Standard for Valuation Capabilities required to support Resolvability

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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.
Definitive Valuation	Means a valuation carried out in accordance with Article 46 of the Resolution Law.
Difference of Treatment Valuation	Means a valuation carried out under Article 77(1) of the Resolution Law.
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.
MREL	Minimum requirement for own funds and eligible liabilities.
Pre-Resolution Valuation	Means a valuation carried out in accordance with Article 44 of the Resolution Law.
Provisional Valuation	Means a valuation carried out in accordance with Article 45 of the Resolution Law.
Resolution Law	Bank (Recovery and Resolution) (Jersey) Law 2017.
Subsidiary	Shall be construed in accordance with Article 2 of the Companies Law.
Valuer	An independent Valuer, appointed by the JRA, responsible for producing the valuations required for resolution.

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1 Background and Statutory Framework

1.1.1 The Jersey Resolution Authority (JRA) was established as Jersey's Bank Resolution Authority on 31 January 2022, in accordance with the Bank (Recovery and Resolution) (Jersey) Law 2017 (the Resolution Law).

1.1.2 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.

1.1.3 This Standard is issued by the JRA to further define the requirements for valuation capabilities set out in Policy Statement 2023/01 'Resolution Planning and Resolvability'. The Standard sets out the capabilities that Jersey Incorporated Banks are expected to develop to avoid a determination that insufficient valuation capabilities constitute a material impediment to resolvability in accordance with Article 25 of the Resolution Law.

1.1.4 Additionally, in accordance with Article 48 of the Resolution Law, this Standard sets the JRA's expectations of Valuers when performing the valuations required by the Resolution Law. Section 5 provides a summary of the valuations required by the Resolution Law.

1.1.5 Finally, this Standard sets out, in section 5, the JRA's planned approach to ensuring Valuer independence.

2 Scope

2.1.1 This Standard applies to all Jersey Incorporated Banks (JIB).

2.1.2 Those JIBs that the JRA has identified as performing Critical Functions in Jersey are expected to comply with this Standard in full. In doing so, it is reasonable for JIBs to utilise group expertise and capabilities to demonstrate compliance with the requirements of this Standard. However, certain requirements (e.g. the need for accurate and complete data) will require capabilities at a local level and the JIB must retain overall responsibility for ensuring valuations capabilities are in place.

2.1.3 JIBs that have not been identified as performing Critical Functions in Jersey, do not need to comply with this Standard, but are expected to develop capabilities to be able to produce reliable and accurate information on a timely basis to support valuations in resolution~~ (see section 4.1 below)~~. ~~This should~~ These capabilities must include ~~completion of~~ the ability to complete the JRA's Valuation Data Set Template[1]. Such JIBs may use section 4.1 below as guidance in this respect (noting that the use of the JRA's Valuation Data Set (referred to in 4.1.4) is mandatory for such JIBs).

[1] The JRA's Valuation Data Set Template, which includes the JRA's Valuation Data Dictionary, is available on the JRA's website at: https://jra.org.je/images/documents/20241212-Valuations-Data-Template-v01.00.xlsx#asset:5624@1

3 Objectives

3.1.1 The objective of this Standard is to ensure that a Valuer could carry out the necessary resolution valuations in a sufficiently timely and robust basis so as not to impede the resolution's effectiveness.

3.1.2 The complexity of the valuations will depend on the asset and liability mix held by a given JIB, hence the approach adopted to the valuation should be appropriate and proportionate to the size and complexity of the JIB and its assets and liabilities, where possible leveraging existing financial or regulatory reporting processes.

3.1.3 To ensure that resolution valuations are available in a timely manner any valuations required to inform the decisions around the initial application of resolution tools could be prepared in the lead up to Resolution (expected to be between 7 days and 2 months assuming that this amount of time was available) or in a specific time frame as determined by the JRA on a case-by-case basis. This would include valuations required to determine whether:

3.1.3.1 Statutory conditions required for using stabilisation powers or mandatory reduction powers in Jersey have been met;

3.1.3.2 Which stabilisation powers should be used;

3.1.3.3 The extent of application of these powers; and

3.1.3.4 The extent of write-down or conversion of internal MREL held by material subsidiaries and the adequacy of the resulting recapitalisation.

4 Principles

4.1 Data and Information

4.1.1 JIBs should ensure that all underlying data and information is complete and accurate, and that this information would be readily available to a Valuer.

4.1.2 JIBs should hold all relevant information and data that would be considered necessary for a timely and robust resolution valuation. In this respect, the level of granularity of data required to perform robust resolution valuations may vary depending on various factors including the nature of assets and liabilities and the time available to produce valuations during a resolution event. JIBs should factor this in when developing their valuation capabilities.

4.1.3 The data and information should include but is not limited to:

4.1.3.1 Robust valuation of the JIB's loan portfolios at a loan-by-loan level of granularity.

4.1.3.2 Robust valuations of the JIB's trading book, where applicable, including hedging and liquidity management positions. This should be at a position level and include details of any netting or offset arrangements that may have been applied.

4.1.3.3 Valuations of any other assets and liabilities such as non-financial assets and liabilities, contingent assets and liabilities and other off balance sheet exposures.

4.1.3.4 Where a JIB has subsidiaries, a detailed understanding of the financial structure of the JIB's group/sub-group. For all entities in the group/sub-group this includes unconsolidated balance sheets as well as legal and financial information on creditor hierarchies, asset encumbrance and intragroup exposures, as well as any information of the structure of Special Purpose Vehicles (SPV).

4.1.3.5 Detailed business forecasts should be prepared to include previous forecasts of financial statements, management information supporting the strategic plan (e.g. budgets) and forecasts of any additional costs that may arise because of the restructuring or resolution.

4.1.4 JIBs may wish to use the JRA's Valuation Data Set Template[2] as a tool to enable capture of relevant data relating to the valuations of JIB's assets or as a guide to the type of data that a Valuer may require[3].

4.1.5 JIBs should have suitable arrangements in place to ensure that data and information is complete, accurate and reliable. This should include, but not be limited to, integrity checking, consistency checking and access control. Data should be subject to periodic verification, including reconciliation and testing, to ensure accuracy and completeness.

[2] The JRA's Valuation Data Set Template, which includes the JRA's Valuation Data Dictionary, is available on the JRA's website at: https://jra.org.je/images/documents/20241212-Valuations-Data-Template-v01.00.xlsx#asset:5624@1

[3] As noted in paragraph 2.1.3, use of the JRA's Valuation Data Set Template is mandatory for JIBs that have not been identified as performing Critical Functions in Jersey.

4.1.6 Data should be made available in a format that may be readily understood and consumed by a Valuer. Data should be cross referenced and reconciled to enable a Valuer to understand the relationship between various sources of information. This should include clear linkages between the various exposures to a counterpart, the collateral available against these exposures and any applicable netting or set-off arrangements.

4.1.7 JIBs should have capabilities in place to enable all data and information to be rapidly and reliably made available to a Valuer.

4.1.8 Where the JRA does not consider a JIB's processes to be sufficiently robust to ensure that the data and information would be readily available to a Valuer, the JIB may be expected to maintain the data and information in a Virtual data room that is established and refreshed as part of business-as-usual processes.

4.2 Models

4.2.1 As required to meet timeliness and robustness objectives, a JIB should have models available to be tested and used by a Valuer on a timely basis in carrying out the valuations analyses required for resolution.

4.2.2 Valuation models should be available in business-as-usual for all material assets and liabilities where it is not reasonable to expect that a suitably robust valuation model could be developed and deployed on a timely basis in the lead up to resolution considering the overall complexity of the task.

4.2.3 JIBs should identify those assets and liabilities for which valuation models would be required to comply with this principle. Where a JIB does not consider that a valuation model for an asset or liability would be required in business-as-usual, the JIB should be able to articulate why this would not compromise the timeliness and robustness of resolution valuations of the JIB. JIBs should document, and periodically review, how the scope of their valuation models remains compliant with this principle taking into consideration whether models could be built, reviewed and implemented within the required timeframe.

4.2.4 Valuation models should be subject to appropriate model validation processes that are commensurate to the relative materiality of the model to the JIB's valuation capabilities. Where appropriate, such validation processes may be undertaken at a group level.

4.2.5 In limited circumstances a JIB may identify that it does not need to have any valuation models in place ex-ante. In such cases, the JIB must satisfy the JRA that:

4.2.5.1 valuation models could be built, reviewed and applied in the lead up to resolution; and

4.2.5.2 the JIB has robust and tested capabilities to provide rapid access to complete and accurate data and information to enable a valuer to produce timely and robust valuations.

~~4.2.4~~4.2.6 In addition to valuation models all JIBs should have forecasting capabilities available in business-as-usual to produce updated forecasts of their financial statements and key regulatory metrics on a timely basis. These models should be able to produce forecast income and cash flows statements to facilitate the assessment of the market value of equity in business lines that may be divested as part of resolution and should be capable of taking into account potential resolution and/or restructuring actions and opinions of the Valuer on a timely basis.

~~4.2.5~~4.2.7 JIBs should ensure that a Valuer has the necessary access to the relevant models and the staff supporting them so that the outputs of the model are available on a timely and robust basis.

~~4.2.6~~4.2.8 The models should be sufficiently flexible to enable a Valuer to evaluate the impacts of alternative resolution strategies and changes in the current economic environment.

4.3 Methodologies

4.3.1 Valuation methodologies should be consistent with those that a Valuer could reasonably expect to apply to produce valuations that meet the robustness and timeliness objectives.

4.3.2 Valuation models should use methodologies that are:

4.3.2.1 Consistent with market best practise;

4.3.2.2 Provide valuations that are robust and reflect their intended treatment in resolution; and

4.3.2.3 At a level of granularity that ensures that the valuations meet the robustness objective.

4.4 Assumptions

4.4.1 JIBs should have processes that support the use of realistic valuation assumptions and should enable a Valuer to review and revise the impact of the assumptions as well as to evaluate the sensitivity of the valuation to these assumptions as required.

4.4.2 JIBs should have processes in place to ensure that assumptions used in valuation models are realistic, up to date and can be updated rapidly when required. These processes should include periodic reviews and escalation and sign off procedures for material assumptions. JIBs should also apply consistent assumptions across models and portfolios where relevant.

4.4.3 JIBs should facilitate a Valuer's access to relevant experts to review the JIB's assumptions. Such parties could include, but are not limited to, management, counterparties, stakeholders, trustees and local experts. The Valuer must be able to consult with these experts without undue delay.

4.4.4 JIBs should be able to demonstrate, on a timely basis, the sensitivity of the valuations to alternative assumptions to assess the extent of valuation uncertainty which should be assessed during business-as-usual model validation.

4.5 Governance

4.5.1 JIBs should apply sound governance arrangement and processes to ensure that valuation capabilities compliant with the principles are maintained in business as usual and available prior to and during resolution.

4.5.2 JIBs should have documented arrangements in place to ensure compliance with this Standard. To the extent possible, these arrangements should be incorporated into existing governance for the JIB's valuation and modelling capabilities. The resolution valuation capabilities should be treated as consistently as possible with the JIB's business-as-usual capabilities.

4.5.3 A suitably senior individual or committee should be identified to be responsible for compliance with this Standard. The individual/committee should ensure that documentation is in place as set out in 4.6 (Documentation) and that testing, and suitable review process are in place as set out in 4.7 (Assurance) ~~Documentation~~.

4.5.4 JIBs should identify a suitably senior individual to be responsible for overseeing the JIB's engagement with a Valuer appointed for the purpose of carrying out resolution valuations and should further consider what governance arrangements are required to support this individual.

4.5.5 JIBs should ensure that the governance of valuations would remain intact throughout resolution.

4.6 Documentation

4.6.1 JIBs should clearly and concisely document their valuation capabilities and how these might be relied on to produce timely and robust resolutions valuations.

4.6.2 JIBs should produce documentation setting out how the JIB would support a Valuer in producing robust and timely resolution valuations. The documentation should include, but is not limited to, the following:

4.6.2.1 Timeframes and sequence of the elements of the valuation process;

4.6.2.2 Sources of data and information required for resolution valuations;

4.6.2.3 Procedures for collating the data and information and making it available to the Valuer;

4.6.2.4 Models identified for use in valuation specific assets and liabilities or forecasts for use in the resolution valuation process;

4.6.2.5 Key input assumptions for these models and the data and information used to inform the assumptions;

4.6.2.6 Relevant personnel that a Valuer would require access to for assessing the key assumptions; and

4.6.2.7 Roles and responsibilities in the valuation process including the primary contact for the Valuer.

4.6.3 JIBs should document that their valuation capabilities can be relied upon for resolution purposes. This documentation should include, but is not limited to:

4.6.3.1 Data verification and remediation processes and responsibilities;

4.6.3.2 Model development, maintenance and operation;

4.6.3.3 Valuation methodologies used in the relevant models;

4.6.3.4 Key underlying assumptions used and the basis and rationale for their use;

4.6.3.5 Escalation and sign off procedures surrounding model validation, key assumptions and policies relevant to the resolution valuation models;

4.6.3.6 Assurance processes that have been undertaken with respect to compliance with the requirements in 4.7 (Assurance); and

4.6.3.7 Any known limitations of the valuation capabilities.

4.6.4 The documentation should be readily available to the JRA for the purposes of assessing the JIB's valuation capabilities. They should be readily accessible to a Valuer for assessing the reliability of a JIB's data, models and assumptions when preparing to carry out resolution valuations. It is recommended that JIBs establish Virtual Data Room capabilities to enable documentation to be shared with both the JRA and Valuers on a timely basis.

4.6.5 Any documentation should be written in a clear and concise manner to ensure that the JRA or a Valuer are able to familiarise themselves with a JIB's valuation capabilities within a short time frame.

4.7 Assurance

4.7.1 JIBs should periodically review and evaluate their valuation capabilities in respect of this Standard and should facilitate any reviews by the JRA or a third party to test compliance.

4.7.2 Valuation capabilities should be subject to review and testing to verify compliance with this Standard and to support resolvability. JIBs should incorporate this review and testing process into their regular review and testing processes in place for other data and modelling capabilities. JIBs should also consider having their capabilities reviewed by internal audit functions or independent experts.

4.7.3 JIBs should facilitate tests and independent reviews initiated by the JRA to assess compliance with the Standard as part of its ongoing assessment of resolvability or contingency planning for resolution[4].

4.7.4 JIBs should provide information as requested by the JRA to support its resolvability assessments and ongoing resolution planning. This could include, but is not limited to:

4.7.4.1 JIB's own assessment of its compliance with the Standard;

4.7.4.2 A description of testing and assurance procedures undertaken in support of this assessment.

4.7.4.3 An overview and status update on projects, both planned and in progress, that will improve or remediate deficiencies in the JIB's resolution valuation capabilities.

4.7.4.4 If requested by the JRA, a complete set of valuation data as set out in the JRA's Valuation Data Set Template[5].

4.7.5 JIBs should be upfront and open with the JRA and any other independent reviewers about any limitations to their valuation capabilities that may compromise the JIB's ability to provide timely and robust resolution valuations.

[4] This may include on-site inspection, requiring JIBs to perform dry-run valuations, or appointing an independent expert to review a JIB's valuation capabilities including performing valuations as part of contingency planning for resolution.

[5] The JRA may request a completed Valuation Data Set as part of contingent resolution planning where a JIB is not readily able to produce the required valuations of its assets.

5 The Valuer and Required Valuations

5.1.1 This section summarises the valuations required during a resolution and the JRA's expectations of the Valuer when performing valuations in resolution. It also covers the JRA's planned approach to ensuring independence of the Valuer.

5.2 Required Valuations

5.2.1 The Resolution Law requires that at least two valuations are performed during resolution:

5.2.1.1 A Pre-Resolution Valuation (as set out in Article 44 of the Resolution Law) that must be performed prior to the JRA taking resolution action. The Pre-Resolution Valuation serves to:

- inform the decision of whether the resolution conditions are met (e.g. whether a bank is failing or likely to fail);
- inform the decision on which resolution tool should be applied; and
- inform the extent to which resolution tools and powers are applied.

5.2.1.2 A Difference of Treatment Valuation (as set out in Article 77 of the Resolution Law), which shall assess whether shareholders and creditors of a failed bank would have received better treatment if a bank in resolution had been wound up under relevant insolvency proceedings (in support of the 'no creditor worse off' safeguard to resolution as set out in Article 78 of the Resolution Law).

5.2.2 The Resolution Law also allows a Provisional Valuation (Article 45 of the Resolution Law) to replace the Pre-Resolution Valuation if the JRA considers the urgency of the case makes it appropriate for a resolution action to be taken before a Pre-Resolution Valuation can be carried out. In such cases, a Definitive Valuation (Article 46 of the Resolution Law) must be carried out as soon as practicable thereafter.

5.2.3 The JRA anticipates that, in practice, the valuations conducted in resolution will be an iterative process. Section 6, below, provides further guidance on how valuations in resolution would be applied in practice.

5.3 Expectations of Valuers

5.3.1 The Valuer has ultimate responsibility for preparing the valuations required by the Resolution Law. The Valuer is expected to:

5.3.1.1 Form judgements on valuation assumptions and methodologies to be used;

5.3.1.2 Apply judgements to valuation analysis provided by JIBs, including by performing a limited review of the JIB's valuation capabilities; and

5.3.1.3 Prepare valuations and present these in a valuation report to the JRA.

5.3.2 The Valuer is expected to clearly explain and justify the assumptions and methodologies adopted in the valuation report.

5.3.3 In performing the required valuations, the Valuer should consider the content of the following regulatory technical standards implemented in the United Kingdom as guidance and apply them in the context of the Resolution Law:

5.3.3.1 Regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities set out in Commission Delegated Regulation (EU) 2018/345[6] ~~[potentially specifically the version that exists as of publication of this Standard, thereby giving the JRA flexibility to adopt any future changes to UK standards]~~including any amendments thereto or successor requirements adopted by the Bank of England; ~~and~~

5.3.3.2 Regulatory technical standards specifying the criteria relating to the methodologies for valuation of difference in treatment in resolution set out in Commission Delegated Regulation (EU) 2018/344[7] including any amendments thereto or successor requirements adopted by the Bank of England~~[potentially specifically the version that exists as of publication of this Standard, thereby giving the JRA flexibility to adopt any future changes to UK standards]~~; and

~~5.3.3.2~~5.3.3.3 Regulatory technical standards for methodologies and principles on the valuation of liabilities arising from derivatives set out in Commission Delegated Regulation (EU) 2016/1401[8].

5.3.4 Nothing in this Standard or the above regulatory technical standards shall restrict the independence of the Valuer or prevent a Valuer exercising their professional judgement when performing the valuations required under the Resolution Law.

5.4 Valuer Independence

5.4.1 The Resolution Law requires that the JRA appoint an independent valuer to carry out the Pre-Resolution Valuation[9], and the Difference of Treatment Valuation.

5.4.2 Article 49 of the Resolution Law allows the Minister for External Relations to specify, by Order, the eligibility criteria for appointment of an independent valuer.

5.4.3 In the absence of such an Order, the JRA will be guided by the eligibility and independence criteria set out in EBA regulatory technical standard on independent valuers[10]. In particular:

5.4.3.1 A person who has completed a statutory audit of the failing bank within the previous 12 months shall not be eligible for appointment as Valuer; and

5.4.3.2 Once appointed, it is expected that the Valuer will maintain appropriate policies and procedures to identify actual or potential material conflict of interests and report these to the JRA without delay.

[6] https://www.legislation.gov.uk/eur/2018/345

[7] https://www.legislation.gov.uk/eur/2018/344

[8] https://www.legislation.gov.uk/eur/2016/1401

[9] Or, in cases where a Provisional Valuation has been performed, a Definitive Valuation.

[10] See Chapter IV of Commission Delegated Regulation (EU) 2016/1075: https://www.legislation.gov.uk/eur/2016/1075/chapter/IV

6 Additional Guidance

6.1.1 JIBs and Valuers may wish to consult guidance on valuation capabilities to support resolvability issued by the Bank of England[11] to assist in understanding how valuations in resolution are expected to work in practice and hence in developing valuation capabilities and applying valuation methodologies respectively.

6.1.2 Of relevance to existing JIBs is the section on valuations in the context of overseas-led resolutions.

7 Timeframe for Compliance

7.1.1 JIBs must be compliant with this Standard by 30 June 2025.

7.1.2 The JRA may on a JIB-specific basis set an earlier compliance date, for example where the JRA has concerns about the resolvability of a JIB.

7.1.3 The JRA may also set a JIB-specific date for compliance where a JIB comes into the scope of the Standard that previously was not. This might occur if the resolution strategy applicable to a JIB changes. In this case, the JRA will determine the appropriate compliance date and expects to allow at least 18 months for compliance.

7.1.4 JIBs must perform self-assessments of compliance with this Standard in accordance with the timeframes prescribed by PS2023/01 (the first of which is due 30 June 2025).

[11] 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