



How does B-FXITT differ from what obtained in the 1980s?

The foreign exchange auction system introduced in 1983 was implemented in the context of chronic FX shortages and within an exchange control framework. The auction served as a mechanism by which the Central Bank allocated scarce foreign exchange in the economy which centralized all foreign exchange trading at BOJ.

Unlike the prevailing conditions in the 1980s, there is:

1. **no exchange control** under B-FXITT where exporters and other earners of foreign exchange were mandated to sell BOJ foreign exchange.
2. **no prescribed bands** resulting from an auction within which the exchange rate must fall.

Will B-FXITT affect the Net International Reserves (NIR)?

The Bank will continue to maintain adequate reserve levels and will abide by its reserve accumulation targets. The determination of the quantity of FX to sell to the market each week will take into consideration the Bank's reserves levels, medium term NIR targets and the demand/supply conditions in the market.



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What is B-FXITT?

In an effort to upgrade and modernize its intervention and trading tool for foreign currency, the Bank of Jamaica (BOJ), on 26 July 2017, implemented a new tool for its sale of foreign exchange (FX) to market intermediaries. The framework, called *BOJ Foreign Exchange Intervention & Trading Tool (B-FXITT)*, is a rule-based, competitive, multiple-price intervention system to buy and sell FX to Authorized Dealers (ADs) and Cambios.

This new framework, which benefited from technical assistance from the International Monetary Fund and consultation with market stakeholders, is designed to enhance the effectiveness of BOJ's monetary policy and foreign exchange operations. The arrangements to purchase FX using this new tool will be introduced later.

Why B-FXITT?

- 1 The implementation of B-FXITT is a fundamental part of the strategy to improve the efficiency and transparency of the foreign exchange market thus providing greater assurance about the availability of foreign currency to the public.
- 2 Increased transparency and reduced uncertainty about FX market interventions.
- 3 Uses market based price signals (demand and supply conditions) to more effectively determine the exchange rate, rather than the previous day's weighted average selling rate as the intervention rate which may not reflect the true market price.

Will B-FXITT affect the exchange rate?

An important feature of this intervention and trading tool is to ensure the smooth functioning of the FX market, assure FX liquidity and reduce excess volatility in the exchange rate. B-FXITT is not intended to distort the underlying FX conditions. The mechanism is intended to encourage a flexible exchange rate that moves in both directions based on market conditions.

B-FXITT and You

B-FXITT does not affect the manner or freedom you currently purchase or sell foreign exchange from or to Authorized Dealers and Cambios. Individuals and companies will continue to be free to buy or sell any amount of foreign currency they can afford or desire. There should be no urgency for individuals and companies to forward buy foreign currency at exorbitant prices.

- **B-FXITT provides more precise and timely information** on the foreign exchange market to members of the public.
- **B-FXITT promotes greater certainty about market liquidity**, allowing ADs and Cambios to better manage large client order flows that may have a distorting effect on the market.
- **B-FXITT guarantees a scheduled supply of foreign currency to the market.** Market players will know in advance the exact amount being sold by the BOJ in contrast to the previous system where the Bank offers to trade an undisclosed amount.

How does B-FXITT work?

With B-FXITT, each week, the Bank announces a 4-week schedule of how much it will sell to the market at each auction. Bank of Jamaica will sell FX to the market using two mechanisms:

S.I.T – Standard Intervention Tool

Using the SIT, the Bank sells pre-announced amounts of FX to ADs and Cambios on a weekly basis. The amount of the intervention sale will be partly determined by BOJ's assessment of the market's FX liquidity needs.

F.I.T - Flash Intervention Tool

Using the FIT, the Bank conducts flash FX sale operations outside of the regular intervention window in circumstances of adverse market developments. The purpose of the FIT is to offset the effects of excessive volatility in the foreign exchange market. Flash interventions will be triggered by unusual exchange rate volatility and/or abnormal market demand or supply.

Coming Soon...

The Bank is currently designing the purchase side of B-FXITT and will announce the date of implementation at the appropriate time.

How does B-FXITT differ from BOJ's previous intervention system?

There are four (4) major differences between B-FXITT and the previous foreign exchange intervention system.

1. Under B-FXITT, the Bank conducts weekly (pre-announced) interventions. The Bank also conducts flash interventions if market conditions warrant. Under the previous system, all interventions were unscheduled and were only done when the Bank perceived the need to do so.
2. Under the previous system, the Bank sold to the ADs and Cambios at the previous day's weighted average selling rate (WASR). Under the new intervention policy, the Bank invites ADs and Cambios to submit bids to purchase funds from BOJ at a rate reflective of underlying demand and supply conditions in the market. This method provides a measure of the exchange rate at which the market is willing to purchase funds thereby enhancing price discovery.
3. Under the previous intervention system, BOJ determined both the price and volume. For B-FXITT, only the volume will be determined by the BOJ. The determination of the quantity of FX to sell to the market each week takes into consideration the Bank's reserves levels, medium term NIR targets and the demand/supply conditions in the market.
4. B-FXITT provides a more transparent allocation strategy with clearer rules relative to what obtained under the previous system. Market participants are made aware in advance of the intervention amounts.

When do these FX operations take place?

FX operations commence at 8:45 am and close at 9:15 am on **Wednesday of each week**. The results of the operations will be posted by 10:00 am to the Bank's website (www.boj.org.jm) on the same day of the intervention.

The results are also sent to the press for reporting in the daily news. The rate that results from the operation is the weighted average of all the successful bids. Settlement occurs on the day following the operation.