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BULLETIN:

REPURCHASE AGREEMENTS (REPOS) BACKED BY GOVERNMENT OF JAMAICA (GOJ) OBLIGATIONS DENOMINATED IN FOREIGN CURRENCY

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FINANCIAL SERVICES COMMISSION

1.0. BACKGROUND

During 2010, the Financial Services Commission (FSC) introduced a new risk based capital test for the general insurance industry, namely the Minimum Capital Test (MCT). The Insurance Regulations, 2001 was amended to reflect the change of the solvency requirements from the Minimum Asset Test to the MCT. The MCT assesses the riskiness of assets and policy liabilities by applying various factors and margins. It is an "excess of capital" measure which compares the capital available to the capital required.

2.0 REPOS BACKED BY OBLIGATIONS OF THE GOJ DENOMINATED IN FOREIGN CURRENCY

Regulation (3)(28)(20) of the Insurance (Amendment) Regulations 2011, stipulates that repos issued by securities dealers licensed by the Commission or regulated Investment Grade Brokers shall attract a factor that is equal to the sum of 0.15% and the asset factor that would apply to direct investment in the security backing the agreement.

Based on Regulation (3)(28)(19), the asset factor applicable to obligations of the GOJ denominated in a foreign currency shall be within the range 0% to 10% inclusive. Effective 31 March 2012, the factor to be applied was set at 10%.

Consequent to the FSC's review of MCT calculations submitted by general insurance companies, there appears to be some misinterpretation with respect to the asset factor to be applied to repos backed by obligations of the GOJ denominated in foreign currency. Accordingly, the purpose of this bulletin is to clarify the asset factor that should apply, for the purposes of carrying out the Minimum Capital Test.

3.0. ASSET FACTOR

In the preparation of the MCT, an asset factor of 10.15% should to be applied to repurchase agreements backed by GOJ obligations denominated in a foreign currency. This factor represents the sum of:

(a) 0.15% and
(b) 10%; the risk factor for the underlying security.