

Feedback on changes to Pillar 2 and Prudential reporting

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1 Executive summary

1.1 Overview

- 1.1.1 This feedback paper explains our response to stakeholder feedback on consultation paper no. 4 2026, which covers Pillar 2 and Prudential reporting.
- 1.1.2 The Pillar 2 proposals were to:
- consolidate liquidity guidance into the Pillar 2 guidance note
 - clarify how jersey incorporated banks (**JIBs**) should assess capital minima and buffers
 - streamline supervisory processes
 - introduce transitional guidance for Basel III, including collecting information on capital minima and buffers before and after implementation
 - move towards a more risk-based Pillar 2 framework over time
- 1.1.3 The proposed changes to Prudential reporting were to:
- make significant revisions to reporting returns where we have changed the rules
 - base new templates on PRA reporting requirements, but simplify them for Jersey
 - leave most other reporting requirements unchanged, except for necessary amendments
 - consider future changes to branch reporting, including data for the Jersey Bank Depositors Compensation Scheme (**JDCS**)
 - gradually adopt a more risk-based reporting regime

1.2 Feedback received

- 1.2.1 We received four responses from four banks; the three JIBs and one branch. Feedback was broadly supportive of the proposed changes.
- 1.2.2 On Pillar 2:
- respondents asked for a more PRA-aligned approach to increasing capital requirements recognising this leads to similar outcomes. We will enable this with further details in the Pillar 2 guidance note
 - we plan to further consolidate our liquidity guidance by moving relevant provisions from the Prudential reporting guide into the Pillar 2 guidance note
- 1.2.3 On Prudential reporting:
- respondents supported the proposals but sought greater clarity on plans. We will provide more information by the end of 2026

1.3 Next steps

- 1.3.1 Our proposals remain broadly unchanged. Section 4 provides a detailed plan of actions, including:
- we will amend our guidance on the Pillar 2 process by the end of 2026, with drafts available to JIBs in October 2026
 - we will amend our Prudential reporting completion guidance by the end of 2026, with drafts available to JIBs by early November 2026

- we will finalise other necessary work, mainly revising the Deposit-taking business code of Practice: Main Body (Banking code: Main Body) by the end of 2026. This will also address the removal of the letter of comfort requirement, as set out in [feedback on the consultation on phase 1 updates to our bank licensing policy — Jersey Financial Services Commission](#)

2 Feedback on Pillar 2 proposals

2.1 Capital adequacy guidance (Questions 1 and 2)

- 2.1.1 We proposed to update our guidance to reflect our Basel III work. We highlighted the need to address changes to large exposures rules, introduce new due diligence requirements and keep a focus on market risk and trading books. Where needed, we will clarify our guidance.
- 2.1.2 Respondents were broadly supportive but raised some concerns about the lack of detail at this stage. There was a concern about the potential for a more inflexible approach to setting parameters for stress testing.

Our response

- 2.1.3 We will provide a draft guidance note to all JIBs in October 2026. We will ask for feedback within four weeks and aim to publish the final guidance before the end of the year.
- 2.1.4 We will retain the current approach, which allows banks to determine appropriate parameters used in stress testing.

- 2.1.5 Respondents also specifically asked about the approach to due diligence and whether it applies to all exposures or just those that are externally rated.

Our response

- 2.1.6 Our due diligence requirements are set out in [Credit risk: standardised approach \(CRR\) part](#). These include both general requirements (see Article 110A) and specific requirements for rated exposures. Rated exposures are those where the risk weight is determined by looking through ratings issued by external credit assessment institutions (**ECAIs**).
- 2.1.7 The guidance note will explain that a bank should:
- take into account the general requirements for due diligence
 - explain the extent to which its Pillar 1 risk-weighted assets reflect its due diligence for rated exposures

2.2 Liquidity adequacy (Questions 3 and 4)

- 2.2.1 We proposed to consolidate guidance about liquidity into the Pillar 2 guidance note, rather than having a separate guidance note.
- 2.2.2 All respondents were broadly supportive of this. Some sought confirmation on whether this meant the liquidity contingency plan and recovery plan requirements would be merged.

Our response

- 2.2.3 We will proceed as proposed. The revised guidance note will comprise sections on capital adequacy, liquidity and recovery planning, including how a bank would restore its capital and liquidity position under stress.

- 2.2.4 Banks may choose to maintain a separate liquidity contingency plan or in a single recovery plan.
- 2.2.5 Given the support for this proposal, we will also move relevant guidance on liquidity from the Prudential reporting guide into the liquidity section of the guidance note. This will not include any substantive revisions.
- 2.2.6 We proposed to revise the guidance to reflect the new NSFR requirement, which only applies to highly-systemic and internationally active banks. Respondents sought clarity on how this impacted out of scope banks.
- 2.2.7 One respondent suggested closer alignment with the UK, noting that the UK had a simpler liquidity coverage ratio (**LCR**) with fixed parameters.

Our response

- 2.2.8 We will proceed with the proposed changes regarding the NSFR for in-scope banks. For other banks, we will substantively retain existing guidance.
- 2.2.9 The PRA has a separate Pillar 2 requirement for liquidity and a standardised Pillar 1 LCR. Our LCR includes Pillar 2 requirements. Both approaches aim to make sure liquidity reflects the specific circumstances of each bank. The LCR is not part of Basel 3.1. In line with our Roadmap, we have not proposed fundamental changes, such as creating a separate Pillar 1-only LCR.

2.3 Capital minima and buffers (Questions 5 and 6)

- 2.3.1 We proposed to clarify that banks should set appropriate levels for minima and buffers in their ICAAPs, with guidance on how to do this. No respondent objected to this change.
- 2.3.2 Respondents challenged the proposed process for setting minima and buffers. They suggested that banks should instead establish Pillar 2 risk-weighted assets (**RWAs**) as a percentage of Pillar 1 RWAs. Respondents noted that this approach creates similar outcomes but is more consistent with PRA practices. Respondents also asked whether the proposal was similar to the PRA's Pillar 2A and Pillar 2B approach.

Our response

- 2.3.3 We will amend our guidance as proposed and also include the suggested RWA increase option, as this achieves a similar outcome. Our revised approach to Pillar 2 will more closely match the PRA's Pillar 2A (capital requirements) and Pillar 2B (PRA buffer) split. We will make this clear in the revised guidance note by using similar language.
- 2.3.4 We will, however, place more emphasis than the PRA on banks assessing the need for an increased buffer, rather than there always being a regulator-determined add-on.

2.4 Transition (Question 7)

- 2.4.1 We proposed to add guidance to make it clear that banks should explain the impact of transition on Pillar 1 requirements and how we would reflect this in revised minima and buffers. Respondents did not object but asked for more detail, given differing circumstances.

Our response

- 2.4.2 We will make changes where the impact of transition is significant.
- 2.4.3 We have published separate guidance on transitions that:
- explains what we intend to do with information we already hold to establish revised capital minima and buffers after transition. This will include dialogue with banks on any proposed changes to conditions
 - provides guidance on information that would be useful to support this work
- 2.4.4 If a bank provides an ICAAP ahead of the transition, this specific guidance should be considered. After transition, this separate guidance note will be withdrawn.

2.5 Future (Question 8)

- 2.5.1 We identified three areas where further work is being considered, noting that we would consult ahead of any changes:
- making the Pillar 2 process more efficient and more risk sensitive, including reflecting our risk model
 - consideration of buffers for banks that are systemic but not highly systemic
 - improving guidance on specific risks
- 2.5.2 Respondents broadly supported the ideas whilst expressing caution, given the lack of details. One respondent queried whether systemic (but not highly systemic) banks would be subject to the NSFR, noting that this added operational complexity.

Our response

- 2.5.3 We will consider the feedback as we develop proposals, which would take into account operationalisation concerns.

3 Feedback on Prudential reporting

3.1 Basel III related proposals (Questions 9 & 10)

- 3.1.1 We proposed to add a new template for areas where we have new Basel III requirements. For all JIBs, this includes the standardised approaches for credit risk and operational risk. It would also include reporting for specific circumstances:
- banks with permission to use IRB approaches
 - banks with securitisation exposures

- banks subject to the NSFR and leverage ratio requirements
- 3.1.2 The proposals draw on PRA reporting rules, reflecting the alignment to rules and the wider intention of increasing alignment. We also proposed a small number of changes to existing reporting requirements.
- 3.1.3 Respondents supported the approach but were cautious on details, noting the need to assess the final requirements. In particular, concerns were raised about areas that have limited applicability and around testing.

Our response

- 3.1.4 We intend to provide final templates and draft completion guidance by early November 2026. This will include revised general completion guidance, replacing [Jersey incorporated banks reporting guide — Jersey Financial Services Commission](#)
- 3.1.5 In the consultation version of the template, there were tabs that related to existing Basel II requirements. We have deleted these tabs because no input would ever be expected. The general completion guidance will clarify which tabs are applicable to banks and that non-applicable parts can be left blank. We will consider practical ways to make this clearer – for example, we could shade cells where no data input is expected.
- 3.1.6 For clarity, banks can themselves shade cells in this way without it impacting on submission. We will publish the final template by early November 2026, which will include data input validation rules and specification of all equations. We will also provide guidance on these issues.
- 3.1.7 For banks seeking to transition on 1 July 2027, we will provide a window for testing the new returns in Q2 2027, ahead of the first required reporting for end September 2027. For banks seeking to transition earlier, we will arrange bespoke testing to help with preparedness, ahead of the first required reporting.
- 3.1.8 We also specifically asked about further simplification. We received limited feedback about making it clear which parts are applicable and suggesting we consider including materiality provisions.

Our response

- 3.1.9 We will consider whether there are instances where a materiality provision would be useful and reflect this in guidance.

3.2 Other changes (Question 11)

- 3.2.1 We proposed other changes to the Other prudential data, including Asset quality, Fiduciary activity and Parent accounts. Respondents only asked about details required for the proposed collection of complaints data.

Our response

- 3.2.2 We will not require complaints data from Q1 2027.
- 3.2.3 We will otherwise proceed as proposed. The guidance, which will be published in draft form by early November 2026.

3.2.4 Respondents also raised general concerns about:

- how the two templates will interact
- data validation guidance

Our response

- 3.2.5 The templates that we publish will be separate. We will identify in guidance where items entered in the revised template should match data entered in the supplementary template.
- 3.2.6 Banks can use formulae to link to the relevant cells or enter the data directly from reports. The final template will include all formulae that apply within a template, and these will be explained in guidance.
- 3.2.7 The template will contain data validation rules, and we will consider how best to explain these in guidance. The existing approach is comprehensive, but we will consider whether this guidance can be provided in a simpler way.

3.3 Submissions of Basel III related changes (Question 12)

3.3.1 We proposed to add a new supplementary template reflecting the new requirements, along with amendments to the existing template, mainly to the capital adequacy tab. Respondents welcomed the overall direction of the proposals, with one suggesting that combining the returns could be beneficial in the longer term.

Our response

- 3.3.2 We will continue as planned. We do not intend to do further work on this at this time but do not rule out a longer-term review of the split template approach.

3.4 Jersey branch reporting (Question 13)

3.4.1 We said that we would look at branch reporting as part of a separate consultation, which will not take effect before 31 December 2027. In particular, we noted that this could include changes regarding JDCS data. The responses focused on the JDCS data request and mainly concerned the detailed definitions, while not objecting to the approach to collecting data.

Our response

- 3.4.2 We will consult on any changes, including the collection of JDCS data. The JRDCAs have consulted on the relevant

definitions for JDCS data, which banks will need to use for end 2026 reporting directly to the JRDCA.

- 3.4.3 To the extent that we collect data for this purpose, we will clarify that banks should complete it consistently with JRDCA guidance. Our guidance for JIBs will explain this and branch reporting guidance would be similar.

3.5 Future (Question 14)

- 3.5.1 We proposed to look at ways to simplify and streamline processes to be more efficient and responsive. Any changes would be subject to consultation. Respondents agreed with the ambition and the need for consultation, including making sure that practicalities are addressed.

Our response

- 3.5.2 We will continue as planned. We do not intend to bring forward proposals concerning JIB reporting in 2027, reflecting the need for a period of stability while firms embed the Basel III changes.

4 Next steps

4.1 Code of practice

- 4.1.1 Before the end of October 2026, we will issue a draft revised Banking Code: Main body, on our page: [Basel III — Jersey Financial Services Commission](#)
- 4.1.2 This addresses the Pillar 2 and Prudential reporting changes, as well as the replacement of old prudential material with our new Prudential code parts.
- 4.1.3 It also addresses the removal of the letter of comfort requirements.
- 4.1.4 This will come into effect from 1 July 2027. It includes provisions that allow earlier transition to Basel III on a case by case basis and for earlier cancellation of existing letters of comfort.
- 4.1.5 We intend to finalise the Banking Code: Main body in December 2026, addressing any concerns raised before the end of November 2026.

4.2 Pillar 2 guidance

- 4.2.1 We will publish our guidance on transition and a draft revised Pillar 2 guidance note by the end of October 2026, both on our page: [Basel III — Jersey Financial Services Commission](#)
- 4.2.2 The transitional guidance applies immediately and be withdrawn once all banks have transitioned.
- 4.2.3 The Pillar 2 guidance will come into effect for ICAAPs submitted after their transition date.
- 4.2.4 We intend to finalise the Pillar 2 guidance in January 2027, addressing any concerns raised before the end of 2026.

4.3 Prudential reporting

- 4.3.1 We will published revised templates and draft revised or new completion guidance by early November 2026, on our page: [Basel III — Jersey Financial Services Commission](#)
- 4.3.2 The guides will come into effect for prudential submissions submitted after the transition date – reporting for the quarter end 30 September 2027, unless earlier transition has been agreed.
- 4.3.3 We intend to finalise completion guidance in December 2026, addressing any concerns raised before the end of November 2026.

Glossary

Defined terms used throughout this consultation and herein are as follows:

Banking code: Main Body	Deposit-taking business code of Practice: Main Body
Basel III	Latest revision of the Basel Framework
Basel Framework	International standard for bank prudential regulation
BBJL	Banking Business (Jersey) Law 1991
BLP	Bank Licensing Policy
Capital Buffer	Amount by which a capital ratio must exceed the relevant minimum in order to not trigger a requirement to notify the JFSC. The sum of the Capital Conservation Buffer and any Pillar 2 buffer set by us.
Capital Conservation Buffer	Standard Capital Buffer for all JIBs, set at 2.5%
Commission Law	Financial Services Commission (Jersey) Law 1998
ECAI	External credit assessment institution
ICAAP	The term ICAAP is used herein to refer to the document that records the considerations made and conclusions reached as a result of a bank's internal capital and liquidity adequacy assessment processes and its recovery plans
JDCS	Jersey Bank Depositors Compensation Scheme
Jersey branch	The Jersey branch of an OIB
JFSC / us / we	Jersey Financial Services Commission
JIB	Jersey incorporated bank, being a registered person incorporated in Jersey
JRDCA	Jersey Resolution and Depositors Compensation Authority
OIB	Overseas incorporated bank, being a registered person incorporated in a jurisdiction other than Jersey
Pillar 1	One of the three Pillars established in Basel II, this deals with the formulaic calculation of minimum regulatory capital requirements in respect of credit, market and operational risk.

Pillar 2	One of the three Pillars established in Basel II, this covers a requirement for each JIB to assess and record the full range of risks to which it is exposed, the mitigation it applies and any resultant capital requirement in addition to that generated under Pillar 1.
Pillar 2 buffer	Increase in the Capital Buffer set by us, over and above the Capital Conservation Buffer, to address risks, following the completion of an ICAAP review.
Rated exposures	Those where the risk weight is determined by reference to a credit assessment from an ECAI
Registered person	A person who is registered, or holds a permit or certificate, as applicable, under one or more of the regulatory laws
SME	Small and Medium-sized Entities, as defined by the JFSC.