



Consultation Paper 2024/02

The JRA's Valuations Standard

A consultation on the JRA's planned Standard for Valuation Capabilities required to support Resolvability and an associated Valuation Data Set.

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Glossary of terms

Defined terms are indicated throughout this document as follows:

Bank	A person registered to carry on deposit-taking business in or from within Jersey under the Banking Law; or A company incorporated under the Companies Law that is a Holding Company or a Subsidiary of a person so registered.
Banking Law	Banking Business (Jersey) Law 1991.
Companies Law	Companies (Jersey) Law 1991.
Critical Function	Activities, services or operations the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy in Jersey or the disruption of financial stability due to the size, market share, external and internal interconnectedness, complexity, or cross-border activities of a bank or bank’s group, with particular regard to the substitutability of those activities, services or operations.
Holding Company	Has the meaning given by Article 2(4) of the Companies Law.
Jersey Bank	A person registered to carry on deposit-taking business in or from within Jersey under the Banking Law.
Jersey Incorporated Bank (JIB)	A Jersey incorporated company registered to carry on deposit-taking business under the Banking Law.
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.
Valuations Standard	The JRA’s Standard for Valuation Capabilities required to support Resolvability (a draft of which is appended to this consultation).
Valuer	An independent Valuer, appointed by the JRA, responsible for producing the valuations required for resolution.

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1 Executive Summary

1.1 Overview

- 1.1.1 The JRA is established as Jersey's Resolution Authority, under the Resolution Law, to minimise the impact of the failure of a Jersey Bank and to ensure public funds are protected.
- 1.1.2 On 11 August 2023 the JRA issued Policy Statement 2023/01 'Resolution Planning and Resolvability' (PS2023/01), which sets out the overriding requirements and capabilities that the JRA expects Jersey Banks to develop to demonstrate that they are resolvable.
- 1.1.3 This Consultation Paper sets out the JRA's Valuations Standard. The Valuations Standard sets out the JRA's expectations in relation to the capabilities Jersey Incorporated Banks (JIBs) will need to develop to be able to perform the valuations required to support resolution. It expands on the requirements set out in PS2023/01.
- 1.1.4 The Valuations Standard is relevant to all JIBs but primarily to those that the JRA has determined perform Critical Functions in Jersey.
- 1.1.5 The Valuations Standard is also relevant to Valuers who may be appointed by the JRA to perform the required valuations in resolution.

1.2 Feedback

- 1.2.1 Comments are invited from interested parties on the proposals by **no later than 1 November 2024**.
- 1.2.2 Comments should be sent by email to Martin Edwards, Head of the JRA at: info@jra.org.je
- 1.2.3 Whilst we encourage respondents to provide comments directly to us, should you wish to submit comments anonymously, please provide comments via Jersey Finance Limited (JFL). Please submit comments **by 1 November 2024** to Lisa Springate, Head of Legal and Technical at: Lisa.Springate@jerseyfinance.je

1.3 Next Steps

- 1.3.1 The JRA will review and consider all feedback received. Where appropriate, the JRA will amend the Valuations Standard.
- 1.3.2 It is intended that a Feedback Paper will be issued in December 2024 along with final version of the Valuations Standard.

2 Consultation

2.1 Basis for consultation

- 2.1.1 The JRA has produced the Valuations Standard set out in Appendix B to further set out expectations of JIBs in respect of the valuation capabilities they are expected to develop.
- 2.1.2 The Valuations Standard builds on the requirements in the Resolution Law and PS2023/01.
- 2.1.3 We will use the Valuations Standard when performing our resolvability assessments of JIBs. We expect JIBs to perform self-assessments of compliance with the Valuations Standard in accordance with timeframes prescribed by PS2023/01 for the Valuations risk to resolution, the first of which is due by 30 June 2025.
- 2.1.4 Where JIBs cannot demonstrate the requirements have been met, the JRA has powers under the Resolution Law to require them to implement measures to improve their resolvability.
- 2.1.5 Section 4 of this consultation paper introduces the Valuations Standard and explains how it is structured. Section 5 sets out the specific consultation questions upon which we are seeking feedback.

2.2 Who will be affected by the proposals?

- 2.2.1 The proposed Valuations Standard will impact on JIBs and primarily on those that the JRA has determined perform Critical Functions in Jersey.
- 2.2.2 The level of impact will vary depending on the nature of each JIB. Those with complex and difficult to value assets and liabilities will likely need to perform more work to meet the expectations set out in the Valuations Standard.
- 2.2.3 JIBs that are part of groups that have already implemented resolution planning requirements will be less impacted than those that are not part of such groups.

2.3 Responding to the consultation

- 2.3.1 Comments are invited from interested parties on the proposals by **no later than 1 November 2024**.
- 2.3.2 Comments should be sent by email to Martin Edwards, Head of the JRA at: info@jra.org.je
- 2.3.3 We encourage respondents to respond to all relevant questions, however this is not mandatory.
- 2.3.4 We encourage responses on a named basis as this will enable bilateral dialogue on the feedback provided.
- 2.3.5 Should you wish to submit comments anonymously, please provide comments via JFL. JFL will then submit your anonymised comments to the JRA. Comments should be submitted to JFL **by 1 November 2024**. The JFL contact is Lisa Springate, Head of Legal and Technical at: Lisa.Springate@jerseyfinance.je
- 2.3.6 Unless otherwise requested by the respondent, the JRA will aggregate responses and paraphrase them on an anonymised basis for the purposes of producing a Feedback Paper. If a sufficient volume of responses are received, a list of respondents will be published in an appendix to the Feedback Paper.

2.4 Next steps

- 2.4.1 The JRA will review and consider all feedback received. Where appropriate, the JRA will amend the Valuations Standard.
- 2.4.2 It is intended that a Feedback Paper will be issued in December 2024 along with final version of the Valuations Standard.

3 The JRA

3.1 Overview

- 3.1.1 The JRA is established under the Resolution Law to minimise the impact of a bank failure and to ensure public funds are protected.
- 3.1.2 The JRA plays a key role in upholding Jersey’s status as a leading international finance centre by:
 - 3.1.2.1 reducing the risk of financial loss due to bank failure;
 - 3.1.2.2 protecting and enhancing the reputation and integrity of Jersey; and
 - 3.1.2.3 considering the best economic interests of Jersey.

3.2 Our functions

- 3.2.1 Article 7 of the Resolution Law sets out the JRA’s statutory responsibilities to:
 - 3.2.1.1 make preparations to facilitate the resolution of Banks;
 - 3.2.1.2 administer the resolution of Banks;
 - 3.2.1.3 carry out such functions in relation to Bank resolution or recovery or such incidental or ancillary matters as are required or authorised by the Resolution Law or the Regulations; and
 - 3.2.1.4 carry out such other functions as are conferred on it by the Resolution Law or any other enactment.

3.3 Guiding principles

- 3.3.1 Article 8 of the Resolution Law provides that, in exercising our functions, the JRA may take into account any appropriate matter, but that we should have particular regard to:
 - 3.3.1.1 the reduction of the risk to the public of financial loss due to the financial unsoundness of a Bank;
 - 3.3.1.2 the protection and enhancement of the reputation and integrity of Jersey in commercial and financial matters; and
 - 3.3.1.3 the best economic interests of Jersey.

3.4 Resolution Objectives

- 3.4.1 Article 33 of the Resolution Law provides that, in exercising our resolution powers or applying resolution tools in respect of a Bank, we should have regard to and choose resolution tools and powers that best achieve the following resolution objectives:
- 3.4.1.1 to ensure the continuity of banking services in Jersey and the provision of Critical Functions in Jersey;
 - 3.4.1.2 to protect and enhance the stability of the financial system in Jersey, including by preventing contagion and maintaining market discipline;
 - 3.4.1.3 to protect and enhance public confidence in the stability of the financial system in Jersey;
 - 3.4.1.4 to protect public funds, including by minimizing reliance on extraordinary public financial support;
 - 3.4.1.5 to protect eligible depositors to the extent that they have covered deposits; and
 - 3.4.1.6 to protect client assets.

4 Proposed Valuations Standard

4.1 Overview

- 4.1.1 The JRA's proposed Valuations Standard is set out in Appendix B.
- 4.1.2 The draft Valuations Standard is part of our phased rollout of Jersey's Resolution Regime, having committed to consult on it in quarter three 2024.
- 4.1.3 Valuations are an important part of any resolution process as they support and inform the decisions of resolution authorities in respect of the resolution actions necessary. However, carrying out timely and robust valuations in resolution is an inherently complex task. There is a substantial amount of analysis that will be required in a relatively short timeframe. Accordingly, it is important that banks develop necessary capabilities to be able to support valuations in resolution.

4.2 Expected Valuation Capabilities

- 4.2.1 The proposed Valuations Standard builds on the valuation requirements in Section 5.2 of PS2023/01 by setting out, in Section 4, the capabilities that JIBs are expected to develop to support resolvability. These capabilities are organised around seven principles being:
 - 4.2.1.1 Data and Information;
 - 4.2.1.2 Models;
 - 4.2.1.3 Methodologies;
 - 4.2.1.4 Assumptions;
 - 4.2.1.5 Governance;
 - 4.2.1.6 Documentation; and
 - 4.2.1.7 Assurance.
- 4.2.2 We have sought to align these valuation capabilities to those required by the Bank of England in its Statement of Policy on valuation capabilities to support resolvability¹.
- 4.2.3 The proposed Valuations Standard will apply to JIBs only. This is because it is expected that, for Jersey Branches of Overseas Incorporated Banks, any resolution valuations will be conducted at a legal entity or group level in the home jurisdiction.

¹ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/bank-of-englands-sop-valuation-capabilities-to-support-resolvability-may-2021.pdf?la=en&hash=76B01E08F3ED5D168A7296A505024CF1627419B0>

4.3 Valuation Data Set

- 4.3.1 The JRA has developed a Valuations Data Set Template (Appendix C) designed to facilitate collection of data that may be required to value a JIB's assets. It is envisaged that the Valuations Data Set Template will be used for the following purposes:
- 4.3.1.1 JIBs that do not perform Critical Functions in Jersey will be required to develop capabilities to produce this data on a reliable basis within two weeks of a request from the JRA. This will support contingent resolution planning and allow the JRA to explore alternative resolution strategies to bank-winding up;
 - 4.3.1.2 JIBs that perform Critical Functions in Jersey may wish to use the template as guidance when developing capabilities to produce the data required for valuation purposes or on an interim basis pending developing of internal valuation models; and
 - 4.3.1.3 The JRA may request JIBs complete the Valuations Data Set Template to enable contingent resolution planning in cases where a JIB cannot readily produce valuations of its assets.

4.4 Guidance for JIBs and Valuers

- 4.4.1 As well as detailing the capabilities that JIBs are expected to develop, Section 5 of the Valuations Standard includes:
- 4.4.1.1 A summary of the valuations that are required during a resolution;
 - 4.4.1.2 Our expectations of Valuers and guidance to be followed when performing the required valuations; and
 - 4.4.1.3 Our planned approach to ensuring Valuer independence.
- 4.4.2 Guidance for Valuers on how to perform the required valuations and our approach to Valuer independence are set out by reference to the relevant regulatory technical standards adopted in the United Kingdom. This is an efficient approach, and we have options in respect of whether to refer to the regulatory technical standards in force at the time we issue the Valuations Standard or those as amended from time to time.
- 4.4.3 Referring to the regulatory technical standards in force at the time we issue the Valuations Standard gives us flexibility regarding whether we adopt changes to standards in the future. However, this could result in unwelcomed differences between the Jersey and United Kingdom valuation methodology. Accordingly, we are interested in the views of Jersey Banks and prospective Valuers on which would be the preferred approach.
- 4.4.4 Finally, recognising the comprehensive guidance provided by the Bank of England in respect of valuations in resolution, Section 6 of the Valuations Standard adopts the Bank of England's guidance² for use by both JIBs and Valuers.
- 4.4.5 Since all current JIBs are part of banking groups headquartered outside of Jersey, we draw specific attention to the relevant section of the Bank of England's guidance covering valuations in the context of overseas-led resolutions.

² Bank of England Dear CFO letter Annex 2: Guidance on valuation capabilities to support resolvability: <https://www.bankofengland.co.uk/-/media/boe/files/letter/2018/guidance-on-valuation-capabilities-to-support-resolvability.pdf>

5 Consultation Questions

The table below sets out the questions that the JRA seeks feedback on and the corresponding pages of the draft Valuations Standard containing content relevant to each question.

Page	Question
6	Question 1: Do you agree with the capability requirements relating to Data and Information? If not, please explain why.
7	Question 2: Do you agree with the capability requirements relating to Models? If not, please explain why.
7	Question 3: Do you agree with the capability requirements relating to Methodologies? If not, please explain why.
8	Question 4: Do you agree with the capability requirements relating to Assumptions? If not, please explain why.
8	Question 5: Do you agree with the capability requirements relating to Governance? If not, please explain why.
9	Question 6: Do you agree with the capability requirements relating to Documentation? If not, please explain why.
10	Question 7: Do you agree with the capability requirements relating to Assurance? If not, please explain why.
11-12	Question 8: Do you agree with our expectations of Valuers and the adoption of United Kingdom regulatory technical standards in respect of valuation methodologies to be applied? If not, please explain why.
12	Question 9: Do you have a preference in terms of whether we adopted United Kingdom regulatory technical standards at a point in time or as amended? Please explain the rationale for your preference.
12	Question 10: Do you agree with our planned approach to Valuer independence? If not, please explain why.
13	Question 11: Are you comfortable with the adoption of guidance issued by the Bank of England in respect of valuation capabilities to support resolvability? If not, please explain why.
All	Question 12: Are there aspects of Valuations in Resolution that are not adequately captured by the draft Valuations Statement? If so, please explain.
All	Question 13: Do you have any other feedback in relation to the content of the draft Valuations Statement?
Data Set	Question 14: Are you comfortable with our Valuation Data Set and our planned approach to using it? If not, please explain why.

Appendix A: List of representative bodies and other persons who have been sent this consultation

- 1.1 All persons registered to carry on deposit-taking business in or from within Jersey under the Banking Law
- 1.2 Jersey Banker's Association
- 1.3 Jersey Financial Services Commission
- 1.4 Government of Jersey
- 1.5 Jersey Bank Depositors Compensation Board
- 1.6 Jersey Society of Chartered and Certified Accountants

Appendix B: Draft Standard for Valuation Capabilities required to support Resolvability

The JRA's draft Valuations Standard is appended as a separate document.

Appendix C: Draft Valuation Data Set Template

An Excel version of the JRA's draft Valuations Data Set Template is appended as a separate document.