



PRIMARY DEALER SYSTEM IN JAMAICA

Bank of Jamaica

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OUTLINE



PAST

1

**Evolution of the
Primary Dealer (PD)
System**

PRESENT

2

- ✓ **Requirements for PD designation**
- ✓ **Requirements for Maintaining PD designation**
- ✓ **Assessment of PDs**
- ✓ **Privileges of the PD System**

EVALUATION

3

**The effectiveness of
Jamaica's PD System
and the way forward**



Evolution of the Primary Dealer (PD) System in Jamaica

Evolution of the PD system

In April 1994, Bank of Jamaica first introduced the Primary Dealer System to enhance market development.



The main idea was to improve the **allocative efficiency** of the financial system (money and bond markets) and to allow BOJ to **implement monetary policy** more efficiently by means of open market operations.

Evolution of the PD system



Role of PDs

- Act as a **channel between debt issuers and investor** in the primary market
- **Participate** in primary market in a substantial and consistent manner
- Act as providers of immediacy of liquidity to primary and secondary markets, thereby **promoting continuous markets and efficient price discovery**
- Act as **advisors** to the government in formulating and adopting appropriate strategies for the development of products and markets
- Provide **market information** to the central bank and the government
- Act as relationship managers **educating investors** about the attractiveness of government securities as an investment

Evolution of the PD system

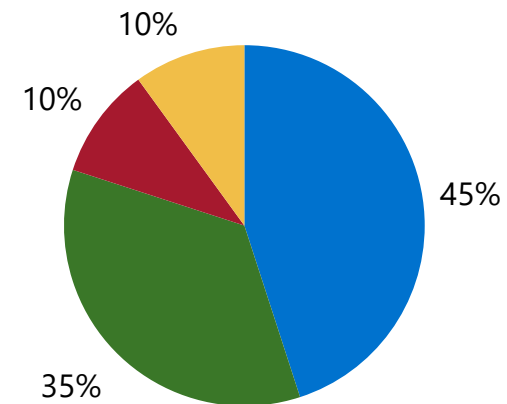
In June 2005, the Bank revamped the system to assess the performance of Primary Dealers and a **SMART** assessment matrix was implemented with the following characteristics:

- **Specific** – the assessment has specific weights applied to each performance criteria and specific ratings.
- **Measurable** – the assessment system is quantifiable.
- **Adjustable/Adaptable** – suits different financial environments
- **Regular** – the assessment is conducted on a periodic basis
- **Transparent** – all dealers are fully aware of the assessment system.



Weights applied to each Performance Criteria

- Percentage of BOJ issues outstanding
- Participation in the Issue of GOJ instruments
- Satisfactory Operation of Accounts to BOJ
- Timely Submission of Reports



Evolution of the PD system



In 2017, an IMF Technical Assistance of the PD system recommended:



A formal agreement among the BOJ, GOJ and Primary Dealers



Increased incentives to high performing PDs.



Mandatory contribution to the indicative benchmark curve in Bloomberg Finance L.P.



A review of the minimum performance for participation in GOJ securities



A higher weight was placed on longer dated securities



A review of the existing performance weighting of the GOJ and BOJ securities

Evolution of the PD system



Based on the recommendations of an IMF/World Bank technical assistance (TA) mission in December 2017, several enhancements were made to the Primary Dealer System in September 2018:

1

Codification of the Primary Dealer agreement

2

Revamped Primary Dealer Assessment

3

Name change from Bank of Jamaica Primary Dealers to Primary Dealers.

4

Additional credit given to PDs for participating in longer dated GOJ securities

5

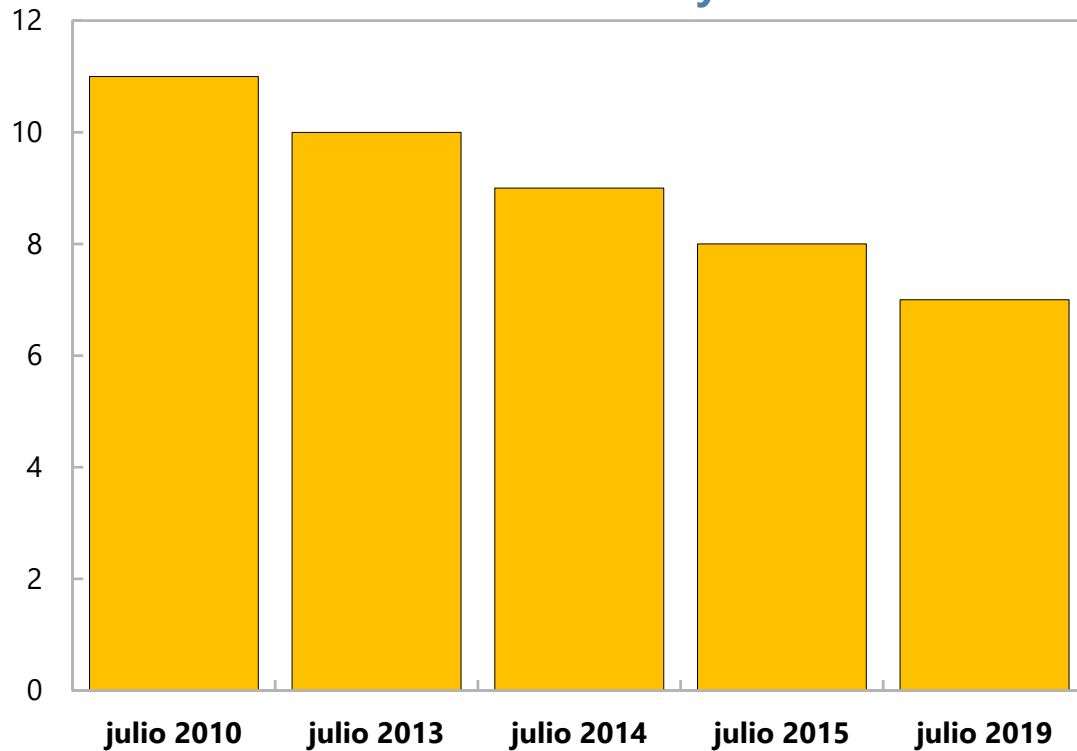
Increased incentives to high performing PDs

Evolution of the PD system



In April 1994, the initial group of PDs comprised 7 entities. The number of Primary Dealers designated fluctuated over the years as follows:

The Number of Primary Dealers



The decline in the number of primary dealers during period 2012-2019 has been attributed to several reasons including:



The voluntary surrender of the designation related to changes in business strategy.



Loss of designation given the inability to meet PD performance standards



Merging of institutions



Requirements for Primary Dealer (PD) Designation

Requirements for PD designation



- Must be a **registered** company
- Valid **Tax Compliance** Certificate
- No regulatory sanction should exist or be pending in the last seven (7) years.
- The Principal(s) must meet BOJ's **fit and proper** requirements.
- **Board Approval** to undertake Primary Dealer activities
- **Licensed by the Financial Services Commission (FSC)**. Notably PDs are not regulated by BOJ but by the FSC
- **Audited** Financial Statements for the preceding two years
- **Statements** from bankers on business account(s).
- Must demonstrate the capacity to **electronically transmit information** to BOJ.
- **Declaration** of holdings in BOJ and GOJ securities.



Requirements for maintaining Primary Dealers (PD) Designation

Maintaining primary dealer status

The designation of Primary Dealers is renewed annually if all the requirements for attaining PD designation are maintained and:

- PDs adhere to **performance** assessment criteria.
- PDs ensure that operations (securities trading) are **free from co-mingling** with the business of foreign currency trading or deposit-taking.



ASSESSMENT OF PRIMARY DEALERS

PD ASSESSMENT CRITERIA



1

Participate in the issue of at least 8% and 6% of GOJ & BOJ instruments, respectively.

2

Provide actual or indicative quotes on specified instruments in Bloomberg Finance L.P.

3

Submit reports as per requirements to the Bank and provide market intelligence via daily market chats

4

Ensure satisfactory settlement of obligations via intra-day auto repo facility and applications/bids on GOJ and BOJ primary issues.

5

PDs have the ability to earn additional points each month based on their participation in the issue of long-dated GOJ instruments.



ASSESSMENT OF PRIMARY DEALERS

BOJ has a ladder of enforcement for PD assessment.

Ladder of Enforcement

- If the designation is not met, a warning is given, and the institution is given **three months to improve** their performance
- If the minimum assessment score is not met at the end of the three months, the institution is placed on **probation for six months**
- If the minimum score is still not met after the six months of probation, the **institution loses their designation**



Privileges Primary Dealers (PDs) Systems

Privileges of Primary Dealers



Participate in primary issues



Obtain information from and consult regularly with MOFPS regarding the domestic bond market.

A portion of the non-competitive offer amount in BOJ and GOJ primary issues reserved



Direct access in the RTGS



Access to BOJ intra-day auto repo facility

League Table Ranking of Primary Dealers is used to determine top performer that can:



Make delayed bids in GOJ primary issues



A portion of the non-competitive offer amount in BOJ and GOJ primary issues are reserved for this PD.



Evaluation of Current PD System

Evaluation of Current System

Benefits

- 01 Improved pricing of securities and the generation of continuity of the domestic yield curve
- 02 Greater participation in BOJ and GOJ offers
- 03 Increased market intelligence for policy making
- 04 Increased coordination and collaboration re PD operations between BOJ and MOFPS



Evaluation of Current System

Challenges

PDs have been experiencing challenges in meeting their mandate as market makers given:



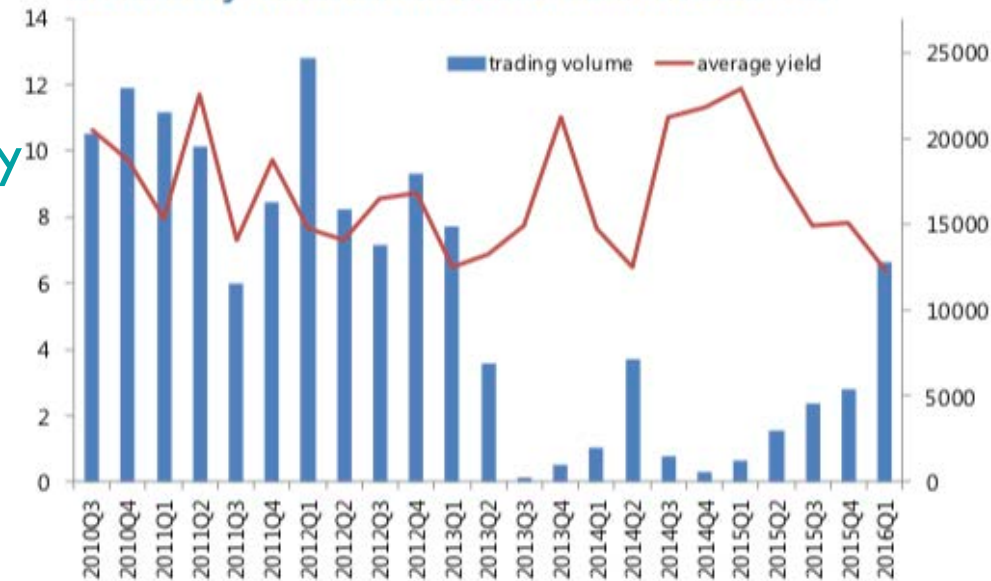
01 BOJ has reduced the size and frequency of CDs. This has resulted in PDs experiencing difficulties in matching assets and liabilities.

02 Significantly reduced GOJ presence (both frequency and size) in the capital market guided by the country's debt reduction strategy.

03 The development of a secondary market and broadly capital market.

04 PDs have had difficulties in funding operations since the phasing down of the retail repo business.

Secondary Government Bond Market Activities



Source: Bank of Jamaica.



Evaluation of Current System

Looking to the future

1

Consideration is being given to the inclusion of additional areas of assessment given limited GOJ and BOJ issues of securities

2

The introduction of a trading platform of fixed income securities will aid in price discovery and promote greater secondary market trading and liquidity

3

The broadening of the types of instruments in the capital and money market towards increasing secondary market activity

4

Improve coordination between the GOJ and BOJ on issuances to support primary dealers' market making activities



Thank You