

# Jamaica Deposit Insurance Corporation Foreign Currency Denominated Investments Questionnaire Summary of Responses

## Overview

The Jamaica Deposit Insurance Corporation's (JDIC) "Policy for the Investment of the Deposit Insurance Fund" (Fund), dated May 24, 2006 cites several investment objectives geared towards ensuring the safety, continued growth and liquidity of the Fund. In keeping with its mandate therefore, the Corporation is seeking to determine the benefits of investing a portion of the Fund in foreign denominated securities.

## Methodology and Summary

Insight into the practice of other Deposit Insurers (DI) will provide valuable information on how deposit insurance funds are managed worldwide and will enable the JDIC to tailor its policies and procedures to meet international standards.

In order to gather the required information, the JDIC prepared a questionnaire to solicit, inter alia, information on such areas as:

- The currency denomination of the securities in which DI invest
- The Jurisdictions within which investments are made
- The rationale behind investment decisions

The questionnaire was comprised of six questions, requiring respondents to outline what obtains in their jurisdiction. Questionnaires were sent via email in December 2006 to forty-six (46) members of the International Association of Deposit Insurers (IADI) and a total of 17 DI responded, representing a 37% response rate.

The following represents a summation of the varied responses provided by DI. In specific cases responses which cannot be included in any summation have been cited separately.

### 1.0 In which currency denominations are you as Deposit Insurer (DI) authorised to invest? (Example - United States dollars, British Pounds etc) Explain the factors which influenced the decision to select these currencies.

The following seven DI (41% of respondents) do not invest in foreign currency denominated securities.

No.	DI's which do not invest in Foreign currency instruments	Currency
1	Brazil	Brazilian Reais only
2	FDIC	United States Dollars only
3	Jordan	Jordanian Dinars

# Jamaica Deposit Insurance Corporation

## Foreign Currency Denominated Investments Questionnaire

### Summary of Responses

No.	DI's which <u>do not</u> invest in Foreign currency instruments	Currency
4	Malaysia	Malaysia Ringgit only
5	Nigeria	Nigerian Naira only
6	Taiwan	New Taiwan Dollar only
7	Ukraine	Ukraine Hryvnia only

**TABLE: 1**

The following ten DI (59% of respondents) are authorised to invest in foreign currency denominated securities

No.	DI's which invest in Foreign currency instruments	Currency
1	Argentina	Currencies of OECD Countries: Argentinean Pesos with special authorization of the Central Bank
2	Bulgaria	BGN (Bulgarian National Currency); USD; Euro
3	Czech Rep.	USD; EURO
4	France	Investments can be in all currencies, provided that currency risk is hedged. Investments currently in Euro
5	Japan	Japanese Yen; as well as "other securities designated by the Prime Minister and the Minister of Finance" (Article 43 of DI law)
6	Kazakhstan	Kazakh Tenge; USD & Euro
7	Korea	Currently Korean denominated products only; provision in place for DI to propose currency for Ministry of Finance approval
8	Philippines	Philippine Peso; USD denominated instruments but they must be issued by Philippine based Govt. entities.
9	Russia	Russian Ruble; Currencies of OECD member states
10	Turkey	New Turkish Lira; USD & Euro

**TABLE: 2**

The following represents the general factors cited by DI as those which influence currency selection:

- a. Diversification
- b. The composition of foreign currency deposits versus domestic currency deposits within the Banking system
- c. European Union membership
- d. Domestic Laws
- e. To ensure Asset/Liability matching
- f. Maintaining liquidity, maximizing returns, minimizing currency risks

# Jamaica Deposit Insurance Corporation

## Foreign Currency Denominated Investments Questionnaire

### Summary of Responses

The responses to questions 2.0 to 6.0 were provided by the ten (10) Deposit Insurers which indicated that they invest in Foreign Currency Denominated Securities.

#### **2.0 In which Jurisdictions (countries), *example - United States, United Kingdom,* is the DI authorized to place investments.**

The following jurisdictions/responses were given.

- a. Securities issued by the Deposit Insurers' own country only (Philippines, Turkey, Bulgaria)
- b. European Union (Czech Republic, Kazakhstan)
- c. OECD Countries (Argentina, Czech Republic, Russia)
- d. No constraint, but...assets must be "listed" in Europe (France)
- e. Dependent on recommendation and appropriate Ministerial approval (Japan, Korea)

The jurisdiction within which DI are authorized to place investments appears to be driven by the Deposit Insurers' location - e.g. - EU Countries invest in EU region only.

#### **2.1 What are the factors which influence the Deposit Insurers' decision to invest in these jurisdictions/countries?**

The safety of invested funds appears the over-riding factor influencing the decision to invest in a particular jurisdiction. The following influential factors were cited.

- a. EU membership; portfolio diversification; denomination of foreign currency deposits (Czech Rep.)
- b. Based on applicable Deposit Insurance Acts (Korea, Bulgaria, Philippines)
- c. Security, Reliability, liquidity & profitability (Argentina, Russia)
- d. No influencing factor(s) cited (France, Japan, Turkey)
- e. Based on International Credit Rating (Kazakhstan)

#### **2.2 What limits (if any) must the DI observe for placing investments in these jurisdictions/countries**

The following responses were given:

- a. Not Applicable (Japan, Korea, Philippines, Turkey)
- b. No limits for investment in members of OECD (Argentina)
- c. Securities issued by the DI's own country only (Bulgaria)

# Jamaica Deposit Insurance Corporation

## Foreign Currency Denominated Investments Questionnaire

### Summary of Responses

- d. No specific limit (France, Kazakhstan)
- e. Annual approval by Board of Directors (Russia)
- f. Cannot exceed 20% of total portfolio; open FX position of EU member states currencies cannot exceed 4% (Czech Rep.)

#### 3.0 What percentage of the total investment portfolio is the DI authorised to invest in foreign currency denominated securities?

- a. 100% (Argentina)
- b. 5 % (Bulgaria)
- c. 20% (Czech Rep; Turkey)
- d. 30% (Russia - authorized, but none currently held; Kazakhstan)
- e. Under consideration (Philippines)
- f. No specific limit; currently 0% (France)
- g. 0% (Japan)
- h. Not Applicable (Korea)

#### 3.1 How is this percentage determined?

The following responses were given:

- a. Not Applicable (Argentina, Japan, Korea)
- b. Based on percentage guaranteed deposits in currency other than BGN or Euro (Bulgaria)
- c. Based on level of foreign currency deposit within banking system (Czech Rep, Philippines)
- d. Based on market analysis (Russia, Turkey)
- e. Determined by Council of Directors (Kazakhstan)
- f. No Response (France)

#### 4.0 Does the Deposit Insurer have a specific policy document governing its investment in foreign currency denominated instruments?

- a. Yes (Argentina, Bulgaria, Czech Rep., Kazakhstan, Philippines, Turkey)
- b. No (France, Japan, Korea, Russia)

For “Yes” responses, the Deposit Insurers’ general investment policy document covers investments in foreign securities.

# Jamaica Deposit Insurance Corporation

## Foreign Currency Denominated Investments Questionnaire

### Summary of Responses

#### 5.0 What are the investment limits (if any) which have been set for your portfolio of investments?

The following DI do not set specific investment limits for their portfolio of investment:

- a. No Limit (Argentina, Japan)

The following information in respect of portfolio limit was provided:

- a. Investment portfolio percentages between Bonds - 80%; Deposits - 20% (Korea)
- b. Maximum 20% of portfolio may be invested in government securities (Turkey)

Three DI indicated that they are authorized to invest in corporate securities as follows:

- a. France - Max 8% Corporate Shares; Max 15% for Bonds (Government or Corporate)
- b. Czech Republic - Not to exceed 10% of portfolio value
- c. Russia - Russian Corporate Bonds - 60%; Shares of Russian Corporate Issuers - 30%

The responses from three DI provided general information indicating the following:

- a. Limits in accordance with Investment Policy (Bulgaria)
- b. Limits follow basic rules of Central Bank investment to Foreign Exchange Reserves and National Fund (Kazakhstan)
- c. Limits set annually in accordance with business plan and limited by charter (Philippines)

#### 5.1 Please explain the rationale behind these limits

The safety and preservation of funds appears the primary reason put forward for the setting of limits. The following specific responses were provided.

- a. Sound & Safe Instruments; Risk diversification; low-risk funds (Bulgaria, Czech Rep.)
- b. Balance between reliability, liquidity and profitability (Argentina, Russia, Turkey)

# Jamaica Deposit Insurance Corporation

## Foreign Currency Denominated Investments Questionnaire

### Summary of Responses

- c. Good sense and the experience of the Treasury Committee of the FGD (France)
- d. Maintaining liquidity, Maximising returns, minimizing risks (Kazakhstan, Philippines)
- e. Based on Deposit Insurance Committee (Korea)
- f. Not applicable (Japan)

#### 6.0 How is the performance of the portfolio assessed?

Portfolio performance appears to be benchmarked to Deposit Insurers' domestic government securities and in one case Peer Group analysis is used. The following are some specific responses:

- a. The FDIC benchmarks total returns of the [DI] fund's portfolio of US Treasury securities against the Merrill Lynch 1-10 Year Treasury Index (FDIC).
- b. Based on the expected yield of Government or Bank of Negara Malaysia securities (Malaysia)
- c. Investment results from private investment management companies are compared with the result of our own investment (made by DIA staff)...(Russia)
- d. Not applicable (Japan)
- e. Based on Government Securities (Bulgaria, Czech Rep. France, Kazakhstan)
- f. Time Weighted Average return of securities market (Korea)
- g. Using inflation as the minimum required yield (Turkey)