



FINANCIAL SERVICES COMMISSION

Draft Addendum to the Guidelines for Interim Capital Standards for Securities Dealers and the Guidelines for Margin Requirements for Repurchase Agreements

April 13, 2006

1.0 Background

1.1 On July 31, 2004, the Financial Services Commission ("FSC") issued interim capital standards comprising two components: Guidelines for Interim Capital Standards for Securities Dealers (SR-GUID-04/07-0011) ("the Capital Standards guidelines") and Guidelines for Margin Requirements for Repurchase Agreements (SR-GUID-04/07-0010) ("Margin R guidelines").

- 1) The Capital Standards guidelines address the capital adequacy ratio.
- 2) The Margin R guidelines prescribe minimum margins for repurchase agreements.

1.2 Paragraph 3.3 of the Capital Standards guidelines contains a listing of the assets and their respective prescribed risk-weights. However, there are three types of assets for which the FSC did not prescribe risk-weights. These three types of assets are as follows:

- 1) Debt issued by G-10 countries other than the United States ("US"), United Kingdom ("UK") and Canada
- 2) CARICOM debt (Government and Central Bank)
- 3) Amounts due from other Governments, other Central Banks and Development Banks

1.3 The FSC has taken the decision to prescribe risk-weights for debt issued by G-10 countries (other than US, UK and Canada) and CARICOM debt respectively, and these risk-weights are detailed in paragraphs 2.1, 3.1 and 3.3 of this Addendum. With respect to other countries, the FSC will continue to prescribe risk-weights for debt due from their governments, central banks and development banks on a case by case basis.

1.4 Schedule I to the Margin R guidelines contains a list of qualifying issuers. However, there are two categories of issuers whose qualifying status was subject to the FSC's approval. The two categories are:

- 1) Government and Government Agencies of CARICOM countries and
 - 2) Governments and Government Agencies of the G-10 countries (excluding the US, UK and Canada).
- 1.5 In paragraph 5.1 of this Addendum, the FSC has specified which CARICOM countries are considered as qualifying issuers for the lower minimum margin requirements. Those CARICOM countries which are not considered as qualifying issuers will be subject to the higher minimum margin requirements. Additionally, in sub-section 5.2 of the Addendum, the FSC has indicated the status of the G-10 countries (excluding the US, UK and Canada) for minimum margin requirements.
- 2.0 Amendment to G-10 Debt**
- 2.1 Debt issued by G-10 countries (excluding the US, UK and Canada) will now be assigned a risk-weight of 20%.
- 3.0 Amendment to CARICOM Debt**
- 3.1 Debt issued by all CARICOM countries that have obtained a credit rating not lower than the highest credit rating for Government of Jamaica foreign currency denominated long term debt, subject to the provisions contained in paragraph 3.2, will now be assigned a risk-weight of 0%.
- 3.2 For the purposes of paragraph 3.1 above, the credit ratings should have been issued by a credit rating agency recognized by the FSC or one of the three international rating agencies: Fitch, Moody's and Standard & Poor's. Such credit ratings will be regarded as qualifying credit ratings.
- 3.3 Debt issued by all other CARICOM countries will be assigned a risk-weight of 20%.
- 4.0 Amendment to debt securities issued by statutory bodies or companies owned or controlled by the GOJ, or an agency of the GOJ, and which are not guaranteed by the GOJ.**
- 4.1 Debt securities issued by statutory bodies or companies owned or controlled by the GOJ, or an agency of the GOJ, and which are not the subject of an explicit guarantee by the GOJ, will now be assigned a risk-weight of 20%.
- 5.0 Amendments to Schedule I to the Margin R guidelines**
- 5.1 Government and government agencies of the CARICOM countries with a qualifying credit rating will now be qualifying issuers. Therefore, the minimum margin requirements for repos on securities issued by governments and government agencies of these countries will be subject to the lower margin requirements as stipulated for qualifying issuers in paragraph 3.5 iii) a) of the Margin R guidelines. All the other CARICOM countries will not be considered as qualifying issuers and will be subject to the higher minimum margin requirements as outlined in paragraph 3.5 iii) b) of the Margin R guidelines.

- 5.2 Government and government agencies of the G-10 countries (excluding the US, UK and Canada) will not be considered as qualifying issuers and repos on securities issued by these countries shall be assigned the higher minimum margin requirements as outlined in paragraph 3.5 iii) b) of the Margin R guidelines.

We would appreciate receiving your comments on this discussion paper on or before the close of business on **June 13, 2006**. Comments may be submitted by electronic mail to securities@fscjamaica.org or be directed to Senior Director, Securities at the following address:

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