Jersey Financial Services Commission

Completion Guide

Prudential Reporting of Market risk under the Standardised approach to market risk

Near final draft

Issued: October 2026
Effective: 1 July 2027

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1 Overview

Introduction

1.1 Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. This guide addresses the JFSC's requirements of Jersey incorporated registered deposit takers, who are referred to herein as **JIBs**. JIBs should report all relevant risks using the relevant data entry sheets in the Prudential Return.

1.2 The market risks that generate a capital requirement in Jersey for all JIBs are:

1.2.1 Foreign exchange risk; and

1.2.2 Commodities risk.

1.3 The Prudential Return and guidance also cover settlement risk, the risks that arise through failed delivery versus payment ("**DvP**") transactions and free delivery transactions. This treatment is the same for banking book and trading book transactions.

1.4 The rules set out here relate to the completion of four data entry sheets in the Prudential Return. These are:

1.4.1 5.1 FX & Gold

1.4.2 5.2 Commodities

1.4.3 5.3 Settlement Risk - Credit Risk

1.4.4 5.4 Settlement Risk - Capital

1.5 JIBs are reminded that they should at all times satisfy their own funds requirements. Where material positions are permitted by the JIB's risk limit structure, related capital requirements must be calculated daily. Settlement risk must be calculated daily for all JIBs that may have failed trades.

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2 Sheet '5.1 FX and Gold'

Introduction

2.1 The risks arising from foreign currency and gold exposures is similar and hence the form addresses both. In both cases, the bank is allowed to offset current and future exposures to arrive at a net figure.

Foreign Exchange Positions

2.2 Do not report any position for the reporting currency of your bank; the return calculates a balancing item corresponding to the effective position in this currency. For most JIBs, this means that row A.1 (pounds sterling) should be blank.

2.3 The major currencies should be reported separately, namely Pounds Sterling (**GBP**), US Dollars (**USD**), Euros (**EUR**), Swiss Francs (**CHF**), Canadian Dollars (**CAD**), Japanese Yen (**JPY**) and Australian Dollars (**AUD**). Other currencies should be split into two groups according to whether the bank is long or short, as follows:

2.3.1 **Other – Long Currencies**: group together currencies where the net overall position in each individual currency is positive;

2.3.2 **Other – Short Currencies**: group together currencies where the net overall position in each individual currency is negative.

2.4 Note that the "net overall position" is the sum of all balance sheet assets less balance sheet liabilities plus/minus net forward purchases/sales.

2.5 All input figures should correspond to the gross amount.

A: Foreign Currency Positions

Item	Completion Notes
A.1 to A.9	**Balance Sheet Assets.** Total balance sheet assets denominated in the foreign currency or group of currencies.
	Balance Sheet Liabilities. Total balance sheet liabilities denominated in the foreign currency or group of currencies.
	Spot - Net. A calculated field, being equal to "Balance sheet assets" less "Balance sheet liabilities" and representing the net spot position.
	Forward Gross Purchases. All forward purchases of the foreign currency or group of currencies.
	Forward Gross Sales. All forward sales of the foreign currency or group of currencies.
	Forward - Net. A calculated field, being equal to "Forward Gross Purchases" less "Forward Gross Sales" and representing the net forward position.

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Item	Completion Notes
	Total. A calculated field, being the sum of the net spot position and the net forward position. NB a negative value here indicates a short position; a positive value indicates a long position.
A.10	**Balancing item.** A calculated field, being the position required to make the overall total of net long and short positions, in all currencies taken together equal to zero.
A.0	**Aggregate net long open positions.** A calculated field being the sum of all long positions including the entry for the "sterling balancing item" if it is positive. This aggregate of net long open positions, which will be positive or zero, is included in the risk asset ratio calculation.

B.0: Gold

2.6 Report any position for gold. Note that the net overall position in gold is the sum of all balance sheet gold assets less balance sheet gold liabilities plus/minus net forward purchases/sales of gold.

2.7 All input figures should correspond to the gross amount.

Item	Completion Notes
B.0	**Balance Sheet Assets.** Total balance sheet gold assets
	Balance Sheet Liabilities. Total balance sheet gold liabilities.
	Spot - Net. A calculated field, being equal to "Balance sheet assets" less "Balance sheet liabilities" and representing the net spot position.
	Forward Gross Purchases. All forward purchases of gold.
	Forward Gross Sales. All forward sales of gold.
	Forward - Net. A calculated field, being equal to "Gross purchases" less "Gross sales" and representing the net forward position.
	Total. A calculated field, being the sum of the net spot position and the net forward position. NB a negative value here indicates a short position; a positive value indicates a long position.

D: Risk Weighted Assets

Item	Completion Notes
D.0	**Risk Weighted Asset Equivalent.** The equivalent Risk Weighted Asset figure is calculated, being the sum of A.0 - Aggregate net long Open positions plus the absolute value of the Total for B.0 – Gold.

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3 Sheet '5.2 Commodities'

Introduction

3.1 All commodity positions should be reported using this part of the form except gold, which is treated as a currency and reported within sheet 5.1 FX & Gold – see Section 2. The JIB is required to offset current and future exposures to arrive at a net position, and the capital charge (Simplified Approach) is made up of elements for the net and gross positions.

Reporting and calculation of capital charge

3.2 The groupings are:

- A.1: Precious metals (excluding gold)
- A.2: Base metals
- A.3: Energy contracts
- A.4: Other Contracts

3.3 All input figures should correspond to the gross amount.

A: Commodity Positions

Item	Completion Notes
A.1 to A.4	**Gross Long:** All long positions of each commodity group.
	Gross Short: All short positions of each commodity group.
	Net Position: A calculated field, being equal to Gross Long less Gross Short.
	Simplified Approach: A calculated field, being equal to 15% of the absolute value of the Net Position plus 3% of the sum of Gross Long plus Gross Short.
A.0	**Gross Long:** A calculated field, being the sum of the Gross Long positions entered for all commodity groups (A.1 to A.4).
	Gross Short: A calculated field, being the sum of the Gross Short positions entered for all commodity groups (A.1 to A.4).
	Net Position: A calculated field, being the sum of the Net Positions derived for all commodity groups (A.1 to A.4).
	Simplified Approach: A calculated field, being the sum of the Simplified Approaches derived for all commodity groups (A.1 to A.4).

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B: Risk Weighted Asset Equivalent

Item	Completion Notes
B.0	**Risk Weighted Asset Equivalent.** The equivalent Risk Weighted Asset figure is calculated, being 12.5 times the Simplified Approach for A.0.

C: Top Five Commodities

3.4 C.1 to C.5 are completed in the same manner as A.1 to A.4, except that:

3.4.1 instead of reporting all positions, split by group, the JIB need only report the five commodities that produce the largest Simplified Approach charge.

3.4.2 The name of the relevant commodity must be provided in the column headed "Commodity" (no more than 50 characters).

3.5 No breakdown is required where the charge is less than 1% of capital.

4 Settlement Risk

Introduction

4.1 Settlement risk arises through non-DvP trades (free deliveries) and failed DvP trades. The risk is either reflected through Credit Risk RWAs reported on sheet 5.3 Settlement Risk – Credit Risk or a capital charge reported on sheet 5.4 Settlement Risk – Capital.

4.2 The RWA and capital requirement for free deliveries is set out in section 5 of the Counterparty Credit Risk Part.

4.3 The capital requirement for failed DvP trades is set out in section 6 of the Counterparty Credit Risk Part.

Sheet '5.3 Settlement Risk - Credit Risk'

Item	Description	Completion Notes
C.1	Total Counterparty Credit Risk	**Number of Trades.** Report the total number of free delivery transactions that are four working days or less past settlement date.
		Mark-to-Market Receivable. Report the aggregate mark-to-market receivable amount for all qualifying free delivery transactions outstanding four working days or less past settlement date.
		Risk Weighted Assets. Report the total risk-weighted assets calculated for the qualifying free delivery transactions. RWAs should be determined in accordance with section 5.3 (1) of the Counterparty Credit Risk Part.

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Sheet '5.4 Settlement risk – Capital'

Item	Description	Completion Notes
A.1 to A.4	Failed DvP transactions by days past due	**Number of Trades.** Report number of failed trades by the number of working days after due settlement date.
		At risk amount: Loss if trade fails/Mark-to-Market Receivable. Enter the mark to market loss of each trade and report the sum of these, ignoring gains.
		Capital Risk. The capital charge is calculated by the sheet, being the relevant factors set out at the end of section 6 of the Counterparty Credit Risk Part multiplied by the Loss if trade fails.
C.2	Free delivery - Over 4 days since delivery	**Number of Trades.** Report the total number of free delivery transactions that are over four working days past settlement date.
		At risk amount: Loss if trade fails/Mark-to-Market Receivable. Report the aggregate mark-to-market receivable amount for all qualifying free delivery transactions outstanding over four working days past settlement date.
		Capital Risk. The capital charge is calculated by the sheet as the mark-to-market receivable in accordance section 5.3 (2) of the Counterparty Credit Risk Part.
D.0	**Total.** Calculated as the sum of items A.1 to A.4 plus C.2.	

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Glossary

The following abbreviations are used within the document:

DvP	Delivery versus Payment
SAM	Standardised Approach to Market risk
CD	Certificate of Deposit
FRN	Floating Rate Note
JIB	Jersey incorporated registered deposit takers

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