

## **Bank of Jamaica**

### **Advisory to Securities Dealers, Collective Investment Schemes, Insurance Companies, Superannuation Funds and Retirement Schemes**

#### **Amendment to the Limit on Investment in Foreign Securities**

1. The acquisition of foreign currency and foreign assets by securities dealers, collective investment schemes<sup>1</sup> (“CIS”), insurance companies and pension funds (ie, superannuation funds and retirement schemes) is constrained by limitations imposed by the provisions of the Bank of Jamaica Act (Part IVA, sections 22A, 22B and 22C). In practice, the nature of permissible assets for each type of regulated entity has been governed by the issue of exemption orders or directives on the holding of foreign assets issued by the Minister of Finance.
2. In order to facilitate the emergence and growth of CIS as safe and diversified investment alternatives, the Government (“GOJ”) will gradually relax the existing cap on foreign assets applicable to securities dealers and managers of CIS. This advisory sets out the timetable for raising the cap to at least 25 per cent by end-2015 and removing the cap by end-2016, unless extraordinary circumstances require a reassessment.
3. During the first half of 2014, Bank of Jamaica expects to enter into consultations with representatives of regulated entities in the insurance and pensions sectors and with their regulatory body, the Financial Services Commission (“FSC”) with the aim of establishing the scope and extent to which current limits on permissible investments in foreign currency assets can be lifted over time.

#### *Permissible Assets*

4. The existing exemption of foreign currency instruments issued by GOJ and foreign instruments issued or guaranteed by US, UK and Canadian sovereigns applicable to securities dealers will remain in force. A special limited exemption will be created for CIS so that securities dealers will be able to move into CIS their holdings as at 31 December 2013 of such exempt foreign currency instruments sold under repurchase agreements. The effect of the exemption is to allow CIS to hold exempt foreign currency instruments in any amounts up to a global limit calculated as the aggregate holdings by securities dealers of exempt foreign currency instruments sold under repurchase agreements as at 31 December 2013. A method of allocation will be developed in consultation with securities dealers. In addition to foreign currency instruments issued by GOJ and foreign instruments issued by or guaranteed by US, UK and Canadian sovereigns which have already been exempted, securities dealers and CIS will be

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<sup>1</sup> This term includes mutual funds and unit trusts.

permitted to acquire, in all currencies, investment grade<sup>2</sup> sovereign obligations, investment grade corporate obligations of entities incorporated outside of Jamaica and shares of such corporations. These limited categories may be later expanded over time as the regime for CIS expands.

### *Timetable*

5. The cap will be raised in steps to at least 25 per cent by the end of 2015 and will be removed by the end of 2016, unless extraordinary circumstances require a reassessment. The initial steps in raising the limit applicable to holdings of foreign currency assets that are not already exempted are as follows:

Up to 30 June 2014	5.0%
From 01 July 2014	7.5%
From 01 January 2015	10.0%

6. A review of the response of securities dealers and CIS to each step as well as an assessment of the prevailing and prospective economic conditions will be conducted prior to taking the next step. The review may lead to a change in the timetable. Bank of Jamaica will endeavour to announce subsequent steps in the timetable at least 12 months in advance. Securities dealers and CIS will remain subject to any regulatory rules governing the specific sector.

### *Eligibility and Reporting*

7. The relaxation of the cap will only apply to eligible securities dealers and CIS. Each entity will be required to provide to Bank of Jamaica a foreign currency investment projection (“FCIP”) outlining its current position and expected medium-term<sup>3</sup> foreign currency investment and foreign asset acquisitions. In order to be eligible, securities dealers and CIS will be required to provide the FCIP to Bank of Jamaica at least four months before the first step (ie, by 28 February 2014). In order to maintain eligibility, they must provide an updated FCIP quarterly within 60 days of the end of each calendar quarter. At each step, the new cap will not apply to regulated entities that fail to submit the quarterly reports on time. These reporting requirements may be met by including the information in an enhanced investment planning report being developed in conjunction with the Financial Services Commission (“FSC”) so that regulated entities will not need to make a separate report to Bank of Jamaica. These reports will be shared with Bank of Jamaica to help in the assessment of the potential impact of these plans on the market. Any applicable quantitative and qualitative limits will be monitored by the FSC.

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<sup>2</sup> For purposes of this advisory, investment grade is as determined by Standard & Poor’s, Moody’s and Fitch rating agencies or an equivalent rating by CariCris rating agency.

<sup>3</sup> For purposes of this advisory, medium term means three years ahead.

Further details on reporting requirements and permissible instruments will be the subject of discussion between securities dealers and CIS, the FSC and Bank of Jamaica.

Bank of Jamaica  
31 December 2013