



GUIDELINES FOR:

**The Operation of Clients Holding Accounts
at JamCLEAR**

**The Financial Services Commission
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FINANCIAL SERVICES COMMISSION GUIDELINES FOR THE OPERATION OF CLIENTS HOLDING ACCOUNTS AT JAMCLEAR

1.0 BACKGROUND

- 1.01 The Bank of Jamaica (BOJ) has implemented a settlement and clearing system for securities and financial instruments issued by the Government of Jamaica (“GOJ”) and the Bank of Jamaica (“BOJ”). All financial instruments issued by the GOJ and BOJ issued will be dematerialized and settled by electronic means at the Central Securities Depository (“JamCLEAR CSD”).
- 1.02 The JamCLEAR CSD rules require that all securities movements including pledges, sales, purchases, repurchase agreements or reverse repurchase agreements or otherwise, that gives rise to automatic access to title in the event of default, will take place on the books of JamCLEAR CSD. As a result, JamCLEAR CSD is the sole legal record of ownership of these securities.
- 1.03 However, over the years, the local securities industry has developed a practice whereby dealers finance large volumes of financial assets issued by BOJ and GOJ by short term repurchase agreements entered into with their investing clients. In some cases, these arrangements did not allow for the automatic transfer of title to the investing clients, with the securities being held in the dealers’ name by way of a contractual arrangement with their clients. The dealers then kept a record of the beneficial owners of these financial assets. In this context, in the event of the bankruptcy of a dealer, there are mechanisms through which clients invested in repo contracts issued by the dealer may seek to realize their beneficial interests in the securities underlying the repo contracts. However, the FSC is of the view that there is still scope for further increasing the level of protection afforded to investors thereby minimizing any risk of clients losing their beneficial interest in an underlying financial asset, in the event of a bankruptcy of a dealer.
- 1.04 To achieve this objective, without unduly disrupting current market operations, the FSC is committed to adopting the following course of action. The FSC will begin to study the feasibility of reforming bankruptcy law to further strengthen the level of protection to clients under repo contracts. In the interim, securities dealers who engage in repo transactions will be required to register, in JamCLEAR CSD, the security interests of customers who are invested in repo contracts. Further, where the repo contract does not allow

for the automatic transfer of ownership of the underlying asset in the event that the dealer becomes insolvent, the FSC will require either that:

- i) Customers' interests be registered on JamCLEAR CSD through the use of an appropriate pledge mechanism; or,
- ii) Where such pledging is either unavailable or infeasible, customer interests be registered through the use of an omnibus client account, whereby dealers place all assets subject to retail repos in a separate JamCLEAR CSD holding account, which is an account maintained by a dealer to facilitate the segregation of clients' unencumbered financial assets that are associated with a repo agreement.

1.05 Securities dealers will be required to keep clear records of clients' interests, which must be reconciled on an on-going basis, and the results of such reconciliation be periodically reported to the FSC. These guidelines describe the acceptable practices that should be conducted by securities dealers with respect to registering the issuance of repurchase agreement contracts on JamCLEAR CSD. In particular, these guidelines stipulate the conditions to be met for the establishment and continued use by securities dealers of client holding accounts at JamCLEAR CSD.

2.0 DEFINITIONS AND APPLICATION

2.01 Repurchase agreement ("Repo") has the same meaning as in the FSC's Guidelines for Margin Requirements for Repurchase Agreements (SR-GUID-04/07-0010). These guidelines shall be used for all repurchase agreements where the underlying assets are issued by the GOJ or the BOJ and is settled on JamCLEAR CSD.

2.02 These guidelines should be read as an addendum to FSC Guidelines on Minimum Requirements for Repurchase Agreements (SR-GUID-04/07-0012). As such, breaches of these guidelines would be viewed as a failure to adhere to prudent practices and securities dealers who fail to comply would be construed as engaging in unsafe and unsound practices. Dealers deemed to be engaged in such unsafe and unsound practices may be subject to remedial action pursuant to Section 8 of the Financial Services Commission Act, including restrictions on the continuance of any repo business.

3.0 GENERAL REQUIREMENTS FOR MAINTAINING A CLIENT HOLDING ACCOUNT

3.01 All securities dealers who issue repo contracts to clients using financial assets issued by the GOJ and BOJ must be a participant of JamCLEAR CSD. Hereafter, such dealers will be referred to as "participating dealers";

- 3.02 All participating dealers who issue repo contracts and who have not used a pledging facility on JamCLEAR CSD to record the clients' interests in the underlying collateral, must segregate the assets underlying the repo contracts by establishing a client holding account on JamCLEAR CSD;
- 3.03 All participating dealers using a client holding account must provide, at least once per year, an auditor's verification of the dealer's Repo liabilities, the value of dealers' assets held in the segregated client holding account on JamCLEAR CSD and the value of assets pledged as collateral for repo liabilities;
- 3.04 All participating dealers must reconcile, on an ongoing basis, their liabilities listing with their holding of assets at JamCLEAR CSD. This reconciliation shall be reported to the FSC on a daily, weekly and monthly basis, in the manner specified by the FSC in appendixes 1 – 3 of these guidelines.

4.0 IMPLEMENTATION ARRANGEMENTS AND REPORTING REQUIREMENTS

- 4.01 These guidelines shall be effective as of **2010 October 31**. After the guidelines come into effect, the following reporting requirements shall apply:

4.1 Monthly Reports

- 4.12 No later than 2010 November 15, all participating dealers shall submit to the FSC, a statement signed by the Chief Executive Officer and the Responsible Officer verifying:
- i) The establishment of the client holding account at the JamCLEAR CSD;
 - ii) The aggregate value of assets, as at 2010 October 31, held in client holding accounts and/or pledged as collateral, along with a supporting schedule listing the assets held;
 - iii) The aggregate value, as at 2010 October 31, of repo liabilities that are backed by assets in the client holding account and by assets pledged as collateral;
- 4.13 All participating dealers shall submit said verification no later than **15 days** after the end of each subsequent month. Where the 15th day is not a normal working day, the report shall be submitted on the next working day thereafter;
- 4.14 Monthly reports shall include a schedule of assets and liabilities as specified in appendix 1.

4.2 Weekly Reports

- 4.21 For the purposes of weekly submissions, a week is deemed to begin on a Thursday and end on the Wednesday following. Weekly submissions shall be due on the Monday immediately following the week ended Wednesday;

4.22 No later than 2010 November 15, all participating dealers shall submit a schedule of assets and liabilities for the week ended 2010 November 10, as specified in appendix 2, and shall submit said report on the Monday of each subsequent week.

4.3 Daily Reports

4.31 All participating dealers shall submit, no later than the close of each business day, a schedule of assets and liabilities as at the end of the previous day, as specified in appendix 3.

ASSETS SUMMARY						REPO LIABILITIES SUMMARY						
Securities Description	International Securities Identification Number ("ISIN")	Total Amount Held Outright	Total Amount acquired through Reverse Repos	Total Amount of Securities Pledged other than under repo transactions	Total Value of Securities Available for Allocation to Repo Clients	Total Value of Securities Assigned to Individual Clients	Total Value of Securities Assigned to Corporate Non-financial Institutions	Total value of Securities assigned to Commercial Banks, Merchant Banks, & Building Societies	Total Value of Securities assigned to Insurance Companies (licensed as Securities Dealers)	Total Value of Securities assigned to Other Securities Dealers	Total Value of Securities Allocated to Repo Clients	Net Position
		J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$
Securities of G10 Countries (US, U.K., and Canada)					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
Securities of CARICOM countries					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
Other Securities					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
					0.00						0.00	0.00
TOTAL:		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes:

- (1) Dollar amounts should be reported in Jamaican currency only. Please provide the foreign exchange rates used where applicable.
- (2) The values reported should represent principal amounts only.

We declare that to the best of our knowledge, information and belief, the foregoing is accurate and has been prepared from the accounting and other records of the licensee for the purposes of the Securities Act.

Authorized by: _____

Authorized by: _____

ASSETS SUMMARY						REPO LIABILITIES SUMMARY						
Securities Description	International Securities Identification Number ("ISIN")	Total Amount Held Outright	Total Amount acquired through Reverse Repos	Total Amount of Securities Pledged other than under repo transactions	Total Value of Securities Available for Allocation to Repo Clients	Total Value of Securities Assigned to Individual Clients	Total Value of Securities Assigned to Corporate Non-financial Institutions	Total value of Securities assigned to Commercial Banks, Merchant Banks, & Building Societies	Total Value of Securities assigned to Insurance Companies (licensed as Securities Dealers)	Total Value of Securities assigned to Other Securities Dealers	Total Value of Securities Allocated to Repo Clients	Net Position
		J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$	J\$

Date

Date

ASSETS & REPO LIABILITIES MATCH REPORT

Based on Client Holding Account on Central Securities Depository & Other Supporting Schedules
Weekly Reporting Format

Name of Dealer:
Reporting Period:

ASSETS SUMMARY					REPO LIABILITIES	
Securities Description	Total Amount Held Outright	Total Amount acquired through Reverse Repos	Total Amount of Securities Pledged other than under repo transactions	Total Value of Securities Available for Allocation to Repo Clients	Total Value of Securities Allocated to Repo Clients	Net Position
	J\$	J\$	J\$	J\$	J\$	J\$
As per Central Securities Depository ("CSD"):						
Government of Jamaica ("GOJ") Securities				0.00	0.00	0.00
Bank of Jamaica ("BOJ") Securities				0.00	0.00	0.00
Securities not registered on the CSD:						
GOJ Global Bonds				0.00	0.00	0.00
Securities of G10 Countries (US, U.K., and Canada)				0.00	0.00	0.00
Securities of CARICOM countries				0.00	0.00	0.00
Other Securities				0.00	0.00	0.00
TOTAL:	0.00	0.00	0.00	0.00	0.00	0.00

Notes:

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Authorized by: _____ Authorized by: _____

Date _____ Date _____

ASSETS & REPO LIABILITIES MATCH REPORT
Based on Client Holding Account on Central Securities Depository & Other Supporting Schedules
Daily Reporting Format

Name of Dealer:
 Reporting Period:

ASSETS SUMMARY					REPO LIABILITIES	
	Total Amount Held Outright	Total Amount acquired through Reverse Repos	Total Amount of Securities Pledged other than under repo transactions	Total Value of Securities Available for Allocation to Repo Clients	Total Value of Repo Liabilities	Net Position
	J\$	J\$	J\$	J\$	J\$	J\$
Total Investment Assets				0.00	0.00	0.00
As per Central Securities Depository ("CSD"):				0.00		
Securities not registered on the CSD:				0.00		
of which: Local currency				0.00		
Foreign-currency denominated				0.00		

Notes:

- (1) Dollar amounts should be reported in Jamaican currency only. Please provide the foreign exchange rates used where applicable.
- (2) The values reported should represent principal amounts only.

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Date _____ Date _____