



Feedback Paper 2024/01

The JRA's Valuations Standard

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

Issued: 12 December 2024

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.
Consultation Paper	Consultation Paper 2024/02 'The JRA's Valuations Standard'
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.
EBA	The European Banking Authority.
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.
SRB	The Single Resolution Board
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 On 16 September 2024 we issued a Consultation Paper that sought views on our draft Standard for Valuation Capabilities required to support Resolvability (Valuations Standard) and an associated Valuations Data Set (the Consultation Paper).
- 1.1.2 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 our Policy Statement 2023/01 'Resolution Planning and Resolvability'.
- 1.1.3 This Feedback Paper summarises the feedback we received and our response to that feedback.
- 1.1.4 We have considered the feedback received and made changes to the Valuations Standard. No changes have been made to the Valuations Data Set. The final versions of the Valuations Standard and Valuations Data Set are appended to this Feedback Paper (including a tracked change version of the Valuations Standard), and both will be published on our website.

1.2 Feedback received

- 1.2.1 We received written responses from four respondents, two of which are JIBs. Given the low number of responses we have concluded not to publish a list of respondents. Not all respondents commented on every question raised in the consultation.
- 1.2.2 Section 2 of this Feedback paper sets out a summary of the substantive comments received and our responses to that feedback. In general respondents were supportive of the approach set out in the Valuations Standard.
- 1.2.3 Based on the feedback received we have made amendments to Valuations Standard but not to the Valuations Data Set. The amendments are set out in Section 2, with the main changes being to:
 - 1.2.3.1 Clarify the scope of the Valuations Standard, particularly in relation to JIBs that do not perform Critical Functions;
 - 1.2.3.2 Clarify the ability of JIBs to utilise group capabilities to meet some of the requirements of the Valuations Standard whilst retaining overall responsibility for the valuations;
 - 1.2.3.3 Clarify that the level of granularity of data needed to support valuations may vary depending on the nature of assets and liabilities and the time available to produce valuations;
 - 1.2.3.4 Add a requirement to ensure valuation models are subject to model validation processes;
 - 1.2.3.5 Acknowledge that, in limited circumstances a JIB may identify that it does not need to have any valuation models in place on an ex-ante basis (subject to demonstrating that models could be built if needed and that it can provide rapid access to required data and information);
 - 1.2.3.6 Add a recommendation that JIBs develop Virtual Data Room capabilities to enable documentation to be shared with both the JRA and Valuers on a timely basis;

- 1.2.3.7 Clarify methods that the JRA may use to test compliance with the Valuations Standard;
- 1.2.3.8 Adopt the relevant United Kingdom regulatory technical standards as guidance for Valuers performing valuations in resolution.
- 1.2.4 We are grateful to all those who took time to participate in the consultation process.

1.3 Next steps

- 1.3.1 We have taken account of the feedback received and made some amendments to our Valuations Standard. We did not feel it was necessary to amend the Valuations Data Set at this time.
- 1.3.2 Final versions of the Valuations Standard and Valuations Data Set (including a tracked change version of the Valuations Standard) are appended and will be published on our website.
- 1.3.3 JIBs should put in place appropriate plans, leveraging group capabilities where relevant, to ensure that they can meet the requirements set out in the Valuations Standard. Self-assessments in respect of valuations are due by 30 June 2025.
- 1.3.4 Further enquiries in relation to the Consultation Paper, this Feedback Paper or the Valuations Standard may be sent to Martin Edwards, Head of the JRA (m.edwards@jra.org.je).

2 Consultation Feedback

The table below summarises the feedback received in response to the Consultation Paper along with our response. The ordering of questions mirrors the order of questions in the Consultation Paper.

Consultation Question	Respondents' Comments	JRA Response
<p>Question 1: Do you agree with the capability requirements relating to Data and Information? If not, please explain why.</p>	<p>Three respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - Another recommended that JIBs are not required to maintain data and information in a virtual data room (paragraph 4.1.8 of the Valuations Standard); - The third largely agreed with requirements but expressed concern that the requirement to maintain data in a virtual data room daily is too onerous. It also set out several ways they could be enhanced further through comparison to requirements in Europe and other jurisdictions. They recommended: <ul style="list-style-type: none"> o Adding explicit requirements to stress test Management Information Systems; o Allowing Valuers to seek expert legal or technical advice; o Requiring use of a common data dictionary; o Allowing different levels of data granularity either due to the nature of asset portfolios or practical constraints such as time available. 	<p>In respect of paragraph 4.1.8 of the Valuations Standard, the requirement to maintain data and information in a virtual data room is not mandatory. Rather the JRA would require it if a JIB's processes are deemed insufficient. The frequency by which data in the data room is updated would depend on various factors, including proximity to failure.</p> <p>We have amended Section 4.1 of the Valuations Standard to make it clear that the granularity of required data may vary depending on the nature of assets and liabilities and the time available to produce valuations in a resolution event.</p> <p>Testing of data and information capabilities is already envisaged by both Sections 4.1 and 4.7 of the Valuations Standard. Additionally, the Valuations Standard allows for Valuers to seek expert legal and technical advice (as this is set out in Article 2 of Commission Delegated Regulation (EU) 2018/344).</p> <p>We have not made amendments to require a common data dictionary as this would reduce alignment to the Bank of England's requirements.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 2: Do you agree with the capability requirements relating to Models? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other noted that the requirements are generally appropriate and reasonable and made some recommendations for enhancements including: <ul style="list-style-type: none"> o Highlighting the need to document model changes, design choices and limitations as well as instructions for data population; o Allowing a simpler approach (on the grounds of proportionality) if JIBs can demonstrate that an external valuer could conduct timely and robust valuations using alternative means; o Allowing JIBs to utilise external experts to assist in developing models; o Being more prescriptive regarding which assets or liabilities must be captured by valuation models; o Prescribing minimum criteria that JIBs should ensure their models can support; and o Prescribing the types of financial statement projections that would need to be produced. 	<p>In line with our overriding principles-based approach to developing our valuations standard we have not added prescriptive details regarding which assets or liabilities must be captured by valuations, the criteria that models must support or the types of financial statement projections that would need to be produced. We will work with JIBs on a bilateral basis to ensure the models they develop are fit for purpose.</p> <p>Additionally, we note that Section 4.6 of the Valuations Standard sets out various documentation requirements including in respect of model development, maintenance and operation.</p> <p>We have added paragraph 4.2.5 to reflect that, in limited circumstances, JIBs may be able to justify that valuation models do not need to be developed ex-ante. This aligns with requirements of the Bank of England's Statement of Policy on valuation capabilities to support resolvability.</p> <p>Finally, whilst we have not amended the Valuations Standard in this respect, we agree that it may be useful for JIBs to engage external experts to assist them in either developing or validating valuation models. The JRA may utilise such experts either as part of resolvability assessments or final contingency planning in advance of a resolution event.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 3: Do you agree with the capability requirements relating to Methodologies? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other noted that the requirements are appropriate and justifiable and suggested including reference to a guiding valuations standard such as the Fair Value definition in International Financial Reporting Standard (IFRS) 13 “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” 	<p>The Fair Value definition in IFRS 13 would be a relevant standard for JIBs to use when developing valuation methodologies that are consistent with market best practice.</p> <p>However, given the international nature of existing JIBs and the potential for different standards to be preferable, we have not included specific reference to this in our Valuations Standard thereby giving JIBs flexibility.</p>
<p>Question 4: Do you agree with the capability requirements relating to Assumptions? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other noted that the requirements are appropriate but emphasised that: <ul style="list-style-type: none"> o The EBA focuses on testing and verification of assumptions (including by independent experts); o JIBs should provide transparent documentation of the process by which assumptions are developed; and o Assumptions should be reflective of a set of assumptions that would be developed by a market participant (i.e. in line with what others would use). 	<p>Section 4.4 of the Valuations Standard requires that JIBs have processes that support the use of realistic valuation assumptions and Section 4.7 requires review and evaluation of capabilities either internally or via independent experts.</p> <p>Section 4.6 of the Valuations Standard sets out requirements to document assumptions, what informed the choice of assumptions, the rationale for their use and how they were approved.</p> <p>Whilst not explicit, we believe that the requirement to support use of realistic valuation assumptions means that such assumptions should be in line with those that others would use to value the assets and liabilities of the JIB.</p> <p>On the above basis, we have not amended the Valuations Standard in relation to the feedback received.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 5: Do you agree with the capability requirements relating to Governance? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other generally agreed with the requirements and suggested the following enhancements: <ul style="list-style-type: none"> o Requiring back-up personnel and procedures to maintain operational continuity of valuations capabilities; o Various detailed requirements for a committee to oversee compliance with the Valuations Standard; o Adopting a principles-based approach aligned to the Bank of England; and o Requiring robust model validation processes aligned to the Prudential Regulation Authority's policy statement on Model risk management principles for banks (including that critical models are tested annually by independent experts). 	<p>Whilst not explicitly referred to in the Valuations Standard, the requirement to maintain valuation capabilities and governance over valuations throughout resolution naturally requires that JIBs consider operational continuity of their valuations capabilities.</p> <p>We based the Valuations Standard on the principles-based approach set out in the Bank of England's policy statement on valuation capabilities to support resolvability. Accordingly, we do not feel it is necessary to add prescriptive requirements associated with committees to oversee compliance with the Valuations Standard.</p> <p>We believe model validation is an important aspect of achieving robust valuation capabilities and have added paragraph 4.2.4 to the Valuations Standard to reflect this. Whilst we have not mandated use of experts, doing so on a risk-based approach would be consistent with the assurance requirements of Section 4.7.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 6: Do you agree with the capability requirements relating to Documentation? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other generally agreed with the requirements and suggested the following enhancements: <ul style="list-style-type: none"> o Providing common principles for how documentation should be made available and kept up to date; o Ensuring that testing of valuations is performed on a consistent basis; o Adding more specific documentation requirements associated with models and modelling capabilities; and o Adding requirements for continuity of valuation capabilities. 	<p>Whilst the suggested enhancements are all reasonable, they are, for the most part, covered by existing requirements within the Valuations Standard or would result in deviation from our overriding principles-based approach.</p> <p>However, we have expanded paragraph 4.6.4 to recommend that JIBs establish Virtual Data Room capabilities to enable documentation and information relating to valuations to be shared with both the JRA and Valuers on a timely basis.</p>
<p>Question 7: Do you agree with the capability requirements relating to Assurance? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One noted it was broadly comfortable with the requirements; - The other generally agreed with the requirements and suggested the following: <ul style="list-style-type: none"> o Specifying the conditions under which internal or external assurance would be required; o JIBs and the JRA should utilise independent experts to test capabilities in certain circumstances (e.g. where JIBs are experiencing increased levels of defaults or if they are nearing the point of failure); and o Clarifying that testing may include on-site inspections and dry-runs. 	<p>In line with our principles-based approach we do not feel the need to set out specific instances where external assurance must be used. However, we have clarified, by way of a footnote, that testing of valuations capabilities may involve on-site inspection, dry-runs or the use of external experts.</p> <p>We anticipate that the JRA would require valuations to be performed during final contingency planning for resolution and, depending on the nature of the JIB and the preferred resolution strategy, this may involve appointing an independent firm.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>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.</p>	<p>Three respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One agreed with our expectations of Valuers and noted they align to the Bank of England's expectations; - Another respondent expressed the view that the required valuation expertise would not be available locally and that the JRA would need to appoint Valuers based in larger jurisdictions. - The third respondent agreed that the expectations appear reasonable and noted the following: <ul style="list-style-type: none"> o Best practice would be to engage Valuers prior to the performance of a Pre-Resolution Valuation and provided helpful suggestions for scenarios that may trigger appointment of a Valuer; o Commission Delegated Regulation (EU) 2016/1075 and Commission Delegated Regulation (EU) 2016/1401 should also be included; o The JRA should allow flexibility for the Valuer to adopt other standards that are most appropriate in respect of a JIB's operations and risk profile; and o Questioned whether the JRA would require Valuers to use local resources to perform the required activities. 	<p>We agree that, where possible, we would seek to engage Valuers prior to a JIB entering resolution to enable final preparations for the required resolution valuations to be made.</p> <p>We have updated Section 5.3 of the Valuations Standard to also include reference to Commission Delegated Regulation (EU) 2016/1401 (covering methodologies and principles on the valuation of liabilities arising from derivatives). However, we believe the relevant parts of Commission Delegated Regulation (EU) 2016/1075 are already captured by Section 5.4.</p> <p>We believe that ensuring the Valuer has appropriate knowledge, experience and resources to perform the required valuations is more important than where those resources are based. Accordingly, we will not mandate that Valuers use local resource to perform the required valuations. However, we do not discount the possibility that local firms will have relevant expertise in this area. See also comments below in respect of our planned panel of experts/firms.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>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.</p>	<p>Two respondents commented in respect of this question. Both recommended that any future changes to United Kingdom regulatory technical standards should be adopted locally to maintain alignment to the United Kingdom approach.</p> <p>One respondent recommended that the JRA preserve flexibility to adopt other standards if circumstances require it.</p>	<p>We have amended the Valuations Standard so that any future changes to the United Kingdom regulatory technical standards would be adopted locally.</p> <p>As noted above, given that the Valuations Standard highlights these standards as guidance for Valuers to use, there is natural flexibility for the Valuer to adopt alternative standards if the circumstances require it.</p>
<p>Question 10: Do you agree with our planned approach to Valuer independence? If not, please explain why.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One agreed with our planned approach and noted it aligns to the Bank of England's guidance; - The other generally agreed with our planned approach noting it is consistent with the Bank of England and the SRB. However, this respondent made some recommendations: <ul style="list-style-type: none"> o Expanding the time limit for auditors to be deemed conflicted to 24 months; o Ensuring any relationships between the potential Valuer and the JIB be considered including relationships with other group companies, material customers, and investments in or borrowings from the failing bank; and o Establishing an advisor selection process and panel of pre-selected advisors with demonstrable capabilities and track record. 	<p>To maintain alignment with the Bank of England's approach, we have not amended the time limit for auditors to be deemed conflicted.</p> <p>Additionally, we believe the EBA regulatory technical standard on independent valuers adequately captures the need to consider all relevant relationships between prospective Valuers and the failed bank (or its group).</p> <p>We plan to establish a panel of pre-selected advisors and potential valuers to support the JRA in the event of failure of a Jersey Bank. We have commenced some work on this and expect to progress it further during 2025.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>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.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One confirmed it was comfortable with adoption of the Bank of England's guidance; and - The other generally agreed with adopting the Bank of England's guidance but encouraged the JRA not to disregard requirements and guidance of other jurisdictions and referred to the SRB's planned consultation on valuation capabilities in 2025. 	<p>We have not made any changes to the Valuations Standard in this area. We will continue to monitor international developments regarding valuation capabilities and consider whether these warrant amendment to the Valuations Standard. However, our general approach remains to be aligned to the Bank of England.</p>
<p>Question 12: Are there aspects of Valuations in Resolution that are not adequately captured by the draft Valuations Statement? If so, please explain.</p>	<p>Two respondents commented in respect of this question.</p> <ul style="list-style-type: none"> - One confirmed it had no further recommendations; - The other respondent recommended that the JRA clarify the extent that a JIB can rely on its parent bank's valuation processes. 	<p>We anticipate that a JIB that is part of a group headquartered outside of Jersey would be able to utilise group capabilities to meet most of our requirements. However, the JIB will need to ensure accuracy and completeness of data used in the valuations and must retain overall responsibility for local valuations. We have expanded paragraph 2.1.2 of the Valuations Standard to clarify this.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 13: Do you have any other feedback in relation to the content of the draft Valuations Statement?</p>	<p>Three respondents commented in relation to this question.</p> <ul style="list-style-type: none"> - One confirmed it had no further recommendations; - Another recommended adding version control and a change log to the Valuations Standard; and - The third respondent expressed the view that, given the nature of existing JIBs, separate local valuations would not be necessary. 	<p>We have added version control to the Valuations Standard and we are considering use of a change log where future amendments are made to any policy or guidance issued by the JRA.</p> <p>Whilst the nature of existing JIBs mean that resolution valuations will primarily be needed at a group level, the need for local valuations at the level of the JIB cannot be ruled out. The Bank of England's guidance (referenced in Section 6 of the Valuations Standard) sets out specific guidance in respect of overseas led resolutions. This guidance explains several scenarios where local level valuations may be needed during a resolution event (e.g. to assess the adequacy of recapitalisation). Therefore, we remain of the view that local valuations may be necessary, and JIBs must have capabilities to perform valuations at a local level.</p>

Consultation Question	Respondents' Comments	JRA Response
<p>Question 14: Are you comfortable with our Valuation Data Set and our planned approach to using it? If not, please explain why.</p>	<p>Three respondents commented in relation to this question.</p> <ul style="list-style-type: none"> - One confirmed it was comfortable with the Valuations Data Set and our planned approach to using it; - Another recommended further clarification regarding use of the Valuations Data Set (especially for JIBs that do not perform Critical Functions); and - The third respondent highlighted the importance of standard data sets, definitions and interpretations and recommended that, if JIBs do not use the Valuations Data Set, they must clearly document the rationale for the alternative approach. This respondent also made several recommendations for specific enhancements to the Valuations Data Set. 	<p>We have made amendments to paragraphs 2.1.2 and 2.1.3 to clarify the scope of application of the Valuations Standard to:</p> <ul style="list-style-type: none"> - JIBs that perform Critical Functions: <ul style="list-style-type: none"> o comply with the Valuations Standard in full; o Valuations Data Set is optional; and - JIBs that do not perform Critical Functions: <ul style="list-style-type: none"> o develop capabilities to be able to produce reliable and accurate information on a timely basis to support valuations in resolution (using section 4.1 as guidance); and o at a minimum, must be able to complete the JRA's Valuation Data Set. <p>We consider that the existing documentation requirements set out in Section 4.6 of the Valuations Standard are sufficient to ensure that where JIBs do not use the Valuations Data Set, the data used to enable robust and timely valuations in resolution will be adequately documented.</p> <p>We will provide further guidance on the Valuations Data Set to JIBs on a bilateral basis where required and will consider the respondents feedback for future evolution of the Valuations Data Set but do not believe it is necessary to make further amendments at this time.</p>

Appendix A: Tracked change version of the JRA's Valuations Standard

A tracked change version of our Valuations Standard is appended as a separate document.

Appendix B: Final version of the JRA's Valuations Standard

The final version of our Valuations Standard is appended as a separate document.

Appendix C: Final version of the JRA's Valuations Data Set

The final version of our Valuations Data Set is appended as a separate document.