

**WRITTEN QUESTION TO THE MINISTER FOR ECONOMIC DEVELOPMENT
BY DEPUTY M.R. HIGGINS OF ST. HELIER
ANSWER TO BE TABLED ON MONDAY 12th SEPTEMBER 2011**

Question

In light of the current turmoil in international money and capital markets, the problems in the Eurozone, the United States economy and elsewhere, will the Minister inform the Assembly whether all the recommendations of the International Monetary Fund in their report on Jersey entitled 'IMF Country Report No. 09/282 - Jersey: Financial Sector Assessment Program Update—Financial System Stability Assessment' dated September 2009 have been accepted, and, if not, why not, and would he also give members a detailed update on the progress to date of implementing each of the recommendations that have been accepted?

Answer

IMF Country Report No. 09/282 – Jersey: Financial Sector Assessment Programme Update – Financial System Stability Assessment includes a list of the main recommendations arising from the International Monetary Fund's assessment of Jersey in the last quarter of 2008. Recommendations are also made in other reports:

- IMF Country Report No. 09/280 - Jersey: Financial Sector Assessment Program Update—Detailed Assessment of Observance of AML/CFT
- IMF Country Report No. 09/281 - Jersey: Financial Sector Assessment Program Update—Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision
- IMF Country Report No. 09/283 - Jersey: Financial Sector Assessment Program Update—Detailed Assessment of Observance of the Insurance Core Principles

Action plans for all of the recommendations made in these reports were published on the website of the Jersey Financial Services Commission (the "Commission") in March 2010.

It is clear from the published action plan for report 09/282 (attached to this response) that action was agreed for each of the main recommendations. Good progress has been made with implementing these recommendations. An updated action plan is expected to be published before the end of 2012 and this will provide further detail on progress as requested by the Deputy.

Action taken to date in addressing the main recommendations includes:

- Continued proactive dialogue between the Commission and other regulators, including the attendance of regulatory colleges. The Commission also continues to provide other supervisors with details of banking business undertaken in Jersey and related regulatory issues and seeks assurances that relevant developments will be proactively advised to it by other supervisors.
- Consultation by the Commission on proposals to withdraw the blanket exemption from its large exposure reporting regime of inter-bank exposures under 12 months' duration. These proposals will be finalised soon.

- Commissioning a report on developing the Island's capacity to assess wider financial system risks affecting Jersey.
- Publication by the Commission of more data on the performance of Jersey's banking sector.
- Consultation by the Commission on proposals to improve the availability of financial information on banks, which proposals are expected to be finalised later this year.
- The introduction of a depositor compensation scheme and requirements to disclose its applicability.
- Initial work by the Commission designed to form the basis for consultation over proposals allowing the Commission to impose civil penalties for breaches of regulatory requirements.
- A themed examination programme conducted by the Commission on the adequacy of credit provisioning, the findings of which were subsequently published.
- More formalised dialogue between the Commission and auditors of banks.
- The commencement of a "root and branch" review of the Commission's sensitive activities policy, intended better to highlight those higher risk activities where enhanced due diligence measures will be necessary.

Recommendations from the FSSA

Recommendation	Covered elsewhere	Agency	Amendment type:	Action	Timescale (where determined)
<i>High Priority</i>					
General					
Continue to develop contingency planning, including through a clear allocation of roles between the JFSC, the Treasury, and other institutions.	Some aspects covered in banking report CP 19	Gov	Other	Consideration by the Jersey Financial Services Advisory Board, which has responsibility for stability matters.	
Seek to develop mechanisms to receive early information of financial strains, including from home supervisors.	Covered in banking report CP 11, 19 & 25	JFSC		No additional action required - covered by banking plan	N/A
		Gov	Other	Consideration by the Jersey Financial Services Advisory Board, which has responsibility for stability matters.	
		JFSC		No additional action required - covered by banking plan	N/A

Recommendations from the FSSA

Recommendation	Covered elsewhere		Agency	Amendment type:	Action	Timescale (where determined)
		<i>The JFSC should strive to obtain from home supervisors a commitment to communicate promptly and on their initiative information that is critical to the stability of the Jersey financial system.</i>				
Banking Replace the general exemption for inter-bank exposures from risk concentration provisions by a defined and transparent procedure according to which the JFSC renews such permissions on a regular basis following a review of risks and risk mitigants	Covered in banking report CP 10	<i>The general exemption of inter-bank loans or placements, certificates of deposit or similar instruments issued by a bank with a maturity of one year or less from concentration risk regulation should be reconsidered. The JFSC should decide on a regular basis whether or not an exemption for large exposures granted should be renewed.</i>	JFSC		No additional action required - covered by banking plan	N/A
Develop capacity to assess overall financial system soundness, including through stress testing. [It would be useful for the authorities to gather more comprehensive information on the overall indebtedness of Jersey households and the corporate sector by accounting for credit from abroad and from local non-bank lenders. This will help banks and the authorities better assess borrowers' ability to absorb shocks, including their capacity to repay debt, and the possible spillover effects to the rest of the economy in the event of a credit crunch.]	Largely covered by banking report CP 19 & 22	<i>CP19: The JFSC should devote more effort to assessing risks affecting the financial system as a whole, including through the undertaking of aggregate stress testing and the examination of the distribution of financial soundness indicators.</i> <i>CP 22: The JFSC should publish statistics and a commentary on the performance of the Jersey banking system as a whole.</i>	Other		Partly covered by the Banking Plan. Consideration by the Jersey Financial Services Advisory Board, which has responsibility for stability matters.	

Recommendations from the FSSA

Recommendation	Covered elsewhere		Agency	Amendment type:	Action	Timescale (where determined)
General						
Study the design of a possible DCS based on explicit objectives and recognizing constraints.			Gov	Legislation	Legislation establishing a depositor compensation scheme was introduced in November 2009.	Completed
Continue to ensure that creditors receive clear information on counterparty risk and compensation scheme coverage, if any.	Covered in banking report CP1.1, 6 & 25	<p>CP1.1: <i>The JFSC should place greater emphasis on registered persons having available for access by the public either summarized or audited financial statements</i></p> <p>CP6: <i>With regard to public disclosure, it would be constructive for the JFSC to require any registered person to display prominently in its premises and in applicable promotional documentation a uniform notice informing the reader of the status of their deposits in Jersey-registered banks in so far as any guarantees, compensation or an insurance scheme apply</i></p> <p>CP25: <i>Depositors should be made aware of the status of deposits in Jersey banks in so far as depositor-insurance schemes are concerned.</i></p>	JFSC		No additional action required - covered by banking plan	N/A
Strengthen the JFSC powers to impose fines for breach of JFSC regulations.			Gov	Legislation	Once ongoing work on the introduction of a power to allow the Commission to recover certain of its costs is complete, consideration will be given to the merits of allowing the JFSC to impose fines.	

Recommendations from the FSSA

Recommendation	Covered elsewhere		Agency	Amendment type:	Action	Timescale (where determined)
Banking						
Supervise more actively loan classification and provisioning by banks, and maintain up-to-date expertise in evaluating risk models.	Covered in banking report CP 9	<i>The JFSC should on a regular basis form its own view with regard to the necessary assessment of the adequacy of a bank's provisioning policies and processes, and should also approach banks, parent institutions and the respective home supervisors in order to confirm so far as possible the adequacy of the provisioning policy.</i>	JFSC		No additional action required - covered by banking plan	N/A
More regularly discuss individual banks with auditors.	Covered in banking report CP 22	<i>Bilateral discussions with external auditors should be held more regularly</i>	JFSC		No additional action required - covered by banking plan	N/A
Other						
Survey activities of SPVs registered on the island.			JFSC		A periodic report is to be produced and published on the activities of Jersey companies, including the use made of SPVs.	2010 - System development and data gathering 2011 - First report published