



PROPOSED METHOD FOR (I) ALLOCATING FOREIGN
CURRENCY SECURITIES SUBJECT TO SPECIAL
LIMITED EXEMPTION TO CIS FROM SECURITIES
DEALERS, AND (II) DETERMINING COMPLIANCE WITH
THE PREVAILING FOREIGN CURRENCY RESTRICTION

CONSULTATION PAPER

The Financial Services Commission
39-43 Barbados Avenue
Kingston 5, Jamaica W.I.
Telephone: (876) 906-3010

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FINANCIAL SERVICES COMMISSION

PROPOSED METHOD FOR (I) ALLOCATING FOREIGN CURRENCY SECURITIES SUBJECT TO SPECIAL LIMITED EXEMPTION TO CIS FROM SECURITIES DEALERS, AND (II) DETERMINING COMPLIANCE WITH THE PREVAILING FOREIGN CURRENCY RESTRICTION

1.0 Background

- 1.01 The Memorandum of Economic and Financial Policies (MEFP) indicated that steps would be taken to make less risky business models available to securities dealers, inclusive of the raising of the cap on investments in foreign assets that Collective Investment Schemes ("CIS") can hold. In this regard, a Bank of Jamaica ("BOJ") advisory was issued on December 31, 2013, entitled "Advisory to Securities Dealers, Collective Investment Schemes, Insurance Companies, Superannuation Funds and Retirement Schemes - Amendment to the Limit on Investment in Foreign Securities", and hereafter referred to as the BOJ advisory. The BOJ advisory indicated that the cap would be raised in increments to at least 25 per cent by the end of 2015 and would be removed by the end of 2016, unless extraordinary circumstances necessitated a reassessment.
- 1.02 It was also indicated that a special limited exemption would be created for CIS so that securities dealers would be able to move their holdings as at December 31, 2013 of such exempt foreign currency instruments sold under repurchase agreements into CIS. The effect of this exemption was to allow CIS to hold exempt foreign currency instruments in any amount up to a global limit calculated as the aggregate holdings by securities dealers of exempt foreign currency instruments sold under repurchase agreements as at December 31, 2013. It was further indicated that a method of allocation would be developed in consultation with securities dealers.

2.0 Executive Summary

- 2.01 This paper outlines the proposed methodology for securities dealers (SDs) to transfer into CIS their holdings of:
- (i) foreign currency denominated instruments issued or guaranteed by the Government of Jamaica ("GOJ"); and
 - (ii) foreign currency denominated instruments issued or guaranteed by the US, UK and Canadian sovereigns

which are financed by repurchase agreements as at December 31, 2013. These securities are hereafter referred to as exempt instruments.

- 2.02 The special limited exemption will be lifted at the time that the global limit of exempt instruments is transferred from securities dealers to CIS or at July 31, 2015; whichever is sooner.
- 2.03 The paper also provides a method for determining SD and CIS compliance with the foreign currency restriction as stipulated by the BOJ, and which may be varied from time to time.
- 3.0 Methodology for transferring exempt instruments to CIS
 - 3.01 An SD may transfer to the CIS under its management, the entire portfolio or part thereof of exempt instruments sold under repurchase agreements as at December 31, 2013.
 - 3.02 An SD may also elect to transfer the entire portfolio or part thereof of exempt instruments sold under repurchase agreements as at December 31, 2013 to non-affiliated CIS.
 - 3.03 The Financial Services Commission ("FSC") will determine, based on a review of reported schedules of assets and liabilities data as at December 31, 2013¹, the market value of each SD's global aggregate of exempt instruments financed by repurchase agreements. This global aggregate defines the global limit of exempt instruments that CIS can acquire under special limited exemption.
 - 3.04 It is anticipated that the transfer of exempt instruments from SDs to CIS will not be a one-off transaction but will be executed through an on-going process. In this regard, the acquisition of exempt instruments by CIS under special limited exemption will be monitored for a period of eleven months, beginning September 1, 2014. During this period, CIS acquiring exempt instruments will notify the FSC, by letter, of the market value of the exempt instruments to be acquired as well as the source of the purchase. If the FSC has no objection to the acquisition, the acquisition amount will be reallocated within the global limit from the seller to the buyer and confirmed by letter to the purchasing CIS and the selling SD.
 - 3.05 Either at the time that the global limit of exempt instruments has been fully transferred from securities dealers to CIS or as at July 31, 2015, whichever is sooner, CIS will not be allowed to acquire any additional exempt instruments. This condition will remain in place unless an assessment of market conditions determines that a change be made.

¹ Pursuant to paragraph 4.14 of the Guidelines For The Operation Of Clients Holding Accounts At JamClear ("CSD Guidelines" - SR-GUID-10/10-0020), all securities dealers who issue repo contracts to clients shall submit monthly reports to the FSC, inclusive of a schedule of assets and liabilities in the format specified in appendix 1 of the CSD Guidelines.

- 4.0 Additional consideration for compliance with foreign currency restriction
- 4.01 Consistent with the BOJ advisory, in addition to exempt instruments, securities dealers and CIS will be permitted to acquire, in all currencies, investment grade sovereign obligations, investment grade corporate obligations of entities incorporated outside of Jamaica and shares of such corporations². These newly permissible foreign currency securities are hereafter referred to as category II permissible securities.
- 4.02 An SD shall hold no more than X% of the total market value of balance sheet assets and that portion of its off balance sheet assets which is managed on behalf of customers on a discretionary basis (including assets managed for CIS), in category II permissible securities, where X% is the limit or cap applicable to holdings of foreign currency assets, which may be varied from time to time by the BOJ.
- 4.03 In other words, for an SD to satisfy the foreign currency restriction:

$$\frac{\text{[SD total market value of investments in category II permissible securities]}}{\text{[SD total market value of balance sheet assets + off balance sheet assets under discretionary management]}} \leq X\%$$

Where X% = prevailing cap applicable to holdings of foreign currency assets as specified by the BOJ.

- 4.04 CIS may acquire category II permissible securities from a securities dealer up to a maximum of X% of the aggregate market value of the securities dealer's total balance sheet assets and that portion of its off balance sheet assets which is managed on behalf of customers on a discretionary basis (including assets managed for CIS).
- 4.05 In other words, for CIS to satisfy the foreign currency restriction:
- The market value of CIS acquisition of category II permissible securities must be less than or equal to (\leq) X% multiplied by the selling SD's total market value of balance sheet assets and off balance sheet assets under discretionary management.
- Where X% = prevailing cap applicable to holdings of foreign currency assets as specified by the BOJ.

5.0 Reporting Requirements

- 5.01 The FSC will track the value of the total holdings of exempt instruments held by CIS and inform the securities industry of this value on a routine basis. The special limited exemption will be lifted at the time the global limit is reached or at July 31, 2015; whichever is sooner.
- 5.02 The C1 form will undergo modification which will allow the FSC to obtain information on the market value of the portion of a securities dealer's off balance sheet assets which is managed on behalf of customers on a discretionary basis.
- 5.03 As indicated in paragraph 7 of the BOJ advisory, the relaxation of the cap on foreign currency investments will only apply to SDs and CIS which maintain eligibility. To maintain eligibility, each SD is required to

² The BOJ Advisory indicated that these limited categories may be later expanded over time as the regime for CIS expands.

provide the BOJ with a Foreign Currency Investment Projection ("FCIP") outlining the SDs current position and expected medium-term foreign currency investment and foreign asset acquisitions.

5.04 SDs with CIS under management shall submit FCIPs on behalf of the CIS managed by them. Updated FCIPs should be submitted to the FSC on a quarterly basis, within 60 days of the end of each calendar quarter. Once received and reviewed, the FCIP data will be forwarded to the relevant personnel at the BOJ.

6.0 Conclusion

6.01 This consultation paper has highlighted proposed steps to effect the allocation of foreign currency securities subject to special limited exemption from securities dealers to CIS. The paper also provided a method for determining SD and CIS compliance with foreign currency restrictions as stipulated by the BOJ.

6.02 The FSC invites comments on any and all aspects of the proposal presented in this paper. Comments should be submitted in hard copy or via email, on or before August 26, 2014. Comments may be submitted in hard copy to:

The Senior Director, Securities
Financial Services Commission
39-43 Barbados Avenue
Kingston 5
Or by email to:
securities@fscjamaica.org