

The Central Bank's Role As Regulator

by

Noel Shippey
Courtney Christie-Veitch

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© 2000 Bank of Jamaica
Nethersole Place
Kingston
Jamaica

Telephone: (876) 922 0750-9

Fax: (876) 922 0854

E-mail: library@boj.org.jm

Internet: www.boj.org.jm

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PREFACE

The role of the Central Bank as regulator has been the focus of much public attention and debate, particularly in light of the increased pressure that the transformation of the financial services industry poses to the Supervisory Authority in achieving its goals of safety and soundness whilst facilitating market efficiency and effectiveness.

The rationale for bank supervision is double-pronged. The first is the promotion of the safety and soundness of financial institutions so that they do not become a source of systemic risk and pose a threat to the payment system. The second is the promotion of an efficient and effective banking system that finances economic growth, allocates credit and meets the needs of the customers and communities they serve.

In a period where supervisory focus is aimed at strengthening the existing laws governing deposit-taking institutions, enhanced regulations providing specific legal guidelines for credit classification and provisioning, capital adequacy and auditors' qualifications, among others, are geared to facilitate the achievement of regulatory objectives.

This pamphlet provides an overview of the responsibilities of the Central Bank in identifying and monitoring risks within supervised financial institutions. The fulfilment of these responsibilities involves regular on-site and continuous off-site examinations of institutions with a view to ensuring sound and prudent practices in their operations.

FOREWORD

The Bank of Jamaica has undertaken to publish a series of pamphlets on topics that are integral to the policies and operations of the Bank.

The pamphlets are designed to enhance the public's understanding of key central banking issues. In this regard the pamphlets will present important economic and financial information in a manner that will benefit a wide cross-section of users. In particular, it is anticipated that the material presented will assist journalists, investors, students and other members of the public who frequently request relevant documentation and/or explanations from officers of the Bank.

The Bank and its staff in continuing to serve the Jamaican public are pleased to add these pamphlets to existing publications as we strive to inform and educate.

We take this opportunity to extend our gratitude to all who have supported the process and would like to invite suggestions and comments from all our readers.

Myrtle Halsall (Mrs.)

Division Chief & Head of the Editing Committee

Research & Economic Programming Division

Bank of Jamaica

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THE ROLE AND FUNCTION OF FISD

Overview

Pursuant to The Bank of Jamaica Act, the Financial Institutions Supervisory Division (FISD) of the Bank of Jamaica has supervisory responsibility for deposit-taking institutions licensed under financial legislation administered by the Central Bank, viz., commercial banks, licensed near-banks such as merchant banks, trust companies and finance houses and building societies. These responsibilities involve continuously assessing the quality of licensees' operations and financial condition and ensuring that each licensee possesses an appropriate level of technical, financial and personnel resources at its disposal to ensure efficient, prudent, sound and profitable operations on an ongoing basis.

The Supervisory Authority legally comprises the Governor as Supervisor and the Deputy Governor as Deputy Supervisor of Banks and Financial Institutions, supported by the staff of the Financial Institutions Supervisory Division.

Major powers and overall responsibilities reside with the Minister of Finance, for example, the power to grant and revoke licenses, make regulations and vary prohibitions/restrictions imposed by legislation and responsibility for reporting to Parliament. The impact of the Bank of Jamaica in this area is restricted to the role of making assessments and recommendations.

Under powers contained in Section 34 of The Bank of Jamaica Act 1960, the Bank of Jamaica is required to examine, at least once per year, the affairs of each licensee to ensure that the various statutory requirements are being complied with and determine whether the institution is in a sound financial position. The results of such examinations are provided to the Minister of Finance and the Board/Management of the institution.

Why We Regulate

There are two primary reasons why we regulate and supervise licensees:

1. To promote their safety and soundness so as to protect confidence in and integrity of the banking system and the interests of depositors.
2. To promote an efficient and effective banking system that finances economic growth, allocates credit and meets the needs of the customers and communities they serve.

Supervision of these deposit-taking entities is necessary, as the main source of funding for their loans and investment activities is the savings and deposits of members of the public. It is internationally recognised that banks and other deposit-taking institutions are the repository of a nation's wealth and, as such, regulation that demands prudence and sound financial practice to ensure the safeguarding of that wealth is a feature of all stable economic environments.

Regulators do not manage banks and other financial institutions and cannot assume responsibility for their proper management - that is the sole responsibility of the board of directors and senior management.

Consequently, the Regulator cannot always prevent the failure of a financial institution. The Regulator's responsibility is to take action to protect the interests of the financial system and by extension, the interests of depositors. In other words the Regulator must always work to ensure that failure of one banking entity (or perhaps more) does not cause or result in the failure of several others, thus putting at risk the safety and soundness of the entire system and threatening the well-being of the economy as a whole.

Who We Supervise

The supervised population comprises entities governed by the following pieces of legislation:

- The Banking Act, 1992 (as amended 1997) – commercial banks
- The Financial Institutions Act, 1992 (as amended 1997) – merchant banks, finance houses etc.
- The Building Societies Act and The Bank of Jamaica (Building Societies) Regulations, 1995 – building societies

At the end of December 1999, the supervised population numbered twenty-five, down from thirty-five at the end of 1998 as below:

Table 1
Numbers of Supervised Entities, 1996 - 1999

	1996	1997	1998	1999
Commercial Banks	9	9	9	6
FIA Licensees	28	27	18	14
Building Societies	14	10	8	5
	51	46	35	25

Applications for licenses to operate any of these institutions are made to and approved by the Minister of Finance. However, the assessment of applications for licenses is performed by the Bank of Jamaica.

Among the issues assessed are:

- Whether the proposed shareholders, directors and management of the institution seeking licensing meet the “fit and proper” criteria;
- The adequacy of capital resources of the applicant – to ensure a sufficiency of such resources to the licensed institution on an ongoing basis;
- Management expertise available to the entity; and
- Business plans and financial projections of the entity.

Since July 1999, the Bank of Jamaica’s oversight responsibilities have been expanded to cover credit unions by virtue of their designation as “specified financial institutions” under The Bank of Jamaica Act. This represents a preliminary step to Government’s stated intention of broader legislative changes through the modernization of the Co-operative Societies Act. In the interim, supervision of credit unions will take its legal bases from regulations to be issued shortly under The Bank of Jamaica Act and, in this regard, dialogue is currently being held with representatives of the Credit Union Movement.

What We Supervise

In fostering the objectives of safety and soundness in the financial sector the Supervisory Authority assesses:

- How much risk each licensee is undertaking.
- Resources available to manage these risks - these may be tangible (capital) or intangible (internal control systems, management experience and competence).
- Whether the identified level of resource(s) is/are sufficient to manage the risks.

Typical Risks

The typical risks faced by licensees are:

- Credit risk – the risk that the licensee’s borrowers might not pay on the due date;
- Liquidity risk – the risk that the licensee might itself fail to meet its obligations when they fall due;
- Yield risk – the risk that the licensee’s assets may generate less income than the expense generated by its liabilities;
- Market risk – the risk of loss resulting from movements in the market price of financial instruments in which the licensee has a position;
- Operational risk – the risk of a failure in the licensee’s procedures or controls;
- Ownership/management risk – the risk that shareholders, directors or senior management may be unfit for their respective roles or actually be dishonest.
- Other risks – for example, the recent Y2K risk, threats of money laundering, fraud and theft, among others.

How We Supervise

Essentially, the Supervisory Authority has sought to achieve its goals by:

- Ensuring that licensees comply with all applicable laws and regulations – including the imposition of new regulations where the necessity arises
- Enforcing guidelines and performance standards;
- Providing guidance through Best Practice standards;
- Verifying and assessing the quality of licensees’ activities through annual on-site examinations and ongoing off-site monitoring;
- Seeking to achieve as much disclosure as is possible.

Although regulations and guidance are important, the cornerstone to a bank supervisory process is through on-site examinations conducted at least once annually, along with off-site surveillance on an ongoing basis. On-site examinations refer to supervisory review activities of actual operations of the licensee carried out at its place of business. The process involves the collection of on-the-spot information that will indicate the current financial condition of an institution and the situation prevailing in its various operational areas/portfolios, verification of financial data already furnished to the Bank of Jamaica, and a review of its compliance with laws, regulations and standards of best practice.

Assessments will of necessity have a major concentration on credit and investment portfolio quality, these being the areas where the highest risk of loss is encountered. However greater focus is being placed on the quality and adequacy of risk management systems in the key areas of an institution's operations, such as capital adequacy, asset portfolio management, earnings, liquidity, internal controls and overall management.

With the growth in financial conglomerates and/or banks that form part of corporate groupings, there is the increased risk of financial losses or damaged reputation to a licensee itself due to the *contagion effect* (i.e. risk that financial difficulties affecting other members of the conglomerate group, either regulated or unregulated entities, will affect the licensed institution, leading to liquidity and solvency problems). As a result, the FISD also requires, on a regular basis, relevant information about related non-bank companies.

Off-site supervision provides an important complement to on-site examination by providing early warning of actual or potential problems, and a means of assessing broader patterns and trends within the system as a whole. The Bank of Jamaica's off-site supervision process involves a number of steps. These are:

- Data collection and verification checks
- Data analysis
- Reporting of findings (up to the Governor and Minister)
- Recommendations for corrective action
- Monitoring of appropriate implementation of corrective action

Data are obtained from a variety of sources, the primary one being regular prudential returns (weekly, monthly, quarterly and annually), which are specified in the governing financial legislation.

Standards of Sound Business and Financial Practices

FISD has taken a proactive approach to supervision by setting out Standards of Sound Business and Financial Practices which licensees are expected to meet.

In setting out the standards, the FISD as regulator has sought to assist the boards of licensees in the fulfilment of their mandates, which include the following:

- (a) Oversight of the institution's strategic direction and organization structure;
- (b) Supervision of the management of an institution's business and affairs;
- (c) Establishment of the principal risk management policies and related monitoring systems;
- (d) Monitoring of the integrity of internal control systems and oversight of the major activities performed by the institution.

The standards in place address eight areas critical in the operation of a licensee, namely:

- Capital management
- Credit risk management
- Foreign exchange risk management
- Interest rate risk management
- Internal controls
- Liquidity management
- Real estate appraisals
- Securities portfolio management

Basel Core Principles for Effective Banking Supervision

With the objective of strengthening bank supervision practices across the globe, in 1997 the Basel Committee on Banking Supervision in conjunction with the Bank For International Settlements (BIS) released twenty-five

core principles for effective banking supervision. These principles set out the minimum powers and authorities which bank supervisory authorities must possess, and the activities which they must perform in order to ensure effective supervision of banking systems. In a nutshell, the principles highlight the need for:

- A suitable and potent legal framework
- Requirements for entry into the financial system and ownership structures
- Requirements for prudential regulations and effective supervision
- Requirements for on-going monitoring of banks
- Supervisors to be satisfied that each bank maintains adequate records to obtain a true and fair view of the financial condition of the entity at all times
- The ability to bring about corrective actions by means of applying sanctions and
- Consideration of cross-border banking issues which require that 'home' country supervisors have the ability to conduct global consolidated supervision and to establish contacts and share information with host country supervisors.

Implementation of the core principles is regarded as a necessary precondition to ensuring that banks operate in a sound manner. In order to ensure consistency in assessing effective implementation, the Basel Committee during 1999 developed a harmonised assessment methodology that outlines, *inter alia*, the criteria for determining the adequacy of implementation.

The FIRD is currently conducting a self-assessment exercise utilising the methodology with the aim of identifying any weakness in the existing system of laws and banking and supervisory practice. Based on existing legal structures, regulations, examination practices and procedures and best practice standards issued to licensees, the initial assessment is that the supervisory regime is largely in conformity with the core principles. Work is proceeding apace to achieve full compliance in all relevant areas in the shortest possible time.

LAWS GOVERNING THE OPERATIONS OF DEPOSIT-TAKING INSTITUTIONS

Overview

In discharging its supervisory mandate over commercial banks, merchant banks and building societies, the Bank of Jamaica operates mainly under the principal pieces of legislation governing deposit-taking institutions in Jamaica:

- **The Bank of Jamaica Act 1960**
- **The Banking Act 1992** – commercial banks
- **The Financial Institutions Act 1992** – licensed near-banks, such as merchant banks, finance houses, etc.
- **The Building Societies Act** – building societies

Much of Jamaica's amendment to financial legislation and prudential regulation over the years was in one way or another responsive to the spread of overly risky and unsound banking practices as well as to preempt problems that, in the Bank of Jamaica's judgement, could likely surface. Major amendments to financial legislation in the 1990s include:

- **The Bank of Jamaica Amendment Act 1992**
- **The Bank of Jamaica Amendment Act 1995**
- **The Banking Amendment Act 1997**
- **The Financial Institutions Amendment Act 1997**
- **The Building Societies Amendment Act 1997**

After being placed on a 'fast track', the 1997 amendments were passed in Parliament in the last quarter of 1997. A more comprehensive review of financial legislation is currently being undertaken by a task force established by the Minister of Finance with a view to its overall enhancement. Apart from the highlighted amendments to the principal Acts, certain Regulations which specify the precise requirements and procedures in dealing with certain areas of supervisory standards and institutional practice were promulgated. These include:

- **The Bank of Jamaica (Building Societies) Regulations 1995**
- **The Building Societies (Licences) Regulations 1995**

- **The Banking (Establishment of Branches) Regulations 1996**
- **The Financial Institutions (Establishment of Branches) Regulations 1996**
- **The Banking (Capital Base) Regulations 1997**
- **The Financial Institutions (Capital Base) Regulations 1997**
- **The Banking (Amalgamation and Transfer) Regulations 1997**
- **The Financial Institutions (Amalgamation and Transfer) Regulations 1997**

Additionally, the drafting of new Regulations dealing with ‘**Qualification of Auditors**’, ‘**Risk Weighted Capital Adequacy**’ and ‘**Credit Classification and Provisioning Requirements**’ are all at an advanced stage and have benefited from extensive dialogue and feedback from the industry.

Regulations that will form the legal basis for the supervision of credit unions, following their designation as specified financial institutions under the Bank of Jamaica Act in 1999, have also been drafted and are currently the subject of dialogue with the credit union movement.

Main Requirements of the Principal Statutes

Examinations

Under powers contained in Section 34 of The Bank of Jamaica Act 1960, the Bank of Jamaica is required to examine the affairs of commercial banks and “specified financial institutions” at least once per year to ensure that the various statutory requirements are being complied with and to determine whether the institution is in a sound financial position. (Similar provisions are contained in The Banking and Financial Institutions Acts). The results of such examination are provided to the Board/Management of the institution and the Minister of Finance and Planning.

Licensing

Applications for licenses are made to and approved by the Minister of Finance on the recommendation of the Bank of Jamaica. The assessment process done by the Bank of Jamaica includes:

- The application of stringent ‘fit and proper’ criteria in relation to shareholders, directors and management of licensees;
- Assessment of the capital resources of the applicant(s) to ensure sufficiency of such resources on an ongoing basis; and
- Assessment of the management expertise available to the entity, its business plans and financial projections, etc.

Capital Requirement

The principal statutes prescribe minimum capital requirements as follows:-

Table 2
Minimum capital requirements of financial institutions

	Paid-up Capital (J\$M)	Subscribed Capital (J\$M)
Commercial banks	60	80
FIA licensees	20	25
Building societies	20	25

In addition to these minimum requirements, the Capital Adequacy Regulations to be legally implemented shortly will introduce a risk-weighted capital adequacy regime under which deposit-taking financial institutions will be required to maintain capital to comply with the statutory minimum ratio (10%), so as to support the underlying nature and levels of risks associated with ongoing activities.

The law also establishes a gearing ratio for commercial banks and licensees under The Financial Institutions Act that restricts the level of deposits that can be incurred relative to a set multiple of capital. Consequently, deposits together with borrowings are currently limited in relation to capital base as follows:-

Commercial banks	25:1
FIA licensees	20:1

Compulsory Creation of Reserves from Profits

Commercial banks and licensed near-banks must transfer a minimum of 15% of net profits each year to a Statutory Reserve Fund, until the balance in the Fund is equivalent to 50% of the paid-up capital of the licensed institution; thereafter, a minimum of 10% must be transferred until the Reserve Fund equals the paid-up capital of the institution.

In the case of building societies, a minimum of 10% of net profits must be transferred each year to the Statutory Reserve Fund until the Fund equals the total amount of the Capital Shares and Deferred Shares of the society.

Retained Earnings Reserves

Each bank, licensed near-bank or building society also has the option to determine how much money it may further set aside from retained earnings and place in a Retained Earnings Reserve Account. This account constitutes a component of statutory capital base and funds, once in, are treated as permanent, and cannot be retrieved or used for purposes other than capital support without the prior approval of the Bank of Jamaica.

Credit Exposure and Investment Limits

The Banking and Financial Institutions Acts and The Bank of Jamaica (Building Societies) Regulations 1995 place an aggregate limit on connected investment and/or secured lending, as well as limit lending to a single person, company or group. However the statutes do allow for certain credit facilities, called “specified credit facilities”, which include credit made to or guaranteed by the Government of Jamaica, to be exempted from these limits, under certain conditions and on recommendation of the Bank of Jamaica.

Consequent on the 1997 amendments to the laws, credit exposure (inclusive of guarantees and letters of credits) and investment limits were revised and current limits are as follows.

Commercial Banks and Licensed Near-banks

Unsecured Lending:-

Single customer	- 5% of capital base
Group of related customers	- 10% of capital base
Connected party	- Nil

Secured Lending:-

Single customer	- 20% of capital base
Group of related customers	- 40% of capital base

Connected Party Exposure:-

Aggregate of secured credit and investments in:

Any connected party	- 10% of capital base
A group of connected persons	- 20% of capital base

Investments Limits:-

Direct or indirect investments in any company or undertaking are limited in aggregate to 50% of a licensee's capital base. Any such single shareholding is limited to 10% of the licensee's capital base.

Building Societies

Unsecured Lending:-

Directors or managers	- 1% of capital base
Single borrower	- 10% of capital base
Group of related borrowers	- 20% of capital base
Connected persons	- 5% of capital base

Secured Lending:-

Single borrower	- 20% of capital base
Group of related borrowers	- 40% of capital base

Investments Limits:-

Direct or indirect investments in any company or undertaking are limited in aggregate to 100% of a society's capital base. Any such single shareholding is limited to 20% of the society's capital base.

Limits on Fixed Assets

Investment in fixed assets is restricted to 100% of a licensee's capital base. This provision ensures that only capital (and not depositors' funds) is used to fund the purchase of non-earning fixed assets.

Cash Reserves and Liquid Assets

Minimum Cash Reserves and Liquid Assets Reserves are required in relation to 'prescribed liabilities' in the case of banks and licensed near-banks and 'deposits and withdrawable shares' in the case of building societies. Cash reserves are required to be held with the Central Bank. Liquid assets include the required cash reserves, notes and coins, money at call, deposits with other supervised licensees and quality short-term Government securities.

Loan Loss Reserve

Where there is delinquency of principal or interest on loans for three months or more, accrued interest should cease being taken to profit until actually realised, and any unpaid interest previously taken to profits must be reversed. Additionally, an appropriate provision for loss must be established in respect of such loans.

Prudential Returns and Publication of Accounts

Regular submission of financial information to the Bank of Jamaica is required. This, includes, *inter alia*:

- Monthly balance sheet (including information on contingent liabilities and past due loan facilities)
- Quarterly and annual statements of earnings and expenditure
- Audited financial statements in respect of the licensed institution, its parent, subsidiary and affiliated companies, where relevant

Additionally, each licensee is required, within 90 days of its financial year end, to publish in a daily newspaper, and exhibit in its offices, throughout the year, a copy of its audited financial statements.

The Bank of Jamaica currently publishes, on a quarterly basis, the reported unaudited information on the assets and liabilities of the licensed institutions in two daily newspapers.

Transfer of Ownership

In order to ensure that a licensee is controlled by experienced and qualified individuals of integrity, etc., any agreement whereby a person will obtain effective control of a commercial bank or licensed near-bank must be approved by the Minister of Finance. Effective control will be obtained where a person, acting alone, or together with any connected person, would be in a position to control 20% or more of the voting power of the licensee or would hold beneficial interests in 20% or more of the issued shares of the licensee.

Auditors

In relation to the external auditors of a licensee, the following apply:

- The Bank of Jamaica may summon any current or former auditor of a licensee (with notification given to that licensee) for the purpose of making inquiries concerning its operations and financial position.
- If an external auditor resigns or gives notice of an unwillingness to be reappointed, that auditor is required to advise the Bank of Jamaica in writing of the reason(s) behind such action.
- External auditors are required to report in writing to the chief executive officer and each director of a commercial bank or licensed near-bank, as well as to the Bank of Jamaica, any material transactions or conditions coming to the auditor's attention that have the effect of affecting its financial viability.
- The Bank of Jamaica can require the auditor of a commercial bank or licensed near-bank to enlarge the scope of an audit or perform such other audit procedures as the Bank of Jamaica may specify in any particular case.
- The Bank of Jamaica can appoint an auditor, other than a commercial or licensed near-bank's external auditor, to undertake a special audit exercise in respect of that commercial bank or licensed near-bank.

Sanction Powers

Where there is evidence of the existence or threat of unsafe or unsound practices, the Bank of Jamaica in certain instances can take action against a licensee in the form of:

- Requiring a board undertaking
- Issuing directions
- Issuing cease and desist orders

The Minister of Finance can, in other predefined instances, take further action:

- Assume temporary management of a licensee
- Suspend its licence
- Liquidate or reconstruct the licensee (subject to petition to Court).

GLOSSARY OF TERMS

Accrued interest: Interest earned but not paid on loans or deposits.

Banking system: The group of financial institutions duly licensed in accordance with the provisions of the Banking Act, 1992, Financial Institutions Act, 1992 and Building Societies (Licensing) Regulations, 1995.

Basel: An Accord established by the central bank governors of the Group of Ten (G-10) countries in 1975 and consisting of senior representatives of banking supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and the United States.

Best Practice Standards: Standards of sound business and financial practices that ought to govern the operations of licensees. These include capital management, internal control, liquidity management, credit risk management, interest rate and foreign exchange risk management, among others.

Board Undertaking: A legally binding written promise or guarantee signed by the majority of the directors of a licensed financial institution, indicating their willingness to abide by certain instructions/directives imposed by the Bank of Jamaica.

Capital Base: The amount of shareholder's equity and eligible reserves of the licensee, calculated in such manner and by such methods as may be prescribed from time to time by regulations, and the amount of subordinated debentures which for the time being may be taken into account, less any amount by which the total has become impaired by operating or other losses.

Cash Reserve Requirement: A legal requirement that a certain percentage of the deposit liabilities of a licensee must be held as interest free deposits at the Central Bank.

Cease and Desist Order: An order issued by the Bank of Jamaica to a licensed financial institution to refrain from pursuing or adopting a particular course of action.

Connected Persons: Shareholders, directors and senior managers and their immediate relatives: spouse, children, including step children and their spouses, parents, brothers and sisters *or* fellow members of a group of companies, holding company or subsidiary, connected to a licensed financial institution.

Contingent Liability: Obligation of a financial institution which is conditional on the occurrence or non-occurrence of an event, depending on future and unforeseeable facts or events. Such obligations may include acceptances, guarantees, letters of credit, other confirmed paper, unused lines of credit, undisbursed loan funds, commitments, pending litigation and assets sold with recourse.

Credit Classification: The basis on which the quality of credits in an institution's loan portfolio is assessed according to specific criteria. For example: (a) Standard (b) Potential problem credit/special mention (c) Sub-standard (d) Doubtful and (e) Loss.

Credit Union: A cooperative financial institution owned and operated by and for its members for the purpose of encouraging savings, using pooled funds to make loans to members and providing related financial services to enable members to improve their economic and social condition.

Cross-Border Banking: Banking arrangements/transactions conducted by banking organizations worldwide, primarily at their foreign branches and subsidiaries.

Deposit: A sum of money paid on terms under which the sum will be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it, and which is not referable to the provision of property or services or to the giving of security.

Deferred Shares: An interest-bearing share issued on terms that it shall not be withdrawable for period of not less than three years.

Deposit-taking Institutions: Financial institutions licensed to accept deposits under the Banking Act, Financial Institutions Act (FIA) and Building Societies (Licensing) Regulations and any other institution designated by the Minister of Finance as a "specified financial institution" under the BOJ Act.

Directions: Instructions from the Bank of Jamaica to a deposit-taking institution imposing quantitative or qualitative limitations on its operations.

Financial Conglomerates: Any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance).

Fit and Proper Criteria: The basis of evaluating the competence, integrity and qualifications of management inclusive of the board of directors, and including criteria based on a person's ability to exercise the level of diligence, judgement and probity required in the position of director, major shareholder or officer of an institution.

Guarantee: Non-cancellable indemnity bond guaranteeing the timely payment of principal and interest due on loans by maturity date.

Home Country: Country in which the headquarters of a bank is located.

Host Country: Country in which the local operations of foreign banks are located.

Letter of Credit: Credit instrument issued by a bank guaranteeing payments on behalf of its customer to a beneficiary, normally to a third party but sometimes to the bank's customer, for a stated period of time and when certain conditions are met.

Licensee: An institution duly licensed under the Banking or the Financial Institutions Acts or the Building Societies (Licensing) Regulations.

Liquid Assets: An asset either in the form of currency or one that can be easily converted into currency. Liquid assets of commercial banks include notes and coins, short-term deposits at the Bank of Jamaica and any other "designated" GOJ security.

Liquidity Management: The management of liquidity risks by prudently structuring assets and liabilities to ensure that cash inflows have an appropriate relationship to approaching cash outflows.

Money at Call: In relation to any bank, means money invested by way of loans to, or deposits with (a) the Bank of Jamaica, other than the cash reserves or cash balances included as liquid assets, (b) any other bank in Jamaica or any institution licensed under the Financial Institutions Act, 1992 or (c) any other institution in Jamaica approved for the purpose by the Minister.

Paid up Capital: Represents the amount of the subscribed capital of a company that has been paid by its shareholders.

Past due Loan: Any loan on which interest and/or principal is due but unpaid for more than one month.

Prescribed Liabilities: Liabilities that may be so identified from time to time by the Bank of Jamaica and include deposit liabilities, borrowings and interest accrued and payable thereon.

Provisions: These include a specific reserve relating to individual loans that have been classified as non-performing and general provisions relating to inherent risks in the loan portfolio, and should cover any possible or expected loss in the bank's loan portfolio of on-and-off balance sheet items.

Regulator: The name given to the power of the Bank of Jamaica to supervise licensed financial institutions in Jamaica.

Secured Lending: Credit granted with adequate collateral.

Solvency: The extent to which the value of a licensee's assets is more than the amount of its liabilities.

Specified Financial Institutions: Persons or undertakings (not a commercial bank) whose business includes the granting of loans or other credit facilities or the accepting of deposits, and declared by the Minister to be a specified financial institution.

Unsecured Lending: Credit that is not secured by collateral.

PAMPHLETS IN THE SERIES

<i>No.</i>	<i>Title</i>	<i>Author</i>
1	Monetary Policy Management in Jamaica	Claney Lattie
2	Your Guide to the Jamaican Consumer Price Index	Robert Stennett
3	The Measurement of Money Supply	Michelle Hylton
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