



PROPOSAL FOR (1) THE ESTABLISHMENT OF A  
MINIMUM TRANSACTION SIZE AND (2) A REDUCTION  
IN THE ALLOWABLE FUNDING CURRENCIES FOR  
RETAIL REPURCHASE AGREEMENTS

CONSULTATION PAPER

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## 1.0 Background

The Financial Services Commission (FSC), in keeping with the commitments made by the Government of Jamaica under the Extended Fund Facility approved by the International Monetary Fund, is proceeding to implement reforms to the securities dealers sector aimed at improving investor protection and enhancing the long-term systemic viability of the securities industry.

The FSC intends to mitigate the risks to investors engaged in retail repurchase agreements (retail repos) through the establishment of a tri-party trust structure that will hold the underlying securities on behalf of these investors. One critical element of the reforms to the securities dealers' sector which is directly related to this tri-party trust structure and which was outlined in the June 2014 Memorandum of Economic and Financial Policies (MEFP) is the establishment of a minimum transaction size for retail repos by end-September 2014. In an effort to comply with this structural benchmark, the FSC recently conducted an assessment of the securities dealers' preferred minimum transaction size relating to Jamaica dollar (J\$ or JMD) and United States dollar (US\$ or USD) investments. The analysis also took into consideration the volumes and values of retail repo contracts that fit certain pre-defined currency specific value buckets.

## 2.0 Executive Summary

This paper outlines the FSC's proposal for establishing a minimum transaction size for retail repos in accordance with the June 2014 MEFP. The paper also presents the FSC's proposal for a reduction in the funding currencies that will be acceptable for purposes of entering into a retail repo contract.

## 3.0 Survey Summary Results

A securities industry survey was conducted using retail repo data as at June 30, 2014. Submissions were received from sixteen (16) of twenty one (21) securities dealers which reported to be engaged in retail repos within the context of the definition of retail repos used for the survey<sup>1</sup>. Based on the FSC's records, the 16 securities dealers account for approximately 96% of total outstanding retail repos. The total retail repo position for the 16 dealers was approximately J\$254.6 billion. By extrapolation, the overall securities industry retail repo position was approximately J\$265.2 billion. Table 1.0 below provides a summary of the data collected in the survey.

Table 1.0 - Summary of data findings

Currency	# of contracts	Percentage of Total Outstanding Contracts (%)	Value of Retail Repo Contracts per currency	Value of Retail Repo Contracts (J\$' Billion)	Percentage of Total Contract Value (%)	# of reporting dealers
JMD	30,418	47.98%	J\$94.3 Billion	J\$94.3 Billion	37.05%	16
USD	31,354	49.46%	US\$1.4 Billion	J\$152.7 Billion	59.96%	16
CAD	360	0.57%	CDN\$7.4 Million	J\$0.8 Billion	0.30%	3
GBP	1,072	1.69%	£24.5 Million	J\$4.7 Billion	1.84%	5
EURO	191	0.30%	€4.0 Million	J\$2.2 Billion	0.85%	4
Total	63,395			J\$254.6 Billion	100.00%	

<sup>1</sup> For the purpose of the survey, a retail repo was considered to be any repo liability, where the title to the underlying security was not transferred to the investor, with the exception of pledges registered on JamClear-CSD.

The survey revealed the following:

- (i) As at June 30, 2014, there were 63,395 outstanding retail repo contracts, valued at approximately J\$254.6 Billion, representative of 96% of the total retail repo universe.
- (ii) The majority of retail repo contracts was denominated in USD and accounted for 49.46% of the total contracts. These contracts were valued at J\$152.7 Billion and represented 59.96% of the total value of outstanding contracts.
- (iii) The second most significant number of retail repo contracts were denominated in JMD and accounted for 47.98% of the total contracts. These contracts were valued at J\$94.3 Billion and represented 37.05% of the total value of outstanding contracts.
- (iv) Contracts denominated in GBP totalled J\$4.7 Billion and represented 1.84% of the total value of outstanding contracts.
- (v) Contracts denominated in CAD totalled J\$0.8 Billion and represented 0.30% of the total value of outstanding contracts.
- (vi) Contracts denominated in EURO totalled J\$2.2 Billion and represented 0.85% of the total value of outstanding contracts.

The survey also indicated that:

- (i) The securities dealers' preference for a minimum transaction size for J\$ retail repos ranged from J\$50,000 to J\$5,000,000. The arithmetic mean was computed as J\$987,500.
- (ii) The securities dealers' preference for a minimum transaction size for US\$ retail repos ranged from US\$1,000 to US\$50,000. The arithmetic mean was computed as US\$11,250.

### 3.0 Proposed Minimum Transaction Size

Based on an assessment of the data collected from the survey and after careful consideration of the possible market impact that may result from the imposition of a minimum transaction size for retail repos, the FSC proposes that the minimum transaction size for retail repos denominated in J\$ and US\$ currencies be established at J\$1,000,000 and US\$10,000 respectively, effective December 31, 2015. In order to mitigate any possible negative market consequences, it is further proposed that this minimum transaction size is implemented on a phased basis in the following manner:

- (i) Effective October 1, 2014, the minimum transaction size for J\$ retail repos would be J\$100,000 and the minimum transaction size for US\$ retail repos would be US\$1,000.
- (ii) Effective January 1, 2015, the minimum transaction size for J\$ retail repos would be J\$250,000 and the minimum transaction size for US\$ retail repos would be US\$2,500.
- (iii) Effective April 1, 2015, the minimum transaction size for J\$ retail repos would be J\$500,000 and the minimum transaction size for US\$ retail repos would be US\$5,000.
- (iv) Effective October 1, 2015, the minimum transaction size for J\$ retail repos would be J\$750,000 and the minimum transaction size for US\$ retail repos would be US\$7,500.
- (v) Effective December 31, 2015, the minimum transaction size for J\$ retail repos would be J\$1,000,000 and the minimum transaction size for US\$ retail repos would be US\$10,000.

As of each of the aforementioned implementation dates, all new retail repo contracts would have to be of an amount at least equal to the minimum transaction size in effect. In addition, only retail repo contracts of an amount at least equal to the minimum transaction size in effect could be rolled. In other words, retail repo

contracts which mature after an effective date, and which do not meet the minimum transaction size in effect, would have to be either encashed or transferred to another product.

#### 4.0 Proposed reduction in allowable currencies for retail repos

Information gathered from the survey indicated that approximately 2.99% of the total retail repo market was transacted in currencies other than J\$ and US\$ currencies. Given the intention for a new operational framework to be established involving a trustee<sup>2</sup>, it is highly probable that settlement in these non-J\$ and non-US\$ currencies will pose administrative as well as operational challenges. Consideration must be given to the potentially large volumes of cross currency transactions, the additional complexity of computing valuations across several currencies, and the possible implications on a proposed net settlement of retail repo transactions under the new framework that is currently being contemplated. In addition, to facilitate non-J\$ and non-US\$ currencies, it may become necessary for new settlement arrangements in these other currencies to be established with correspondent banks.

Given the reported low volumes of transactions in non-J\$ and non-US\$ currencies and the likely significant costs involved in executing these transactions under the proposed new framework, it may not be economically viable to continue accepting these currencies under retail repo arrangements. As a proactive measure however, the FSC proposes to limit the currencies that will be allowed for funding retail repos under the tri-party trust arrangement to J\$ and US\$ currencies only, effective March 31, 2015.

#### 5.0 Possible Implications of Proposals on the Securities Industry

Based on a comprehensive analysis of the information obtained from the survey, the establishment of a minimum transaction size for retail repos as well as a limitation on the acceptable funding currencies may quite possibly have significant liquidity implications for the securities industry. This is especially the case for (i) securities dealers which do not have ready access to alternative product offerings to place client investments in, such as Collective Investment Schemes (CIS), and (ii) securities dealers which are not affiliated with a deposit taking institution.

All else being equal, the imposition of a minimum transaction size of J\$1,000,000 and US\$10,000 may result in the elimination of: (i) 15,817 contracts denominated in J\$ valued at J\$5.1 Billion; and (ii) 17,854 contracts denominated in US\$ valued at US\$70.8 Million or J\$7.9 Billion. Table 2.0 and 3.0 below provide snapshots of the potential impact of imposing various minimum transaction sizes for J\$ and US\$ denominated retail repos respectively.

Table 2.0 - J\$ Retail repo portfolio impact resulting from imposition of a Minimum Transaction Size

Minimum Transaction Size Scenarios	# of contracts impacted	Retail Repo Portfolio impacted
J\$100,000	4,702	J\$135.1 Million
J\$250,000	7,922	J\$672.4 Million
J\$1,000,000	15,817	J\$5.1 Billion
J\$2,500,000	23,984	J\$17.2 Billion
J\$5,000,000	26,892	J\$27.3 Billion

<sup>2</sup> The proposed trustee is JCSD Trustee Services

Table 3.0 - US\$ Retail repo portfolio impact resulting from imposition of a Minimum Transaction Size

Minimum Transaction Size Scenarios	# of contracts impacted	Retail Repo Portfolio impacted (US \$ Million)	Retail Repo Portfolio impacted (J\$ Billion)
US\$1,000	10,412	US\$21.3 Million	J\$2.4 Billion
US\$10,000	17,854	US\$70.8 Million	J\$7.9 Billion
US\$50,000	26,778	US\$277.9 Million	J\$31.1 Billion

Additionally, the restriction on acceptable retail repo currencies may result in the elimination of (i) 360 contracts denominated in CAD valued at CDN\$7.4 Million; (ii) 1,072 contracts denominated in GBP valued at £24.5 Million, and (iii) 191 contracts denominated in EURO valued at €4 Million.

Thus, the combined measures may result in a decline in (i) the number of contracts by 55.67% from 63,395 to 28,101 contracts and (ii) the value of retail repos by 8.10% from J\$254.6 Billion to J\$234.0 Billion.

#### 6.0 Reporting Requirements

6.01 The FSC will introduce additional reporting requirements which will facilitate timely and accurate information gathering in order to determine the level of compliance with the established minimum transaction size and allowable funding currencies.

#### 7.0 Conclusion

7.01 This consultation paper has highlighted proposals for the establishment of a minimum transaction size for J\$ and US\$ denominated retail repos as well as a restriction on the allowable funding currencies to J\$ and US\$ only. The establishment of a minimum transaction size for retail repos is in keeping with a structural benchmark contained in the June 2014 MEFP. The proposal to limit the funding currencies results from an assessment of survey data as well as consideration of the economic value of continuing to use other funding currencies.

7.02 The FSC invites comments on any and all aspects of the proposal presented in this paper. Comments should be submitted in hard copy or via email, on or before Friday, August 8, 2014. Comments may be submitted in hard copy to:

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