



# JRA Funding in 2024

Issued: December 2023

## Glossary of terms

Defined terms are indicated throughout this document as follows:

Branch	The Jersey Branch of an Overseas Incorporated Bank
Jersey Bank	A person registered to carry on deposit-taking business in or from within Jersey under the Banking Law
Jersey DCS	Jersey Bank Depositors Compensation Scheme
JFSC	Jersey Financial Services Commission
JRA	Jersey Resolution Authority
Resolution Law	Bank (Recovery and Resolution) (Jersey) Law 2017
Subsidiary	shall be construed in accordance with Article 2 of the Companies Law

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# 1 Executive Summary

## 1.1 Overview

- 1.1.1 The JRA is established under the Resolution Law to minimise the impact of a bank failure and to ensure public funds are protected. The JRA is independent from Government and the Jersey Financial Services Commission (JFSC). The JRA is funded by industry.
- 1.1.2 This paper has been sent to all Jersey Banks to provide details of the annual levy that the JRA will require to fund its operations in 2024.
- 1.1.3 JRA budgeted recurring expenditure for 2024 has been set at £411,350 (2023 forecast: £362,172; 2023 budget £398,500).
- 1.1.4 Non-recurring expenditure in 2024 is estimated to be £75,000 (2023 forecast: £53,000; 2023 budget Nil). This reflects planned projects to integrate responsibility for the Jersey Bank Depositors Compensation Scheme (Jersey DCS) and external support to assist in developing the JRA's Valuation Standard.
- 1.1.5 Combined with £9,150 in respect of our administrative reserve, it is proposed to levy Jersey Banks a total of £495,500 for 2024 (2023: £416,500).
- 1.1.6 In addition, we have listened to feedback and reviewed the methodology used to allocate our administration levy across Jersey Banks. As a result, we have adopted a methodology that:
  - 1.1.6.1 Applies a base levy to all Jersey Banks (doubled in the case of Subsidiaries);
  - 1.1.6.2 Applies a premium to those Jersey Banks that the JRA has determined perform Critical Functions in Jersey (the premium is allocated proportionate to each bank's Total Customer Deposits at the preceding calendar year end).

## 1.2 Feedback

- 1.2.1 Comments are invited from interested parties on the proposals by 31 January 2024.
- 1.2.2 Comments should be sent to Martin Edwards, Head of the JRA at: [m.edwards@jerseyfsc.org](mailto:m.edwards@jerseyfsc.org)
- 1.2.3 Comments may be made anonymously via Lisa Springate at Jersey Finance Limited: [Lisa.Springate@jerseyfinance.je](mailto:Lisa.Springate@jerseyfinance.je)
- 1.2.4 Comments received may be shared with the JFSC to the extent necessary to facilitate completion of the JRA's budgeting and annual administration levy process.

## 1.3 Next Steps

- 1.3.1 It is intended that the annual administration levy for 2024 will be declared in the first quarter of 2024.
- 1.3.2 A Notice will be sent to each Jersey Bank, providing details of the invoice amount and the date payable.

## 2 The JRA

### 2.1 Overview

- 2.1.1 The JRA is established under the Resolution Law to minimise the impact of a bank failure and to ensure public funds are protected. The JRA is independent from Government and the Jersey Financial Services Commission.
- 2.1.2 The JRA plays a key role in upholding Jersey's status as a leading international finance centre by:
  - 2.1.2.1 reducing the risk of financial loss due to bank failure;
  - 2.1.2.2 protecting and enhancing the reputation and integrity of Jersey; and
  - 2.1.2.3 considering the best economic interests of Jersey.

### 2.2 Annual Administration Levies

- 2.2.1 The Resolution Law requires that the JRA shall adopt a budget for each financial year (being the 12 months ending 31 December each year) and that, based on that budget, the JRA shall determine whether to raise an annual administration levy and, if so, the total amount to levy.
- 2.2.2 The Resolution Law provides that an annual administration levy may be raised to:
  - 2.2.2.1 Cover annual recurring administrative costs;
  - 2.2.2.2 Maintain a reserve for potential future administrative costs (by way of contingency or otherwise); and
  - 2.2.2.3 Maintain a reserve against the possibility, in the event of a bank resolution, of the JRA wishing to pay administrative costs without needing to wait for receipt of other funding for these costs.
- 2.2.3 The Resolution Law provides that the JRA shall determine the method of calculation of the annual administration levy to be paid by each Jersey Bank and, as soon as practicable, to send written notice to each Jersey Bank requiring it to pay the annual administration levy.

## 3 Proposals

### 3.1 2024 Budget and Annual Administration Levy

- 3.1.1 The JRA’s total budgeted expenditure for 2023 was £398,500 (all recurring).
- 3.1.2 In April 2023 we identified a need to utilise some additional external resource to ensure we could complete our planned programme of work. Accordingly, our total costs for 2023 are forecast to be £415,172. This includes non-recurring costs of £53,000.
- 3.1.3 The JRA’s budgeted recurring expenditure for 2024 has been set at £411,350 (a 3.2% increase versus 2023 budgeted recurring costs and 13.6% increase versus 2023 forecast recurring costs). This reflects inflationary increased to the JRA’s cost base.
- 3.1.4 Non-recurring expenditure in 2024 is budgeted at £75,000. This represents:
- 3.1.4.1 £50,000 for additional resource and other external costs associated with a project to transfer responsibility for the Jersey DCS to the JRA; and
  - 3.1.4.2 £25,000 to provide external support to assist with development of the JRA’s Valuation Standard and associated Data Set<sup>1</sup>.
- 3.1.5 Non-recurring costs associated with the transfer of responsibility for the Jersey DCS are necessary to ensure that the operations of the Jersey DCS are integrated with the JRA with minimal disruption and to enable the JRA to continue to prioritise rollout of Jersey’s Resolution Regime.
- 3.1.6 The table below provides a further breakdown 2024 budgeted costs and comparison to 2023 budget and forecast:

	2024 Budget	2023 Forecast	2023 Budget
Board Fees	£55,000	£50,000	£50,000
Staff Costs	£225,000	£201,000	£225,000
JFSC Service Charge	£82,500	£75,000	£75,000
Other Recurring Costs	£48,850	£36,172	£48,500
<b>Total Recurring Costs</b>	<b>£411,350</b>	<b>£362,172</b>	<b>£398,500</b>
Non-recurring costs	£75,000	£53,000	-
<b>Total Costs</b>	<b>£486,350</b>	<b>£415,172</b>	<b>£398,500</b>

<sup>1</sup> As envisaged by the phased rollout of the Valuations risk to resolution set out in PS2023/01 ‘Resolution Planning and Resolvability’: <https://ira.org.je/images/documents/20230811-PS2023-01-JRA-Approach-to-Resolution-Planning-and-Resolvability-v01.00-clean.pdf>

- 3.1.7 Our administrative reserve policy remains unchanged. Applying this to 2024 budgeted recurring costs results in:
- 3.1.7.1 Minimum Level of Reserves (2 months’ recurring expenditure) of £68,558; and
- 3.1.7.2 Target Level of Reserves (4 months’ recurring expenditure) of £137,117.
- 3.1.8 We forecast reserves of £109,500 at the end of 2023. Accordingly, a levy for reserves of £9,150 is planned for 2024.
- 3.1.9 As a result, the proposed Annual Administration Levy for 2024 is set out in the table below:

	2024	2023
Levy for recurring costs	£411,350	£398,500
Levy for non-recurring costs	£75,000	-
Levy for reserves	£9,150	£18,000
<b>Total Annual Administration Levy</b>	<b>£495,500</b>	<b>£416,500</b>

## 3.2 Levy Methodology

- 3.2.1 For 2022 and 2023 the JRA’s Annual Administration Levy was allocated across Jersey Banks in the same proportion that the JFSC’s Fees for Deposit-taking business are allocated. Whilst this broadly resulted in larger more complex banks receiving a greater allocation of the levy, we received feedback from some banks that this approach is not necessarily reflective of where the JRA will focus its time and resources in terms of resolution planning.
- 3.2.2 Accordingly, during 2023 we have reviewed our methodology with the aim of achieving a methodology that:
- 3.2.2.1 Remains simple to calculate; and
- 3.2.2.2 Allocates our administration levy consistent with where the JRA expects to focus its resources over time.
- 3.2.3 We have considered several potential options and sub-options, including the option of retaining our existing methodology and the option of simply allocating costs equally across all Jersey Banks.
- 3.2.4 Our favoured options were those that aligned to the JRA’s risk-based approach to resolution planning, which focuses more on those Jersey Banks that have been determined as performing Critical Functions and on Subsidiaries more than Branches.

3.2.5 Our proposed allocation methodology is set out in the table below:

	Description	Formula	Illustration based on 2024 proposed levy
<b>Base Levy</b>	75% of the Total Annual Administration Levy will be allocated evenly across banking groups operating in Jersey except that those with Subsidiaries will receive a base levy that is double that of Branches.	<p>Base Levy for Branches = 75% of Total Annual Administration Levy / (Number of banking groups + number of Subsidiaries).</p> <p>Base Levy for Subsidiaries = 2 x Base Levy for Branches.</p>	<p>Base Levy for Branches = (75% x £495,500) / (18 + 4) = £16,892.</p> <p>Base Levy for Subsidiaries = 2 x £16,892 = £33,784.</p>
<b>Premium</b>	25% of the Total Annual Administration Levy will be allocated across banking groups that perform Critical Functions in Jersey in proportion to those banks' Total Customer Deposits <sup>2</sup> as at 31 December of the preceding year.	A Jersey Bank's Premium Levy = 25% of Total Annual Administration Levy * (The Jersey Bank's Total Customer Deposits / Sum of Total Customer Deposits of all Jersey Bank's performing Critical Functions).	<p>Varies by bank and providing a full illustration is not possible without disclosing confidential information.</p> <p>However, £123,875 would be allocated across Jersey Banks that perform Critical Functions based on their proportion of the Sum of Total Customer Deposits of these banks (at 31 December 2022 this total was £99.8m).</p>
<b>New Banks</b>	A new banking group will be charged a Base Levy (calculated based on the above) in the year that it first receives its Deposit-taking registration from the JFSC.		
<b>Ceasing Banks</b>	<p>All banking groups that hold a registration on 1 January will receive a levy for that calendar year. No refunds will be provided for banks that subsequently cease during the year.</p> <p>However, the JRA will retain the discretion to remove an inactive bank that is in the course of closing from the annual levy cycle.</p>		

<sup>2</sup> As reported on tab 2.3 BS Liabilities of each bank's Q4 prudential return to the JFSC. Total Customer Deposits taken as the sum of rows A.4, A.5, A.6, and A.7.



- 3.2.6 Based on the current composition of Jersey’s banking industry and the JRA’s current determination of which Jersey Banks perform Critical Functions, the above methodology results in:
  - 3.2.6.1 Jersey Banks performing Critical Functions bearing approximately 70% of our levy in total; and
  - 3.2.6.2 Subsidiaries bearing approximately 40% of our levy in total.
- 3.2.7 Noting plans to transfer responsibility for the Jersey DCS to the JRA, we considered whether it was appropriate to delay making any changes to our allocation methodology. However, we believe that the above methodology is likely to remain reasonable post integration.

### **3.3 Future Annual Administration Levies**

- 3.3.1 Due to the plans to transfer responsibility for the Jersey DCS to the JRA at the end of 2024, it is not currently possible to provide an indication of the likely level of expenditure (and hence levy) in 2025.
- 3.3.2 Whilst some cost savings are expected (compared to the sum of both agencies’ costs), these may not be fully realised in 2025.
- 3.3.3 In budgeting for 2024 the JRA has based its calculations on no Jersey Bank becoming financially distressed or entering resolution. Were such events to take place, the JRA would incur additional administrative costs, which may result in an increased annual administration levy or additional ‘top-up’ administration levy during the year.

**Appendix A: List of representative bodies who have been sent this funding paper**

- 1.1 Jersey Bankers Association
- 1.2 Jersey Finance Limited