SUMMARY FINDINGS FROM FEEDBACK

in respect of the

Tri Party Discussion Paper on Basel III

Issued September 2012

Responses received from:

- Barclays (Barclays Private Clients International Limited ("BPCI"), Barclays Private Bank & Trust (Isle of Man) Limited ("BPB&T"), Barclays Private Bank & Trust (Jersey) Limited, and Barclays Bank Plc ("BBPLC"))
- Britannia International Limited ("BIL")
- Cayman National Bank & Trust Company (Isle of Man) Limited ("CNBT")
- Coutts & Co (Manx) Limited ("Coutts")
- Isle of Man Bankers Association ("IOMBA")
- Kleinwort Benson Bank (Isle of Man) Limited ("KBBIOM")
- Nationwide International Limited ("NIL")
- RBS (Royal Bank of Scotland International Limited ("RBSI") and Isle of Man Bank ("IOMB"))
- Standard Bank Isle of Man Limited ("SBIOM")

LIQUIDITY

3.7.1 Do you expect to be part of a group that is subject to consolidated supervision of liquidity by a supervisor that has adopted the Basel III liquidity standard? If so, are there any specific aspects that should be considered locally?

- Mainly, yes.
- There was broad favour, for groups that currently adopt a centralised framework for the management of liquidity, that the core Basel III measures should apply at the consolidated level only.
- There was a suggestion that the cap (75%) on inflows for intra-group could be removed thus meaning that, in effect, no external marketable assets would need to be held.

3.7.2 Would further alignment of the liquidity regimes across the CDs be beneficial to banks?

- There was no general consensus view on this and responses very much depended on the bank / group. For example, some considered better alignment to UK would assist.
- The IOMBA favoured the core aspects of liquidity (for example behavioural adjustments) to be reviewed and considered on a bank by bank basis rather

than aligning standards to a low common standard to facilitate the concept of "alignment".

- There was some concern expressed that aims to achieve full alignment would result in less flexibility to resolve future issues quickly, and that may be more relevant to one jurisdiction. For example, the ability to react to the UK liquidity changes and the impact on short-term intra-group funding was considered to have been well managed locally – concern that widening this across the CDs would have resulted in delays.

3.7.3 Are there any specific changes to the current regime that you would like to see?

- This was mostly bank specific, with issues being ones we have already engaged with banks on.
- The matter of maturity term in relation to residual vs original maturity was raised but this is a capital / RWA matter, not liquidity (see 7.5.2).

4.3.1 For Guernsey and Jersey incorporated banks only, what issues would arise for your bank if the local requirement for the one month liquidity mismatch was amended to remove the allowance of a small net outflow to one month, in line with Basel III and IOMFSC?

- N/A in Isle of Man.

4.4.1 Do you envisage using marketable assets as part of liquidity management?

- There was a difference here between "up-streamers" and more independent banks.
- Up-streamers do not envisage using marketable assets at the subsidiary level or alternatively suggest including in the definition intra-group exposures (of a certain quality?). They consider introducing a marketable asset requirement locally would introduce complexity that is not required or proportionate.
- Independent banks do envisage using marketable assets but again had some reservations over the definitions and complexity of the proposals.

4.4.2 If so, please consider whether these would meet the criteria set out in Basel III. Please also explain the criteria that you currently use to determine marketability, including any restrictions in respect of concentration risk.

- Currently some assets used for liquidity would not meet the definition, being mainly interbank deposits / CDs etc and, of course, intra-group exposures.

- There was a suggestion that the cap (75%) on inflows for intra-group could be removed.

4.7.1 Do you consider that deposit behaviour should be assessed centrally or on a bank by bank basis?

- General consensus was that behaviour should be assessed on a bank by bank basis with a broad high level framework in place overarching that. Respondents considered the current approach in the Isle of Man had generally worked well and proved to be flexible, with some high level parameters applying to all banks.
- Respondents expressed some caution against a "one size fits all" approach, especially for non retail deposits and undrawn commitments.
- Also see 4.7.2 below.

4.7.2 Do you consider that there are specific criteria that should be established (beyond the generic designation of retail and corporate deposits) to identify "sticky" deposits, such as size and nature of relationship? If so, should these be established across the CDs, by each supervisor or on a bank-by-bank basis?

- See 4.7.1 above.
- Some support for guidelines and broad definitions / criteria to be in place across CDs for stickiness and minimum outflows, but wish to retain flexibility to consider non retail books on a bank by bank basis.

4.7.3 Would the Basel III LCR measure be appropriate for your bank?

- There was no general consensus / support to apply the Basel III LCR measure in its purest form to subsidiaries. However, a similar metric tailored for the CDs was not ruled out (see earlier comments above).

5.4.1 Do you use similar liquidity ratio calculations within your current approach to longer term liquidity management? If so, please provide a brief summary and highlight key differences to the NSFR standard.

- The approach to longer term liquidity management was very dependent on the individual banks and their own business models.
- There was no general consensus / support for a standard NSFR measure at the subsidiary level, albeit it was mentioned that it could be used a metric / tool but not as a restraining one.

6.2.1 Would it be helpful if reporting requirements were closely aligned across the CDs?

- At a high level, this was broadly supported. Some banks however expressed a desire to align reporting to other jurisdictions too (but see 6.2.2).

6.2.2 Would it be useful to align the reporting of liquidity data / metrics more closely to the Basel III liquidity standard requirements and/or to requirements specified by other bodies?

- Some support to aligning metrics to other bodies.
- Varied support for aligning to Basel III, as reporting should be relevant and proportionate to the jurisdiction.

6.2.3 Would a requirement to provide data on liquid assets present any specific issues?

- No problems envisaged with providing data (if such liquid assets were required to be maintained).

6.2.4 Would reporting data on a currency by currency basis be problematic? If so, how could this be limited to provide data on material liquidity mismatches whilst minimising the cost of implementation?

- No issues envisaged as long as the data would be from material currencies (e.g. over 5 or 10% of balance sheet).

6.2.5 What problems would a move to require that banks be able to make more regular submission of liquidity data present (for specific reports and only where considered to be necessary)? In particular, does your current daily internal reporting provide sufficient data to enable completion of the current regulatory templates?

- General feedback is that more regular submission of liquidity reports should be made as considered necessary on a bank by bank basis, e.g. under stress etc.
- Daily internal reporting would not necessarily provide sufficient data to complete full regulatory templates.

<u>CAPITAL</u>

7.5.1 Do you expect to be part of a group that is subject to consolidated supervision of capital requirements by a supervisor that has adopted the Basel III capital standard? If so, are there any specific aspects that should be considered locally?

- Generally, yes. Aspects locally are covered in other parts relating to capital.

7.5.2 Would further alignment of the regimes in the CDs be beneficial and, if so, in which areas?

- Expressed a desire for RWA for bank exposures (residual vs original maturity approach) to be moved in line with UK / EU.
- No particular issues raised in aligning capital standards and definition of capital.

7.5.3 Are there any specific changes to current local capital adequacy requirements that you would like to see?

- Expressed a desire for RWA for bank exposures (residual vs original maturity approach) to be moved in line with UK / EU.
- One bank raised point around the calculation / timing of operational risk capital charge, and unaudited profits.

8.5.1 Would the application of CET1 capital stated in the Basel III capital standard have a significant impact on your current capital or on capital planning (also see section 9, capital minima)?

- No material issues perceived in meeting a CET1 requirement as defined.

8.8.1 Would the specifications of additional issued Tier 1 and Tier 2 capital stated in the Basel III capital standard have a significant impact on your bank's total available regulatory capital or on capital planning?

- No material issues were raised. Majority of capital held in CET1.

8.8.2 Would the removal of Tier 3 capital have a significant impact on your bank's total available regulatory capital or on capital planning?

- No issues were raised – no tier 3 recognised at present in Isle of Man.

8.8.3 Are there any impediments, legal or otherwise, to issuing capital that meets the criteria set in the Capital FAQ?

- No material issues were raised.

8.9.1 Would implementation locally within these timeframes present a problem?

- No material issues were raised.

8.9.2 Would a simpler transitional framework be appropriate, particularly where no such instruments currently exist?

- Generally, a simpler transitional framework was favoured given the fact that no material issues have been raised with the definitions of capital etc.

9.14.1 Would you support a move to using a single CET1 ratio for Pillar 1, instead of a framework of minima and buffers? If so, what level do you consider would be appropriate?

- There was broad support for the use of a single CET1 ratio for Pillar 1 rather than the staggered approach of buffers in Basel III, on the basis that pillar 2 still applies to each bank.
- Suggestions for minimum CET1 were made at 8% or 10%. Suggestion also made that if 8% were adopted, the adoption of a capital conservation buffer of 2.5% should be applied to all banks (albeit this could be in pillar 2).
- No real support for a general counter-cyclical buffer in the CDs.

9.14.2What timescale would provide sufficient time to enable a smooth transition?

- Generally it was not considered the timescale would be a particular issue, based on adoption in 2014/2015.

10.1.1 If you currently have a trading book or plan to do so, please provide a brief summary of your home supervisor's communicated plans.

- No trading books and none planned.

11.2.1 Do you have, or plan to have, any re-securitisation exposure or exposure to central clearing parties? If so, please comment on the desirability and impact of these changes.

- No re-securitisations or exposures to central clearing parties and none planned.

11.6.1 Would you support the removal of the simplified standardised approach in the CDs, over the medium term, once it is no longer in use or do you believe that it remains appropriate for some types of bank?

- Generally this was supported, including by two banks which we have already been engaged with on the matter. Another bank affected supported the move, subject to bank exposures being weighted on a residual maturity basis under the SAC.

12.5.1 Are there any obstacles to reporting the leverage ratio?

- No issues were raised in the ability to report a leverage ratio.
- Some issues were raised as to the relevance of a leverage ratio to certain subsidiaries (especially those that up-stream) and also whether it was appropriate to ultimately translate such as a measure to pillar 1.

12.5.2 If a minimum leverage ratio was set at 3% of (adjusted) assets, in line with the current Basel III proposal, do you consider that adhering to this would have any adverse impacts on your bank?

- Some issues were raised as to the relevance of a leverage ratio to certain subsidiaries (especially those that up-stream) and also whether it was appropriate to ultimately translate such as a measure to pillar 1.
- There was a suggestion that exposures to parent and the capital relating to such exposures should be removed from any leverage ratio calculation.
- Clarity on how cash backed loans would be treated was requested.
- Some banks may be near 3% if they were to grow.

12.5.3 Do you consider that there are any aspects of the leverage ratio that should be amended for subsidiary banks even where a consolidated ratio is seen to be appropriate?

- See comments in 12.5.2 above.

PROVISIONING

13.7.1 Do your bank's accounting practices regarding credit provisioning only require provisions to be raised where losses are incurred (as opposed to the expected loss approach outlined by the Basel Committee)?

- There was a mixed, and sometimes vague, response to this. It appears some banks already use an approach similar to the expected loss method. The main thrust was that accounting standards should match to the regulatory position for impairments.

13.7.2 If you do not currently use IFRS, what is the reason for this?

- Some smaller banks still use UK GAAP.

PILLAR 2

14.2.1 Are there any specific areas of Pillar 2 where you consider that a common approach across the CDs would assist banks?

- There was no general consensus view on this with some banks satisfied with the current approach.
- Noted that there may be some merit in aligning / refreshing the key principles of ICAAP across the CDs and core risks etc to be covered.
- One comment received that a consolidated ICAAP covering all subsidiaries at the CD level should be permitted. However, this is not an approach that the IOM FSC favours, especially if the overarching holding company is not subject to consolidated capital requirements in its home state.