BASEL III:
CAPITAL ADEQUACY
AND LEVERAGE RATIO

FEEDBACK ON THE
CONSULTATION PAPER ISSUED BY
THE GUERNSEY FINANCIAL
SERVICES COMMISSION
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This feedback paper reports on input received by the Guernsey Financial Services Commission on the Consultation Paper issued in July 2015 and consequent related changes.

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# Contents

1: Executive Summary
   1.1 Background
   1.2 Feedback received
   1.3 Proposals
   1.4 Next steps

2: Summary of Feedback and Commission Response
   2.1 Structure of this section
   2.2 Transitional arrangements
   2.3 Further Basel III implementation

3: Implementation Timeline

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### 1: Executive Summary

- Background: 4
- Feedback received: 4
- Proposals: 4
- Next steps: 4

### 2: Summary of Feedback and Commission Response

- Structure of this section: 5
- Transitional arrangements: 5
- Further Basel III implementation: 6

### 3: Implementation Timeline

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1: Executive Summary

1.1 Background

This paper details and responds to the feedback received on the Consultation Paper (“CP”).

The CP outlined proposals to amend the minimum regulatory capital adequacy requirements that apply to licensed deposit takers that are incorporated in Guernsey.

The substantive changes proposed were as follows:

- Revised definitions of regulatory capital;
- Establishment of new minimum regulatory capital requirements;
- Certain changes to the calculation of Risk Weighted Assets;
- The introduction of a Leverage Ratio Reporting Requirement;
- Revised prudential reporting forms.

All of the above changes are consistent with the Basel III capital adequacy standard.

1.2 Feedback received

The CP was issued publicly. Responses to the CP were received from the Association of Guernsey Banks and four individual subsidiary banks.

The Commission is grateful to the respondents for taking the time to consider and comment on the proposals.

1.3 Proposals

As a result of the predominantly positive feedback received the Commission has made no material revisions to the proposals contained in the CP. The changes are reflected in the revised versions of reporting guidance and reporting forms provided to banks and to be published on the Commission’s website.

1.4 Next steps

The revised regime will come into effect on 31 March 2016.
2: Summary of Feedback and Commission Response

2.1 Structure of this section

Very few issues were identified with the majority of respondents indicating their agreement and confirming understanding of the proposals. Where an issue has been raised a summary of the responses received and the Commission’s responses to the matters raised are set out below.

2.2 Transitional arrangements

The CP explained that upon implementation of the revised regulatory capital approach the Commission will perform a preliminary review of currently prescribed ICGs and provide revised guidance in a new risk asset ratio format. This guidance will be adjusted to reflect any double-counting arising from the effective increase in Pillar 1 capital requirements with the introduction of a new Capital Conservation Buffer (“CCB”).

One bank sought assurance that there would be a fair and open dialogue between banks and regulators with respect to the introduction of the CCB and revision of Pillar 2 guidance and that a higher capital requirement would not be automatically imposed.

Another bank questioned whether the proposed CCB would act as a buffer as intended by the Basel Committee, but went on to note that the proposal would permit reduction in Pillar 2 add-ons.

Commission response

The Commission has already provided the majority of banks within scope of these proposals with an indication of the likely impact on their minimum regulatory capital requirements and has discussed the proposals with the very small number of banks where an increase in capital requirement is anticipated. A small number of banks currently undergoing the supervisory review process will be provided with capital guidance under the new framework. In all cases the Commission is committed to open dialogue with banks and there will be no automatic imposition of higher capital requirements without prior communication.

With respect to the proposed application of the CCB, the Commission, like other jurisdictions which apply capital add-ons under Pillar 2, has adopted a pragmatic approach allowing the implementation of a new CCB while at the same time aiming to avoid both double-counting of risk and substantial, arbitrary increases in regulatory capital requirements.
2.3 Further Basel III implementation

One bank sought clarification on the Commission’s intentions to implement locally further elements of the Basel III capital framework.

Commission response

At the time of writing there are no specific plans to implement additional element of the Basel III capital provisions, with the focus being on implementation of the current consulted changes and progressing the roll out of the liquidity framework revisions, the subject of a recent Commission discussion paper. Inevitably, in time, the capital framework will continue to evolve to ensure international standards are met in a manner appropriate to the jurisdiction, but any future changes will be well signalled in advance and subject to a full consultation process taking into account local concerns.

3: Implementation Timeline

The revised regime will come into effect on 31 March 2016. Banks will therefore be required to submit a Quarter 1 2016 regulatory return under the new framework by 28 April 2016 via the online submissions portal.

Quarter 4 2015 BSL/2 reporting should be made using the current, Basel II-consistent, format (although this will be submitted via the online submissions portal). It is requested, however, that an additional Quarter 4 return in the new format be provided by way of parallel run. This additional reporting is requested on or before 12 February 2016 and should be provided directly to the Commission (i.e. not via the online portal).