Liquidity and Funding in Resolution Guidance Note

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Glossary of terms

Defined terms are indicated throughout this document as follows:

Bail-in	The mechanism described in Article 65(1) of the Bank (Recovery and Resolution) (Jersey) Law 2017 for recapitalising a bank or exercise of the write down or conversion power.
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.
Home Resolution Authority	The resolution authority in the JIB's home jurisdiction.
Jersey Bank	A person registered to carry on deposit-taking business in or from within Jersey under the Banking Law.
Jersey Branch	The Jersey operations of an Overseas Incorporated Bank.
Jersey Incorporated Bank (JIB)	A Jersey incorporated company registered to carry on deposit-taking business under the Banking Law.
JFSC	Jersey Financial Services Commission.
JRA	Jersey Resolution Authority.
MREL	Minimum Requirement for Own Funds and Eligible Liabilities.
Overseas Incorporated Bank	A person not incorporated in Jersey that is registered to carry on deposit-taking business under the Banking Law.
Subsidiary	Shall be construed in accordance with Article 2 of the Companies Law.

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1 Background

1.1.1 The JRA was established as Jersey's Resolution Authority on 31 January 2022 in accordance with the Bank (Recovery and Resolution) (Jersey) Law 2017 (the "Resolution Law"). The JRA has statutory responsibility to prepare for and administer the resolution of banks in Jersey.

1.1.2 Jersey Incorporated Banks (JIBs) may have insufficient liquidity to meet their obligations as they fall due in the approach to and during resolution. As such, it is important that JIBs can reliably estimate, anticipate and monitor their liquidity positions and needs as well as mobilise liquidity resources on a timely basis.

1.1.3 This document sets out guidance for JIBs on the Liquidity and Funding in Resolution capabilities they are expected to put in place and maintain to set out in Policy Statement 2023/01 'Resolution Planning and Resolvability' (PS2023/01)[1]. It does not set out any additional requirements beyond those set out in PS2023/01.

1.1.4 The following publications have been used to help develop this Guidance Note. JIBs may wish to consult these for additional guidance when developing required Liquidity and Funding in Resolution capabilities.

1.1.4.1 The Financial Stability Board's Guiding Principles on the temporary funding needed to support the orderly resolution of a global systemically important bank[2];

1.1.4.2 The Bank of England's Statement of Policy on Funding in Resolution[3];

1.1.4.3 Section 2.3 of the Single Resolution Board's Expectations for Banks[4]; and

1.1.4.4 Single Resolution Board's Liquidity and Funding in Resolution Operational Guidance[5]

[1] https://jra.org.je/images/documents/20240229-PS2023-01-JRA-Approach-to-Resolution-Planning-and-Resolvability-v02.00.pdf

[2] https://www.fsb.org/uploads/Guiding-principles-on-the-temporary-funding-needed-to-support-the-orderly-resolution-of-a-global-systemically-important-bank-G-SIB.pdf

[3] As set out in Appendix 2 of the Bank of England's approach to assessing resolvability and available at: https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-england-funding-in-resolution-sop.pdf

[4] https://www.srb.europa.eu/system/files/media/document/efb_main_doc_final_web_0_0.pdf

[5] https://www.srb.europa.eu/system/files/media/document/2021_04_30_public_guidance_on_liquidity_and_funding_in_resolution_final.pdf

2 Scope

2.1.1 This Liquidity and Funding in Resolution Guidance Note is relevant to JIBs only:

2.1.1.1 Section 4 of this Guidance Note is relevant to JIBs that are performing Critical Functions to the Jersey economy.

2.1.1.2 Section 5 is only relevant to JIBs that do not perform Critical Functions in Jersey.

2.1.1.3 Section 6 details self-assessments required by the JRA for all JIBs both those deemed performing Critical Functions and those not performing Critical Functions.

2.1.2 As noted in PS2023/01, there may be instances where a Jersey Branch of an Overseas Incorporated Bank is required to demonstrate to the JRA that its liquidity needs in resolution have been adequately captured by group preparations for resolution. This may be the case if we are not able to obtain adequate comfort from our engagement with the Home Resolution Authority. Where this is necessary, the JRA will work with the Jersey Bank on a bilateral basis to determine what information is needed and this may include extending parts of this guidance note to the Jersey Bank.

3 Objectives

3.1.1 JIBs may be unable to reliably estimate, anticipate, and monitor their liquidity position and needs or to mobilise liquidity resources on a timely basis, resulting in them having insufficient liquidity to meet their obligations as they fall due in the approach to, during and after resolution.

3.1.2 JIBs are likely to remain under liquidity stress for some time after resolution due to:

3.1.2.1 an asymmetry of information regarding their viability and the sustainability of the business model:

3.1.2.2 inability to rollover short-term borrowing;

3.1.2.3 loss of access to alternative sources of credit;

3.1.2.4 significant outflows as depositors withdraw funds; and

3.1.2.5 possible regulatory restrictions to transfer liquidity or collateral around the group.

3.1.3 To achieve this, JIBs should:

3.1.3.1 develop methodologies to estimate its liquidity needs in the build up to and during resolution, based on the preferred resolution strategy. This includes documenting and justifying key assumptions in a dedicated document;

3.1.3.2 where relevant, be able to demonstrate how potential shortfalls could be addressed;

3.1.3.3 have adequate processes and capabilities to measure and report on a timely basis, its liquidity and funding needs in the lead up to and during resolution;

3.1.3.4 have adequate processes and capabilities to identify the liquidity sources that are available to it. Where applicable, this includes at the level of any Jersey incorporated holding company or subsidiaries; and

3.1.3.5 have adequate processes and capabilities to identify, report, and mobilise, on a timely basis, assets as collateral and describe operationally how to mobilise those assets. This should include regularly evaluating and testing its ability to effectively mobilise available collateral.

4 Guidance for JIBs performing Critical Functions

4.1 Guidance on estimation, measurement and reporting of liquidity and funding needs in resolution

4.1.1 JIBs should be able to perform liquidity analysis on a timely basis and for material currencies. Depending on the JIB's group structure and preferred resolution strategy, liquidity analysis may also need to be conducted at the level of any Jersey Incorporated Holding Company (JIHC) and for material subsidiaries thereof.

4.1.2 JIBs should identify the entities and currencies that they consider material on the grounds of liquidity and consider and identify the potential locations of liquidity risk within these. JIBs should define and justify the range of entities and currencies which they consider to be in and out of scope and agree this with the JRA and, if necessary, the Home Resolution Authority.

4.1.3 At a minimum, JIBs' assessment of material currencies should consider the denominated currency of assets, liabilities, and contingent liabilities held by each material subsidiary. Material currencies should include, at a minimum, each currency (which may include the reporting currency) that represents 5% or more of total liabilities. JIBs should also identify additional currencies which are material for the purposes of liquidity at each material subsidiary, taking into consideration the currency of obligations that are likely to arise in resolution.

4.1.4 Where applicable, JIBs should develop capabilities to perform liquidity analysis, at the level of material subsidiaries, for currencies which are deemed to be material for that material subsidiaries, and for currencies which are deemed to be material for the JIB. JIBs that are headquartered in Jersey should also develop capabilities to perform liquidity analysis at the level of the group for currencies which are deemed to be material to the group.

4.1.5 For subsidiaries and currencies that are not deemed to be material, JIBs may choose to conduct less granular analysis. At a minimum, JIBs should be able to use existing systems to confirm that the liquidity needs of each non-material subsidiary, and the obligations arising in each non-material currency, do not represent a risk to the liquidity position of the JIB in resolution.

4.1.6 JIBs should be able to refresh the relevant liquidity analysis as necessary, at the level of the JIB and any material subsidiaries and deliver this information in a timely manner. JIBs should be able to make the liquidity analysis available on a T+1 basis, or more rapidly, if both necessary and appropriate (i.e. during stress events). The mechanism for collecting and compiling information should be robust and compliant with the relevant data quality processes within the JIB. The liquidity analysis should be sufficiently adaptable that it can be readily adjusted to reflect the circumstances of a stress.

4.1.7 JIBs should have the capability to estimate their liquidity needs in resolution based on their current balance sheet and based on future estimated balance sheets. As such, JIBs should be able to estimate their liquidity needs in resolution for at least 90 days from the point of entry, both if they were to enter resolution either immediately or following a period of prolonged stress.

4.1.8 These capabilities should be sufficiently flexible that the projections of liquidity needs can reflect the different circumstances the JIB might face in resolution and the different ways counterparties to the JIB might behave in these circumstances. JIBs should be able to perform sensitivity analysis and identify the key drivers of liquidity needs, including at the level of material subsidiaries.

Methodologies

4.1.9 JIBs should design and document methodologies to estimate their liquidity needs in resolution. JIBs' methodologies should consider the types and potential severity of outflows in resolution, record the behavioural assumptions used to support cash flow forecasts, and identify key drivers of liquidity needs in resolution.

4.1.10 When estimating their liquidity needs in resolution, JIBs should be able to estimate and detail the liquid assets they will be required to hold for operational reasons, such as minimum amounts placed with the Group, payment systems, initial margin on market transactions, and legal tender held in physical form.

4.1.11 In particular, JIBs should be able to estimate their likely intra-day liquidity needs in resolution based on current and estimated future exposures and taking account of how their peak needs may evolve in resolution. JIBs should engage relevant counterparties in business-as-usual to understand the likely implications of resolution on their intra-day liquidity needs.

4.1.12 JIBs should be able to estimate how intra-group funding needs would impact on their liquidity needs in resolution. In particular, JIBs should consider how their preferred resolution strategy would influence the movement of liquidity throughout the group.

4.1.13 JIBs should be able to project their possible need to use third party facilities. This includes:

4.1.13.1 considering their need and ability to monetise a wide range of collateral with third parties, including any potential need or ability to request liquidity from the wholesale market. This should include an assessment of the timing of, and collateral suitable for, borrowing, and the availability of information a third party would require to manage risk exposures; and

4.1.13.2 being able to demonstrate that, subject to the agreement of third parties, if they were to be unable to meet their liquidity needs utilising their own resources, there is a reasonable likelihood that third-party facilities could be used in resolution.

Counterparties' behaviour in resolution

4.1.14 JIBs should be able to calibrate their methodologies to consider behavioural factors impacting non-contractual items such as:

4.1.14.1 open maturity items (e.g. deposit outflows, repos);

4.1.14.2 the roll-over of existing funding and the obtainment of new funding; and

4.1.14.3 drawdown of committed credit lines.

Reporting

4.1.15 JIBs should develop capabilities to report their liquidity and funding position and needs both internally and externally to the JRA and JFSC (see also sections 4.5 and 4.7 below).

JERSEY RESOLUTION AUTHORITY

4.2 Guidance relating to developing adequate processes, methodologies and capabilities to identify the liquidity sources that are available in resolution

4.2.1 JIBs should develop methodologies to estimate ex ante, under different assumptions, the liquidity and funding needed for implementation of their preferred resolution strategy.

4.2.2 In developing such methodologies, JIBs can leverage any capability already developed for other purposes (e.g. liquidity management policies, internal stress testing, recovery planning, liquidity contingency planning). However, these methodologies should be resolution specific.

4.2.3 The methodologies developed for identifying available liquidity sources may build on capabilities developed to meet JFSC supervisory requirements for liquidity contingency planning. Potential sources of liquidity in a crisis may include:

4.2.3.1 Sale, or sale under repurchase agreements, of marketable assets;

4.2.3.2 Drawdown of committed facilities; and

4.2.3.3 Funding from other group entities.

4.2.4 JIBS should be able to monitor and mobilise liquidity sources in resolution.

4.2.5 JIBs should have the ability to estimate the liquidity resources available to them in resolution, both if they were to enter resolution immediately, or at any point during a period of prolonged stress. When estimating the liquidity resources available to them, JIBs should take into account the impact of prevailing market conditions on the method and timing of asset monetisation.

4.3 Guidance relating to identification and mobilisation of collateral during and after resolution.

4.3.1 JIBs should be able to identify unencumbered collateral[6] on a spot basis and project collateral balances, including how they evolve in a stress. JIBs should be able to identify important information relating to the availability of collateral, such as currency, asset class, and whether the collateral is pre-positioned or has become encumbered as a consequence of the stress. They should also identify any legal and operational features that impact the management of collateral, including the transfer of collateral across jurisdictions.

4.3.2 JIBs should develop capabilities to identify available collateral and:

4.3.2.1 identify all assets that could potentially qualify as collateral eligible to support funding in resolution (i.e. High-Quality Liquid Assets (HQLA) and especially non-HQLA including those that are of lower quality);

4.3.2.2 differentiate between encumbered and unencumbered assets, and determine legal rights to all collateral (pledged or not pledged);

4.3.2.3 monitor the unencumbered/available collateral at the level of the JIB and, if the JIB is headquartered in Jersey, at the level of the resolution group, for each material currency; and

[6] An asset shall be deemed to be unencumbered where the credit institution is not subject to any legal, contractual, regulatory or other restriction preventing it from liquidating, selling, transferring, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement within the following 30 calendar days.

4.3.2.4 develop the capacity to report information on the available collateral at a granular level (e.g. group placements, currency, type of assets, location, credit quality, etc.), even under rapidly changing conditions;

4.3.3 JIBs should assess their capability to mobilise collateral, and regularly (at least annually) evaluate and test the operational robustness and effectiveness of the mobilisation of the available collateral (e.g. the ability to sell, repo or borrow against certain assets)

4.3.4 JIBs should account for the assumptions made regarding intra-group liquidity needs and, for JIBs headquartered in Jersey, restrictions (legal, regulatory, and operational) in transferring collateral across different jurisdictions in considering the resources available to be moved around the group. The assumptions around transferability are expected to be consistent with JIBs' preferred resolution strategy and should remain sufficiently flexible.

4.4 Guidance relating to addressing potential funding and liquidity shortfalls.

4.4.1 When a JIB has identified potential funding and liquidity shortfall in the run up to, during and after resolution, the JIB should notify the JRA and the JFSC of the potential shortfall to enable consideration of the risk to resolution.

4.4.2 The JIB should put in place measures to address the risk which could include but not limited to:

4.4.2.1 identify and maintain a sufficient buffer of HQLA;

4.4.2.2 diversify funding sources;

4.4.2.3 perform additional stress test and scenario analysis to determine the likelihood of the shortfall crystalising;

4.4.2.4 establishing and maintaining interbank borrowing arrangements; and

4.4.2.5 efficiently managing eligible collateral which is crucial for accessing secured funding sources such as repo markets.

4.4.3 When identifying measures to address the risk, JIBs should not rely upon availability of emergency financial assistance.

4.4.4 JIBs should be able to project their possible need to use third party facilities. In doing so JIBs should be able to demonstrate that, subject to the agreement of third parties, if they were unable to meet their liquidity needs utilising their own resources, there is a reasonable likelihood that third party facilities could be used in resolution.

4.4.5 JIBs should consider their need and ability to monetise a wide range of collateral with third parties. This should include:

4.4.5.1 identifying unencumbered collateral in line with the guidance set out in Section 4.3 above;

4.4.5.2 an assessment of the timing of and collateral suitable for borrowing; and

4.4.5.3 an assessment of the availability of information a third party would require to manage their risk exposures.

4.5 Guidance on Governance oversight and testing of capabilities.

Governance

4.5.1 JIBs should integrate their capabilities for managing liquidity risk in resolution into their existing comprehensive liquidity management framework and internal stress tests.

4.5.2 JIBs should have internal governance arrangements in place for reporting liquidity risks in resolution to senior management, appropriate risk committees, and to the JRA and the JFSC. JIBs should consider quantitative and qualitative indicators for such reporting. These indicators should ensure senior management are informed of JIBs' liquidity risks in resolution on a sufficiently forward-looking basis. JIBs' consideration of appropriate indicators should take into account the sensitivities and key drivers of risk identified through the analysis described earlier in this Guidance Note.

4.5.3 JIBs should consider the appropriate frequency with which they estimate and report their projected liquidity needs and resources to senior management. JIBs should be able to increase the frequency of reporting in a period of stress.

Testing

4.5.4 JIBs should test their Liquidity and Funding in Resolution capabilities on a regular basis. JIBs should document the outcomes of these tests and review them. In the case of JIBs headquartered in Jersey, this should involve internal audit or third-party assurance providers. The tests should be conducted in a way that facilitates assurance by the JRA, or the JFSC or a third party.

4.6 Guidance for JIBs that are part of banking group headquartered outside Jersey

4.6.1 It is reasonable for JIBs to utilise group expertise and capabilities to demonstrate compliance with the liquidity and funding requirements of PS2023/01.

4.6.2 Where JIBs are part of a banking group with an established group resolution strategy and resolution capabilities it can rely on group capabilities in respect of liquidity and funding provided that the JIB:

4.6.2.1 can explain how its liquidity and funding needs in the lead up to and during resolution are captured as part of associated group resolution capabilities;

4.6.2.2 can report (both internally and to relevant authorities, including the JRA and JFSC) its liquidity and funding position on a timely basis in the lead up to and during resolution; and

4.6.2.3 has, in conjunction with its group, if necessary, developed an understanding of the expected outflows that could occur in the lead up to and during resolution.

4.6.3 For JIBs that are material entities for group resolution planning, it is expected that the JIB will be able to produce standalone liquidity forecasting at the level of the JIB and for each of the JIBs material currencies (in accordance with the guidance in this guidance note).

4.7 Recovery Plans and Liquidity and Funding in Resolution

4.7.1 It is anticipated that JIBs will leverage existing capabilities developed to meet the JFSC's requirements in respect of Liquidity Management Policies, Liquidity Contingency Plans and Recovery Plans.

4.7.2 In doing so JIBs should ensure that, where appropriate, documentation is aligned, assumptions are consistently applied and that conclusions are not inconsistent.

4.7.3 JIBs may wish to integrate documentation relating to Liquidity and Funding in Resolution within existing Liquidity Management Policies, Liquidity Contingency Plans or Recovery Plans.

4.7.4 It is expected that the JRA will work with the JFSC when assessing Liquidity and Funding in Resolution capabilities.

5 Guidance for JIBs not performing Critical Functions

5.1.1 The failure of a JIB that does not perform Critical Functions will, by definition, have a lesser impact on continuity of banking services and the stability of the financial system in Jersey. However, any failure will have an impact which might affect other Jersey Banks and/or the Jersey financial system.

5.1.2 JIBs that do not perform Critical Functions in Jersey and are part of large banking groups or legal entities that are subject to resolution planning requirements at group or legal entity level (e.g. bail-in or sale and or transfer resolution strategies) should ensure that their funding and liquidity needs have been taken into account on a proportional basis as part of the group processes for forecasting liquidity and funding needs during resolution.

5.1.3 JIBs subject to an insolvency (bank winding up) resolution strategy, to meet the requirement of section 6.1.4 of PS2023/01, should identify any assets that have been pledged as security or are subject to any other encumbrance. This is to enable the appointed liquidator to be able to quickly gain a picture of the available liquid assets to pay claims (in particular to reimburse the Jersey Bank Depositors Compensation Scheme in relation to Covered Deposits).

6 Guidance on Self-Assessments

6.1.1 The first self-assessment against Liquidity and Funding in Resolution requirements is due by 30 June 2026 (and every two years thereafter).

6.1.2 The self-assessment should include:

6.1.2.1 A self-assessment against each of the Liquidity and Funding in Resolution requirements set out in PS2023/01. A tabular format is recommended.

6.1.3 JIBs should monitor liquidity and funding needs on an ongoing basis (between self-assessments). The JRA would expect JIBs to report any forecast shortfall in liquidity and funding requirements ahead of time so that appropriate measures can be taken.