



**SECURITIES INDUSTRY ADVISORY
FOR THE NEW RETAIL REPURCHASE AGREEMENT
REGULATORY AND OPERATIONAL FRAMEWORK**

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1.0 BACKGROUND

- 1.01** Over the years, a practice has developed whereby securities dealers finance large volumes of investments in securities by short term repurchase agreements entered into with investors. The securities dealers retain the ownership of the underlying securities and give beneficial interests in the securities instead of selling or transferring legal title of such securities outright to investors. This practice, known as the “retail repo” business, poses a number of risks to securities dealers and investors. A critical component of the Government of Jamaica’s financial sector reform programme is to implement a strategy to reduce the risks associated with the retail repo business of securities dealers.
- 1.02** The Financial Services Commission (FSC) has been charged with the responsibility of facilitating the establishment of a trust to mitigate the investors’ risk of loss from dealer default, bankruptcy and other legal risks associated with the retail repo product. A new legal and regulatory framework was established on December 31, 2014 through the enactment of the Securities (Retail Repurchase Agreements) Regulations, 2014. The next element of the reform process will involve the implementation of a new operational framework for the retail repo market. A new retail repo transaction structure has been established, which involves the JCSD Trustee Services Limited (FSC approved trustee) functioning as trustee and registrar to hold the securities underlying retail repos in trust for the benefit of retail repo investors. This will ensure that these underlying securities are held apart from the dealer’s estate in the event of its default. It will also facilitate the trustee taking appropriate actions in the event of a transaction failure or default to ensure that the beneficial interests of retail repo investors are adequately protected.
- 1.03** In the new transaction structure, the details for all retail repo contracts data will pass directly to the Jamaica Central Securities Depository (JCSD), an agent of the trustee after which net settlement of cash and securities will occur. The net settlement of cash and securities will occur based on the currency of the cash obligation and the depository in which the securities are registered as follows:
- a) Net settlement of cash:
 - (i) JMD cash will occur in JamClear-RTGS
 - (ii) USD cash will occur in Citibank N.A.

- b) Net settlement of securities:
 - (i) JamClear-CSD for securities registered on JamClear-CSD
 - (ii) Approved international custodian banks for global bonds; and
 - (iii) JCSD for approved locally issued corporate bonds

1.04 The new transaction structure will enhance the current regulatory framework for the retail repo market. This is consistent with the FSC's commitment to protect the interests of investors. To ensure the achievement of this objective, the regulatory and operational frameworks associated with the trust arrangement embody the following characteristics:

- a) Transfer of legal ownership of underlying securities to the trustee;
- b) De-segregation of assets in a third-party account; and
- c) Establishment of an express trust for the benefit of retail repo investors.

2.0 FEATURES OF THE NEW RETAIL REPO FRAMEWORK

The critical components which will guide the new framework for the retail repo market are outlined below:

2.01 Definition of a Retail Repo

The definition of a retail repo¹ is as follows:

“any repurchase agreement that does not completely and outrightly transfer the legal ownership of the underlying securities from the dealer to the clients”

2.02 Legal Documentation

A set of new and/or revised legal documentation will be used in the operational framework:

- a. Standardized Master Retail Repurchase Agreement² - This must be executed between the dealer and the client;
- b. Trust deed³ - This must be executed between the dealer and the appointed trustee;
- c. Disclosure statement⁴ - This must be presented to the client by the dealer;
- d. Receipt⁵ – This must be issued to the client by the dealer for all moneys paid by the client in relation to retail repo transactions; and
- e. Transaction confirmation⁶ – This must be issued to the client by the dealer and should outline all the terms of the retail repo contract.

¹ Refer to Regulation 3 (1) of the Securities (Retail Repurchase Agreement Regulations), 2014. Please note that this definition of retail repo is determined by the treatment of the underlying securities irrespective of the type of investor. Therefore, all repurchase agreements that are executed via the pledge operation on JamClear-CSD are classified as retail repos and will not be allowed in the new framework.

² Refer to Regulation 4 and the Schedule of the Securities (Retail Repurchase Agreement Regulations), 2014

³ Refer to Regulation 14 of the Securities (Retail Repurchase Agreement Regulations), 2014

⁴ Refer to Regulation 10 of the Securities (Retail Repurchase Agreement Regulations), 2014

⁵ Refer to Regulation 5 (1) of the Securities (Retail Repurchase Agreement Regulations), 2014

2.03 Elements of The Retail Repo Transactions

The transaction structure addresses the main elements of the retail repo transaction and includes:

- a. the creation of a new retail repo contract;
- b. the rollover of an existing retail repo contract;
- c. the termination of a retail repo contract (full encashment);
- d. the partial encashment of a retail repo contract; and
- e. the substitution of securities underlying a retail repo contract.

2.04 Minimum Transaction Size

All retail repos registered in the trust framework must meet the standard minimum transaction size as specified by the FSC⁷. Of note, the minimum transaction size will serve as a floor, therefore, an individual dealer in keeping with its own business model can determine a higher amount.

2.05 Funding Currencies

There will be two funding currencies available for retail repos under the trust arrangement, namely Jamaican dollar (JMD) and United States Dollar (USD). Please note that while the trustee's system will accept only JMD and USD contracts, dealers may continue to conduct retail repo transactions in other currencies. However, these contracts must be converted to either JMD or USD in order to be registered in the trust arrangement and this must be disclosed to the clients.

2.06 Cross Currency Transactions

Cross currency transactions will be facilitated using two currencies, namely JMD and USD. The Bank of Jamaica (BOJ) ten-day moving average rate will be used for the conversion of these transactions.

2.07 Universe of Allowable Securities

A pool of allowable securities that can be used as underlying assets for retail repo transactions will be established and will include dematerialized and/or immobilized securities as specified by the FSC.

a) Dematerialized Securities will include:

- Government of Jamaica (GOJ) issued and GOJ guaranteed securities;
- Securities issued and/or guaranteed by US, Canada and UK sovereigns;
- Foreign currency denominated investment grade sovereigns and corporates in keeping with the foreign currency restriction outlined by section 22 of the BOJ Act and the BOJ (Dealings in Foreign Currency Instruments) (Eligible Securities Dealers) (Exemption) Orders; and
- BOJ Certificates of Deposit.

⁶ Refer to Regulation 5 (2) – (6) of the Securities (Retail Repurchase Agreement Regulations), 2014

⁷ Refer to Section 2 of the Guidelines on Minimum Transaction Sizes for Retail Repurchase Agreements (SR-GUID_14/10-0023

b) Immobilized Securities will include:

- GOJ issued and GOJ guaranteed securities;
- Foreign currency denominated investment grade corporates in keeping with the foreign currency restriction outlined by section 22 of the BOJ Act and the BOJ (Dealings in Foreign Currency Instruments) (Eligible Securities Dealers) (Exemption) Orders; and
- Locally issued corporate bonds with any of the following criteria:
 - Listed corporate bond;
 - Unlisted corporate bond but secured by: (i) shares of a listed company; or (ii) real estate with registration of lien as first mortgage; or (iii) receivables; or
 - Corporate bond guaranteed by a parent company with an investment grade credit rating.

2.08 Margin Requirements

All retail repo transactions will require an initial margin as well as a daily maintenance margin at the percentages stipulated by the FSC. The minimum initial and maintenance margin requirements for the following list of 'qualifying issuers' shall be 5%:

- The GOJ, inclusive of central government, statutory bodies, companies owned or controlled by the GOJ and agencies of the GOJ;
- The BOJ; and
- Governments and Government Agencies of the United States, Canada, and the United Kingdom.

For all other allowable assets, the minimum initial and maintenance margin requirements shall be 15% as long as the issue is:

- A locally issued JMD denominated immobilized corporate bond;
- An Investment grade sovereign foreign security (excluding US, Canada and UK); or
- Investment grade corporate foreign bonds.

2.09 Valuation Methodology for Allowable Securities

A standardized valuation methodology, namely the Bloomberg B-VAL methodology, will be used to determine the market value for all securities underlying retail repo contracts that are held by the trustee, unless otherwise specified by the FSC. The mark to market valuation of all securities held by the trustee will be conducted on a daily basis using the B-VAL closing prices from the previous day. Dealers are also required to contribute prices to Bloomberg for the securities being used as underlying securities for retail repo contracts.

2.10 Operating Rules & Schedule

The new operational framework will be guided by rules for participation in the trust arrangement and for the registration and settlement of retail repo transactions. These rules will be supported by a daily operating schedule which will identify timelines for the opening of the JCS system, initial and final transaction file

uploads to the trustee, settlement window for cash and securities, security adequacy checks, reconciliation and reports to the FSC⁸.

If these rules are breached by any party party, all parties shall be obliged to report the defaulting party and the nature of the breach to the FSC upon becoming aware of such breach. Breaches of these rules may result in the imposition of penalties, suspension or termination of the dealer by the trustee as it deems fit.

3.0 OPERATIONAL REQUIREMENTS FOR THE RETAIL REPO TRANSACTION STRUCTURE

The requirements of the retail repo transaction structure are detailed as follows:

3.01 JamClear Systems Requirement

- a) The establishment of a new participant category, namely "trustee" in JamClear-RTGS and JamClear-CSD;
- b) The creation of special settlement arrangements, namely specific dealers' clients' accounts for each dealer engaged in the retail repo business within the trustee participant accounts in JamClear-RTGS and JamClear-CSD;
- c) The creation of a conversion tool to facilitate the creation of the XML file which will be used to perform net settlement of cash and securities registered on JamClear-CSD; and
- d) The creation of new reports specific to trustee participant activities in the JamClear systems.

3.02 Trustee Requirements

- a) The trustee will be required to apply for a Tax Registration Number (TRN) for each dealer's client account with unique branch numbers to identify each dealer. These TRNs will be used to create the specific dealers' clients' accounts in JamClear-RTGS and JamClear-CSD;⁹
- b) The trustee will be required to open account(s) with international custodian(s)¹⁰ to sub-custody global securities deposited in overseas depositories that will be underlying retail repo contracts;

⁸ The JCSD system will be opened at 8:30 a.m. and all dealers must upload all transaction files no later than 2p.m. All settlement of cash and securities must occur no later than 2:30p.m. Of note, if a dealer submits more than one file during the day, the first file must be settled prior to the settlement of all other submitted files. Additionally, each file will be processed and settled on an "all or none basis". The JCSD will conduct an initial securities adequacy check no later than 3p.m. and advise dealers of additional securities requirements if necessary. Subsequent to this the dealers will be required to make corrections and/or transfer the additional securities by 3:30p.m. The JCSD will conduct the final securities adequacy check no later than 3:45p.m. and provide reports to the dealers and FSC by 4p.m.

⁹ The trustee needs a TRN for each dealer's client account to establish the fact that a transfer of title has occurred and that the trustee is the legal owner of the securities on behalf of the clients. Dealers can request and/or generate reports from the JCSD system showing details of the securities held. With respect to coupon payments on the securities underlying retail repos, the dealers are required to provide payment instructions to the trustee in order to receive these payments. Additionally, the trustee will provide withholding tax certificates for all coupon payments received on behalf of the dealers.

¹⁰ The trustee has established relationships with three international custodians namely, Oppenheimer, Bank of New York Mellon and EuroClear. Dealers are required to select their preferred custodian from these options and communicate their selection to the trustee in order to facilitate the opening of the dealer's client accounts. Of note, a dealer can only utilize one custodian for the purposes of retail repos at any one point in time.

- c) The trustee will be required to open dealers' client accounts in JCSD to maintain balances of immobilized securities underlying the retail repo contracts;
- d) The trustee will be required to open USD settlement accounts in Citibank N.A. to facilitate the net settlement of USD cash obligations;
- e) The trustee will perform netting of both cash and securities based on the details in the transaction files uploaded by the dealers and provide to the dealers a netting advice with the amount of cash and securities required to facilitate settlement;
- f) The trustee will maintain end of day securities prices for valuation purposes;
- g) The trustee will perform end of day reconciliations using balances of cash obligations/purchase price and the value of underlying securities held in the client accounts in the JamClear-CSD, JCSD and the international custodian bank;
- h) The trustee's reconciliation and exception reports¹¹ will be provided to the dealer and FSC; and
- i) The trustee is required to maintain the client accounts with all retail repo contracts registered by the dealers.

3.03 Dealer Requirements

- a) All dealers engaged in the retail repo business are required to be JCSD participants;
- b) All dealers engaged in the retail repo business are required to be JamClear-CSD participants as long as JamClear registered securities will be used as underlying securities;
- c) All securities underlying a retail repo contract must be immobilised¹² or dematerialised in approved CSDs;
- d) Dealers will be required to open a retail repo account¹³ with JCSD for each retail repo investor. Of note, the accounts can be created manually or via file upload with a csv file format. (Refer to Figure 1 for fields and field descriptions);
- e) Dealers will be required to create and upload files as per operating schedule, containing transactions for retail repo clients in the format specified by the trustee. (Refer to Figure 2 for fields and field descriptions);
- f) Dealers will be required to ensure that each flat file of retail repo transactions is prepared in keeping with the validation rules of the trustee's system.
- g) Dealers' back offices will be required to meet the hardware and software requirements of the JCSD and JamClear systems;
- h) Dealers will be required to have an interface with the JCSD's back office system to facilitate the transfer and validation of transaction files; and
- i) Dealers will be required to open dealers' own accounts in the JCSD in order to maintain unencumbered/unallocated balances of immobilized securities.

¹¹ The clearing of exceptions will be enforced as per operating rules and schedule.

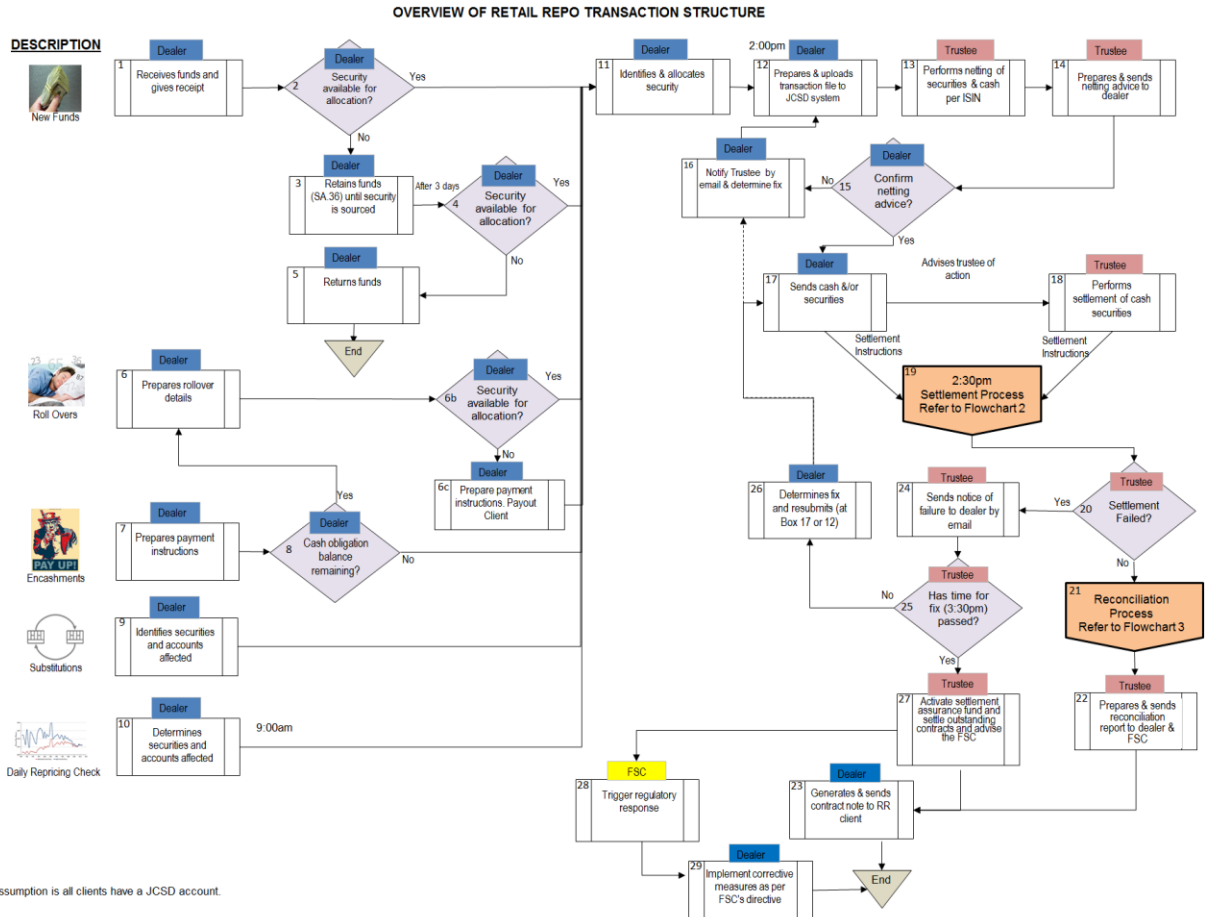
¹² Approved securities must be immobilized in JCSD.

¹³ Investors with existing JCSD accounts for equities are also required to open JCSD accounts, specific to retail repos.

4.0 OPERATIONAL PROCESS FLOWS FOR THE RETAIL REPO TRANSACTION STRUCTURE

The following flow charts provide the operational process flows for the new retail repo transaction structure.

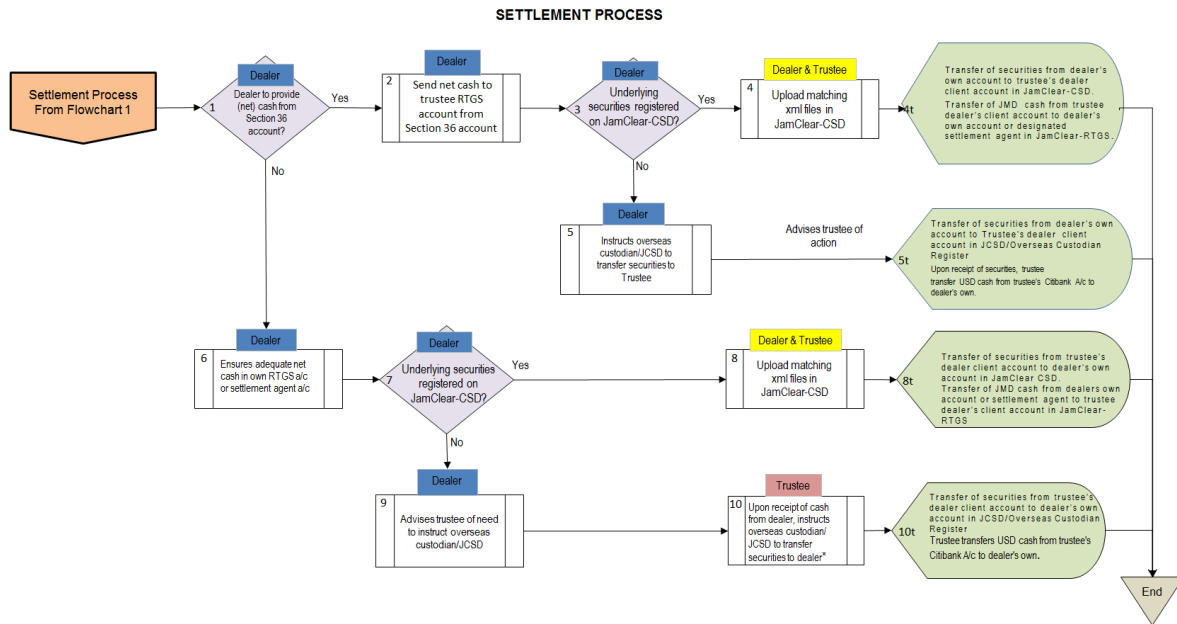
Flow Chart 1



Flow chart 1 presents an overview of the entire process surrounding the retail repo transaction viz. processing and registration of retail repo contracts with the trustee, to settlement and then reconciliation. The overview also includes all possible elements of the retail repo lifecycle, that is, from new funds, roll overs, encashments, substitution and re-pricing of existing contracts;

For full scale reproduction and notes see: [Retail Repo Process Flow-May 2015 – Flow Chart 1](#)

Flow chart 2

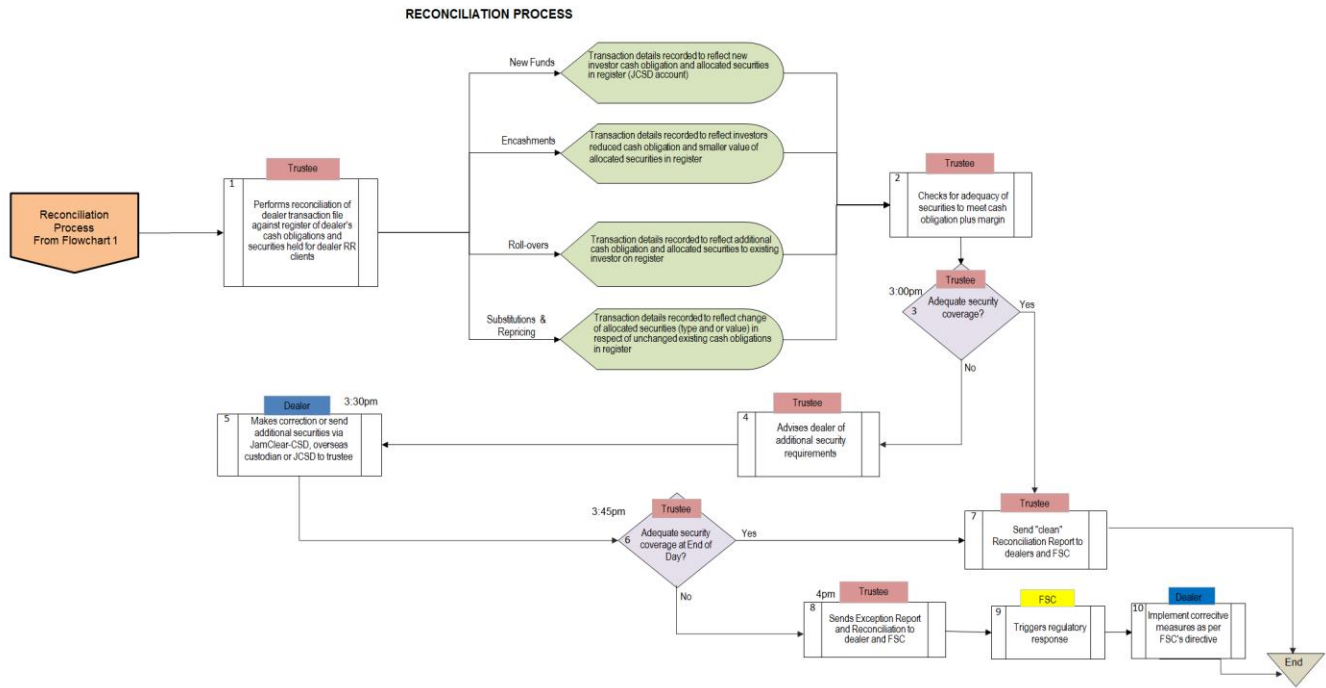


* The assumption here is that when new funds coming into the dealer exceed encashments, the dealer will be required to provide more securities. This is however not necessarily so, as increased securities values or other non-cash movements may negate such requirement. The same is true of the reverse situation. When encashments exceed new funds, the assumption is that some securities will be "freed" for return to the dealer, whereas possibly decreased security values, increased securities requirements from roll-overs or other transactions may result in the opposite case, that is the dealer may still have to provide additional securities. The third instance is where no cash or securities are required to be provided in either by the dealer or trustee or both. In all these instances the existing process flowchart may still be used to guide participants if the then irrelevant steps are skipped.

Flow chart 2 presents an overview of the net settlement process for cash and securities for retail repo transactions. Please note that the net settlement process will be guided by a payment and delivery sequence for the cash and securities where the dealers will be required at all times to provide cash and securities in order to initiate the settlement process.

For full scale reproduction and notes see: [Retail Repo Process Flow-May 2015 – Flow Chart 2](#)

Flowchart 3



- Flow Chart 3 presents an overview of the reconciliation process that will be conducted to ensure that the value of securities held in custody by the trustee is adequate to cover the cash obligations registered with the trustee inclusive of the minimum margin requirement.

For full scale reproduction and notes see: [Retail Repo Process Flow-May 2015 – Flow Chart 3](#)

For further information, kindly direct queries in writing to:

The Senior Director, Securities
Financial Services Commission
39-43 Barbados Avenue
Kingston 5, Jamaica, W.I.

Inquires may also be submitted by email to:

securities@fscjamaica.org

Table 1 – Fields required for account creation file

Fields	Field Description	Mandatory Field
ACCOUNT_TYPE	Code that identifies the type of account - R (Repo)	Yes
ACCOUNT_CATEGORY	The category of the account, that is, C (Company) or I (Individual)	Yes
RESIDENCE	The code that identifies the country of residence for the account	Yes
SURNAME	The surname of the individual or full name of the company	Yes
FORENAMES	The first name and middle name/initial of the individual	Yes, if individual
ADDRESS_LINE_1	First line of address	Yes
CITY	Parish if a local address or state if a foreign address	Yes
POSTCODE	Postal or zip code of address	No
COUNTRY	Country code for the address	Yes
HOME_TELEPHONE	Home telephone number to be entered including the country code (+876-123-4567)	No
WORK_TELEPHONE	Work telephone number to be entered including the country code (+876-123-4567)	No
MOBILE_TELEPHONE	Mobile telephone number to be entered including the country code (+876-123-4567)	No
FAX	Facsimile machine telephone number to be entered including the country code (+876-123-4567)	No
EMAIL_ADDRESS	Email address of the primary holder	No
ID_NUMBER	ID Number for individuals or Company registration number (must be keyed without dashes)	No
PASSPORT_NUMBER	Passport number if different from ID number	No
NATIONALITY	Country code of the nationality of the primary holder	No
DATE_OF_BIRTH	Date of birth of the individual	No
TAX_ID_TYPE	Tax identifier type - TRN	Yes
TAX_ID_NUMBER	TRN Number only (must be keyed without dashes)	Yes
JOINT_1_SURNAME	The surname of the first joint holder	Yes, if joint details provided
JOINT_1_FORENAMES	The first name and middle name/initial of the first joint holder	Yes, if joint details provided
JOINT_1_TAX_ID_TYPE	Tax identifier type - TRN	Yes, if joint details provided
JOINT_1_TAX_ID_NUMBER	TRN Number for the first joint holder (must be keyed without dashes)	Yes, if joint details provided

Table 2 – Fields required for transaction upload file

Fields	Field Description
ACCOUNT_REF	The investor's JCSD account number
SURNAME	The surname of the individual or full name of the company
FORENAME	The first name and middle name/initial of the individual
TRN	Tax registration number of the investor
TRANSACTION_TYPE	Transaction Type must be specified
CR_CONTRACT_NUMBER	Contract Number for the contract being registered in the JCSD
DB_CONTRACT_NUMBER	Contract Number for the contract being de-registered in the JCSD
TRANSACTION_DATE	Date transaction was created in dealer's system
SETTLEMENT_DATE	Intended date for settlement. Date file is uploaded to JCSD for settlement
CR_ISIN_CODE	The code of the security that will be added
DB_ISIN_CODE	The code of the security that will be subtracted
CR_ISIN_PRICE	The price of the security that will be added
DB_ISIN_PRICE	The price of the security that will be subtracted
CR_CASH_OBLIGATION	Amount paid by the client for transaction
DB_CASH_OBLIGATION	Amount to be paid to the client by the dealer
CR_NOMINAL_VALUE	Face value of the security to be added
DB_NOMINAL_VALUE	Face value of the security to be subtracted
CR_SECURITY_MARKET_VALUE	Market Value of the security to be added
DB_SECURITY_MARKET_VALUE	Market Value of the security to be subtracted
CR_MARGIN	Prescribed amount over CR cash obligation
DB_MARGIN	Prescribed amount over DB cash obligation
CASH_CURRENCY	JMD or USD
INTEREST_RATE	Interest rate to be paid to the client
MATURITY_DATE	Intended date for maturity of the contract
EXCHANGE_RATE	BOJ 10 Day moving average rate
REMARKS	Free field for dealer use