specific areas of concern, as identified here, and invite feedback when we publish the near-final drafts.

More generally, we will publish a list of relevant PRA guidance and invite feedback alongside the near-final drafts.

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

3.2.1 The PRA's near-final rules set a 10% CCF for Unconditionally Cancellable Commitments, (UCCs) versus 0% under our current requirements.

3.2.2 The changes to CRM versus our current regulations are likely to be operationally challenging, with numerous changes made, two of which were flagged:

› in the case of the comprehensive method for financial collateral, the PRA does not allow banks to also apply a CCF to the exposure
› the PRA does not permit guarantee terms to allow changes to be made to the protection provided

3.2.3 Respondents did not raise any significant concerns regarding the impact.

3.2.4 Clarification was sought regarding the definition of a UCC.

Our response

When the draft documentation is circulated, we will seek feedback on whether the definition of a UCC is sufficiently clear.

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

3.3.1 Unlike our current regime, the PRA rules include due diligence requirements that link directly into risk weightings.

3.3.2 The PRA enables the use of a broader range of External Credit Assessment Institution (ECAI) ratings (than the three we currently permit - Moody's, S&P and Fitch) when determining risk weights.

3.3.3 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.

3.3.4 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.

3.3.5 The risk weight for single 'A' rated exposures is reduced to 30% (vs 50% in our current requirements), and a more nuanced approach would apply for unrated banks which is likely to result in lower risk weights that meet regulatory standards.

3.3.6 A lower risk weight would apply 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 would apply 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 replicate this; JIBs will need our approval, and we expect applications to draw on group policies but also address relevant local circumstances.

3.3.7 Three concerns were raised:

- one respondent challenged the requirement to reflect due diligence in risk weights but did not challenge the need for due diligence

Our response

We believe alternatives like using Pillar 2 would be just as complex, so the Codes will be aligned with the PRA rules.

- one respondent requested clarity on the PRA's rules regarding ECAIs ratings not incorporating implicit support
- one respondent queried whether for exposures in EU countries, firms would be able to follow EU rules, which list PSEs that are equivalent to governments

Our response

We will seek feedback on whether the PRA's requirements are sufficiently clear when the draft documentation is circulated. We will also request feedback on whether limited changes should be made to permit the use of EU lists, consistent with the recognition of equivalence.

3.4 Retail and mortgage exposures

3.4.1 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%
- 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
- Under PRA rules for residential mortgages that are not dependent on income from the property, a 20% risk weight applies to exposure of up to 55% of the property's value. Any amount above this threshold is treated as unsecured.

3.4.2 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.

3.4.3 A multiplier of 1.5 must be applied 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.

3.4.4 Respondents noted the changes posed operational challenges. The primary concern centred on the level of the foreign currency multiplier.

Our response

We will seek feedback on the PRA's requirements regarding the foreign currency multiplier when the draft documentation is circulated.

3.5 Other categories

3.5.1 Two key changes were flagged:

- the PRA's rules on exposures to Collective Investment Units (CIUs) are more complicated than our current rules, enabling a look through to the underlying assets where this is known
- 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)

The only concerns raised related to the transitional provisions.

Our response

We will provide the transitional provisions detailed in the PRA rules.

3.6 Pillar 2 and prudential reporting

3.6.1 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".

3.6.2 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).

3.6.3 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.

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

3.6.5 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.

3.6.6 Respondents' views varied. Some welcomed the change, whilst others challenged the need for extra buffers.

Our response

We will consider this feedback when developing proposals for Pillar 2. However, we clarify that the intention is not to increase total requirements (all things being equal) but rather to refine the Pillar 2 process so that it is clearer.

3.6.7 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.

3.6.8 Respondents provided useful information, with differing views on what, if any, changes should be made.

Our response
We will consider this feedback when developing proposals for prudential reporting. We will develop and circulate proposed templates and guidance to JIBs ahead of the formal consultation to clarify proposals and seek early feedback on them.

4 Standardised Approach to Operational Risk

4.1 Changes to capital requirements

4.1.1 The PRA rules are 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 12% if the BI is less than £0.88 billion, 18% if the BI exceeds £26 billion, or otherwise 15%
- there are provisions dealing with corporate events

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

4.1.3 Respondents generally accepted the proposal. One respondent queried whether there could be flexibility to switch to reflecting operational losses.

Our response

We will proceed as planned. We can make changes, should the data collected (through prudential reporting, see below) evidence that there is a need for change.

4.2 Pillar 2 and prudential reporting - loss history

4.2.1 The PRA's approach to Pillar 2A is based on a firm's ICAAP and loss history.

4.2.2 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.

4.2.3 We intend to use the PRA requirements as a starting point. However, we will 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.

4.2.4 No concerns were raised. One respondent commented more widely on its ICAAP approach.

Our response

We will use the feedback provided when developing proposals. Although not raised, we will also consider transitional provisions to ensure that these changes in Pillar 1 requirements are taken into account, particularly where the Pillar 2 requirement is higher.

5 Large Exposures regulations

5.1 PRA current approach and changes

5.1.1 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 property value is removed, in line with Basel III

5.1.2 It also proposes a much more limited Trading Book carve out, which we have no current equivalent of and will consider in H2 2025, alongside consideration of the Trading Book

5.1.3 Also in H2 2025, we will consult on the full details of our proposals concerning Large Exposures. But we sought feedback now to inform our development of proposals.

5.1.4 Respondents welcomed most of the substantial changes but had concerns about the proposals to approve group exposures and recognise indirect exposures.

Our response

We will develop our proposals based on the final PRA position and the feedback received, which we will discuss with JIBs ahead of our planned H2 2025 consultation.

5.2 Pillar 2 and prudential reporting

5.2.1 The PRA's Pillar 2A approach is centred around an assessment of how concentration impacts models that assume advanced approach portfolios are diverse.

5.2.2 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.

5.2.3 Respondents' views were mixed, with some support for a more PRA aligned approach but others favouring less change.

Our response

As above, we will develop our proposals drawing on the final PRA position and the feedback received, which we will discuss with JIBs ahead of our planned H2 2025 consultation, which will in turn feed into our planned H1 2026 consultation on Pillar 2 and prudential reporting.