

**Bank of Jamaica’s Responses to Industry Comments on  
‘Jamaica's Capital Flow Management Framework: Adjustments to Section 22 Regime’**

<b>Proposal</b>	<b>Industry Comments</b>	<b>BOJ Response</b>
Paragraph II.i	Generally welcomed.	Noted.
Paragraphs (1.1), (2.1), (2.2), (3.1), (3.2) and (4.1)	Use consistent language foreign currency financial instrument, foreign currency instruments, foreign currency assets, foreign currency debt instrument in the proposal and ensure the term is consistent with the Act.	Agreed. We will use the term "foreign assets" or "foreign currency instrument" with an associated definition to include - (a) foreign currency; (b) foreign currency instruments; (c) real estate situated outside of Jamaica; (4 foreign securities; (e) any other assets located outside of Jamaica.
Paragraphs (1.2)	Clarify the definition with regards to “active secondary market.”	Agreed and the following clarification will be included: “An active secondary market is a market characterized by liquidity and price transparency through a quoted market such as a stock exchange or bond market. “
Paragraphs (3.1) and (3.2)	There is a need to clarify the credit rating grade and sources. A minimum rating grade is recommended.	The associated rating is included for each recommended credit rating agency. We will change the definition to “at least investment grade as defined by Moody’s, S&P and Fitch credit rating agencies and the comparative definition of at least ‘Good’ or ‘Strong’ by CariCris
	The guidelines speak to individual assets. Clarification is needed for the treatment of assets underpinned by a set of instruments, like publicly traded index funds and exchange-traded funds (ETFs).	Agreed. To address this point, we will specify that the majority of the underlying foreign assets must satisfy the criteria in (3.2) at the time of initial investment.

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Paragraphs (1.1), (2.1), (2.2), (3.1), (3.2) and (4.1)	Consideration be given to increasing the limit for Securities Dealers and Collective Investment Schemes from 25% of total assets to 30%, mirroring the proposed 5-percentage-point adjustment for the Pensions and Insurance sectors.	Note that the initial phases of the reform will involve reducing differential limits. Once the differentials have been removed, considerations will be given to expanding the maximum limit.
Paragraphs (1.2)	Clarify rationale for continuing to limit allowable assets to corporates that “earn foreign currency,” particularly given Jamaica's managed floating FX system and open access to the FX market.	Generally, we do not want to encourage the issuing of FX bonds by non-FX earners so as to mitigate the risks of generating excess demand in the FX market to service the bond. However, the basic principles for allowable assets relate only to quality and liquidity. Hence this restriction will be removed.
	Interested in the outcomes of the research that demonstrate that current investment limits do not unintentionally reinforce or entrench dollarization. Request additional information on BOJ’s research and projections.	<p>The requested projections are market sensitive, they will not be shared. We welcome a discussion on your thesis on unintentionally reinforcing dollarization through current policy. In that regard, below is a list of selected research on dollarization conducted by BOJ and others. The consensus of the results is that:</p> <ol style="list-style-type: none"> <li>1. Drivers of Dollarization: High inflation, rigid exchange rates, weak economies, and poor institutions.</li> <li>2. De-dollarization Factors: Real currency appreciation reduces dollarization, while inflation worsens it in dollarized economies.</li> <li>3. Inflation Effects: High dollarization or depreciation raises inflation, but real depreciation can lower it.</li> </ol> <ul style="list-style-type: none"> <li>• Robinson, W. (2001, December). <i>Real Shocks, Credibility &amp; Stabilization Policy in a Small Open Economy</i>.</li> <li>• Houghton, A. Y. (2004). Financial de-dollarization of the Jamaican economy: A portfolio approach. <i>Financial Stability Department, Bank of</i></li> </ul>

		<p><i>Jamaica Working Paper WP2004, 1, 26.</i></p> <ul style="list-style-type: none"> <li>• Bailey, S. A. (2005). Investigating the link between financial dollarization and inflation: Evidence from Jamaica. <i>Bank of Jamaica.</i></li> <li>• Bennett, M. A., Borensztein, M. E., &amp; Baliño, M. T. J. (1999). <i>Monetary policy in dollarized economies.</i> International Monetary Fund.</li> </ul>
Paragraphs (3.1).	Not all assets can be rated. For instance, equities, cash and real estate are not assets that are rated but they fall within the definition of “foreign currency assets” under the BOJ Act. In the case, of equities, it is the issuer who is rated. Additionally, allowance should be made for investment grade issuers.	Agreed. We have adjusted to use the term "foreign assets" or “foreign currency instrument” with an associated definition consistent with nomenclature used in the BOJA. The investment grade definitions have also been addressed.
	Object to the inclusion of income (dividend and coupons) from foreign assets in the foreign currency limit computation.	Given the risks posed by high levels of dollarization, we see no reason to exempt any income from the limits. Our objective is to encourage the conversion of such income flows to Jamaica Dollar assets.
	Limit should be increased to 25%	Note the policy is for a phased adjustment to the limits so as to mitigate risks to inflation and overall economic stability.
	There will be a need for a number of legislative changes to the Insurance Regulations, as well as developments of Jamaica’s capital market micro-structure to ensure there is clarity around the BOJ’s new principles-based approach.	We are not sure which legislative amendment is being referred to in this comment.

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	The new framework leaves unaddressed an important and outstanding issue of the fairness in the application of the definition of “foreign assets” as applied by life insurance companies.	We are not sure which issue is being referred to in this comment. If the matter relates to the treatment of pooled funds then this was addressed by a BOJ letter dated March 10, 2023, to the pension industry.
	Under IFRS 17 the calculation of Total Assets has changed significantly. As a result, while the increased FX asset access is beneficial, we believe that the percentages should be revisited. The proposed 15% limit under the previous standard is equivalent (in terms of dollars) to 27% under IFRS 17, so we recommend the limit be adjusted accordingly.	An adjustment to the limit purely on account of the change in the accounting standard is not necessary and would run counter to the policy objective.
	It is suggested that BOJ and GOJ instruments be excluded from the computation of the ratio.	GOJ instruments are exempted. It is highly unlikely that BOJ will be issuing FX instruments.
	Will any criteria be applied to the FX earnings of issuers.	No
	We note the adoption of a principles-based approach which will apply to Securities Dealers, Pensions Funds and the Insurance Industries. We note the exclusion of Collective Investment Schemes from the guidelines and are assuming that this may have been an oversight. Please confirm whether the guidelines will also apply to Eligible Collective Investment Schemes.	Yes, the guidelines will.
	We had previously requested the inclusion of A.M. Best as one of the recognized Credit Rating Agencies for the rating of foreign currency instruments or Issuers and restate this recommendation having regard to its position as one of the largest credit rating agencies in the world specializing in the insurance industry.	This agency will be added.