



## FINANCIAL SERVICES COMMISSION DRAFT ADDENDUM TO THE GUIDELINES FOR MARGIN REQUIREMENTS FOR REPURCHASE AGREEMENTS

AUGUST 8, 2005

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### 1.0 Background:

1.1 The Financial Services Commission ("FSC") received several requests from the Jamaica Securities Dealers Association ("JSDA") and other members of the securities industry in relation to the FSC guidelines SR-GUID-04/07-0010 entitled "Margin Requirements for Repurchase Agreements" ("Margin R guidelines"). After meetings and discussions with the JSDA and further research, the FSC is proposing that the following additions be made to the previously issued Margin R guidelines.

### 2.0 Use of the Clean Price vs. Dirty Price:

2.1 Originally, the Margin R guidelines prescribed the use of the clean price of the underlying security in computing the required margin. The rationale for this approach was that the allowed accrued interest on the underlying security to be used, with the margin provided, as an additional buffer protecting the investor from price volatility.

2.2 However, the FSC now proposes to allow margins to be computed with reference to the dirty price of the underlying security along the following lines:

- a) The margin instituted at the initiation of the transaction is maintained throughout the life of the repurchase agreement ("Maintenance Margin Scheme")
- b) Under the Maintenance Margin Scheme, the fair value plus accrued interest (i.e., the dirty price) of the underlying asset should exceed the fair value plus accrued interest of the repurchase agreement obligation (i.e., the dealer's

liability under the repo) by a maintenance margin computed using the relevant percentage margin specified in paragraph 3.5 of the Margin R guidelines.

- c) Only licensed securities dealers meeting conditions established by the FSC will be allowed to use the Maintenance Margin Scheme. Dealers not meeting the conditions must apply margins to their repos in accordance with the provisions contained in paragraph 3.5 in the Margin R guidelines (“Initial Margin Scheme”)
- d) The conditions to be met by licensed securities dealers in order to be qualified to use the Maintenance Margin Scheme are as follows:
- The dealer must obtain and submit to the FSC independent verification from a firm of chartered accountants that it can mark to market daily the carrying values of securities in its investment portfolio.
  - The dealer must, at the time it applies to use the Maintenance Margin Scheme, be meeting or exceeding the FSC’s benchmarks for capital/total assets (i.e., 6%) and capital/risk weighted assets (i.e.,14%).
  - The dealer must, at the time it applies to use the Maintenance Margin Scheme, be in full compliance with all regulatory requirements and should have no unresolved regulatory issues outstanding.
  - The dealer must incorporate in its repo documents provisions which place on the dealer the obligation to maintain the margin offered to the client at the stipulated level.
  - The dealer must have received approval in writing by the FSC to use the Maintenance Margin Scheme.
- e) Licensed securities dealers that opt to use the Maintenance Margin Scheme will not be permitted to revert to the Initial Margin Scheme once they have received the FSC’s approval to use the Maintenance Margin Scheme and have entered into repurchase agreements using that scheme.

### **3.0 Use of Balances in Client JCSD Accounts in Funds Under Management (“FUM”):**

- 3.1 Client account balances in a dealer’s JCSD account should not be included in the calculation of FUM as they represent assets held in the name of the client by a third party. The dealer does not bear any risk in respect to these assets.

### **4.0 Use of a Subsidiary Company’s FUM in the Cap Calculation:**

4.1 Regulations apply to separate legal entities in our legislative framework; the cap on repurchase agreement obligations set out in paragraph 3.4 of the Margin R Guidelines should therefore be determined on an un-consolidated basis in respect to FUM balances.

## **5.0 Euroclearable GOJ Foreign Currency Bonds**

5.1 Euroclearable GOJ Foreign Currency Bonds purchased by dealers from overseas brokers on behalf of clients may be recognized as part of FUM since these assets are effectively held in trust for clients.

## **6.0 Due Date for Comments**

6.01 We would appreciate receiving your comments on these guidelines on or before the close of business on Friday, September 9, 2005. Comments may be submitted by electronic mail to [securities@fscjamaica.org](mailto:securities@fscjamaica.org) or be directed to Mr. George Roper, Senior Director, Securities at the following address:

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