

## MINISTRY PAPER No. 79

### FINANCIAL SECTOR REFORM

#### A. Introduction

Since the mid-1990's, the Financial Sector in Jamaica has faced many problems.

The Financial Sector problems stemmed from:

1. The rapid expansion of the Sector in the mid-1980's.
2. Structural reforms of the 1990's which created new avenues of profit for these institutions such as trading in foreign exchange and a wide range of securities;
3. The existence of an inflationary environment which facilitated rapid growth in profitability while at the same time masked weaknesses in the sector. These weaknesses emerged once the anti-inflationary policies were put in place;
4. The severe strain placed on the management expertise available to the Sector as a result of the rapid expansion;
5. Ineffective supervision of the management of these institutions by their Boards of Directors;
6. Creation of conglomerates characterized by complex inter-company shareholders, interlocking Boards of Directors, common management, extensive intra-group transactions and co-mingling of assets and liabilities;
7. Inadequate legislation to regulate and supervise the financial sector; which resulted in regulatory arbitrage; and
8. The apparent failure of professional bodies to insist on compliance with acceptable standards.

2. To respond to the situation, the extent and nature of the problems were determined and appropriate solutions developed. From the analysis done it was clear that the problems of the Sector were caused by a number of inter-related factors which included:

- A Mismatch of Asset and Liability Maturities
- Diversification Away from Core Business
- High Operating Costs
- Financial Conglomerates

### **Government's Approach to the Problems**

3. The Government was obliged to protect the savings of thousands of depositors, policyholders and workers whose pension funds were invested and managed by insurance companies.

4. The Government therefore embarked on a three-pronged approach which was aimed at addressing the problems:

- a) a series of fast-track legislation was introduced to strengthen the regulatory framework for the banking sector;
- b) FINSAC was established in 1997 to intervene in troubled entities, rehabilitate and divest them to private hands as soon as practicable; and
- c) forensic audits were conducted in all failed institutions

### **B. Legislative Action**

5. A significant component of the reform programme is the improvement in the regulatory framework. To close the regulatory loopholes/gaps that existed and provide the regulatory environment that could sustain confidence, a comprehensive review was done of the pieces of legislation governing the sector.

6. Based on that review the legislative framework was enhanced. Amendments were made to various acts governing the sector; the Banking Act, The Bank of Jamaica Act, the Building Societies Act, The Securities Act and the Financial Institutions Act, to provide for *inter alia*:

- (a) more efficient and effective powers for remedial action taken by the Supervisory Authorities in respect of distressed institutions;
- (b) reduced capacity for institutions to lend to, invest in, related parties;
- (c) a more stringent computation of capital adequacy;
- (d) a more precise definition of non-performing loans and power for the supervisory authorities to prescribe accounting rules; and



- (e) greater control by supervisory authorities over the changes of ownership and a stricter definition of a "fit and proper person" for management, directors and owners of institutions.

7. A Deposit Insurance Scheme was also implemented to provide for insurance of deposits of a maximum of \$200,000 against risk of loss when a policyholder/institution becomes insolvent.

### **FINSAC's Intervention**

8. To carry out its functions FINSAC adopted a three-phased approach:

- 1. The Intervention and Rehabilitation Phase
- 2. The Rehabilitation/Restructuring Phase
- 3. The Divestment Phase

### **The Intervention and Rehabilitation Phase**

9. FINSAC has successfully completed the intervention phase; the rehabilitation phase is about 90% complete and is well advanced in the divestment phase.

10. To date, FINSAC has divested a number of assets including hotels, the bulk of its insurance portfolio, and residential and commercial properties estimated at J\$11.4B. FINSAC currently has available for divestment another J\$20B of assets.

### **Forensic Audits**

11. Forensic Audits have been carried out in all institutions intervened by FINSAC. Specially contracted experts from overseas carried out these audits.

### **C. Divestment of FINSAC's Assets**

12. FINSAC currently owns substantial shareholdings in both Union Bank and the National Commercial Bank as well as stakes in some smaller Merchant Banks, Victoria Mutual Building Society, Life of Jamaica, Island Life and Dyoll Group Limited. The timing of the divestment of these holdings is an important factor in determining the point of exit of FINSAC from the financial sector.

13. Currently, negotiations for the sale of FINSAC's 99% shareholdings in Union Bank to Royal Bank of Trinidad & Tobago Financial Holdings Limited are far advanced and the sale should be completed before the close of this calendar year. FINSAC has been advised, in respect of the shareholding in NCB, that the present configuration of this

holding in both NCB Group and the Bank, i.e. 60% is unlikely to be attractive to investors. As a result of this, FINSAC has agreed with NCB Group on a proposal to restructure its shareholdings through conversion of preference shares that will give FINSAC 75% of the Bank and 100% of NCB Group, after the reorganization. This scheme has to be approved by the Courts. A meeting of the majority shareholders will be convened on November 8 to consider and vote on this scheme. FINSAC is currently seeking purchasers for its 75% stake in NCB which it expects to obtain if the scheme is approved.

14. In the Insurance Sector, FINSAC is obliged to remain a shareholder in Island Life until 2002. FINSAC is actively preparing to divest its shareholding in Life of Jamaica, once current discussions with the other major shareholders and the Board of Directors for the successful recapitalisation of the company are concluded.

15. FINSAC is currently reviewing its options for the disposal of its other assets, i.e. non-performing loans, financial institutions, and other real estate assets on its balance sheet.

### **Further Reform of the Financial Sector**

16. The legislative framework has been improved for the deposit-taking institutions and financial entities have been rehabilitated at significant costs. This aspect of the financial sector reform has been completed and steps are being taken to further deepen the reform process. This next phase of the reform programme seeks to:

- (i) pursue a broad set of financial sector reforms which will continue to restore the sector to health;
- (ii) further strengthen and consolidate the regulatory framework; and
- (iii) reduce the vulnerability of the sector to future shocks, should they occur. This involves establishing the capacity for coordinated crisis management which will help to provide signals of a crisis before they occur, and the method for dealing with them if and when they do occur.

17. As part of this programme, initiatives will be undertaken in areas to further enhance Bank Supervision and significantly strengthen the supervision of non-deposit-taking institutions.

### **Further Strengthening of Bank Supervision**

18. Over the past years the Government has continued to take actions to enhance the soundness of the banking system through the improvement of the legal and regulatory



framework and the supervisory capabilities of the Bank of Jamaica. Amendments were made to legislation in 1997 and this enhanced the supervisors powers to take certain corrective measures.

19. Supervisory processes, including on- and off-site supervision were also strengthened in order to better facilitate the early detection of problems and timely implementation of corrective action.

20. To facilitate the transfer of responsibilities for supervisory oversight to Bank of Jamaica, credit unions were recently designated as specified financial institutions under the Bank of Jamaica Act. Additionally, draft regulations governing key prudential areas have been formulated and are currently under review in conjunction with the industry. These measures, along with consequential amendments to the Cooperative Societies Act will provide the requisite legislative framework to allow for effective regulation of credit unions. The personnel resources and capabilities of the BOJ's Supervisory Division will also be strengthened to handle this new responsibility.

### **Further Strengthening of Non-Bank Supervision**

21. In the context of strengthening financial sector reform, the establishment of a new non-bank (non-deposit taking) supervisory authority referred to as the Financial Services Commission was announced. This entity due to begin operations on April 2001, will be responsible for the regulation and supervision of entities dealing in securities, collective investment funds, (e.g. unit trusts and mutual funds), investment advisors, insurance industry (companies, brokers, agents and sales persons) and pension funds. This new regulatory entity is intended to provide more efficient monitoring of the Securities Industry and the Insurance Sector. It will be provided with the requisite authority to intervene in troubled institutions and the "fit and proper" criteria which was introduced in the Banking Act and the Financial Institutions Act will also be included in this new Act.

22. To facilitate this new regulatory authority, amendments will be made to the Securities Act and Unit Trusts Act. In order to give effect to the establishment of this new regulatory authority, three Bills are being tabled.

### **Memorandum of Understanding**

23. In order to deal with the issue of regulatory arbitrage, it is proposed that there be coordination in the activities of the various regulators. This will be facilitated by:

- The establishment of a Memorandum of Understanding among financial regulators;

- The establishment of a Regulatory Policy Council
- The harmonization of prudential norms across the entire industry

24. This Memorandum of Understanding is between the Bank of Jamaica, the Jamaica Deposit Insurance Corporation, the Financial Services Commission, and the Ministry of Finance. However, until the establishment of the Financial Services Commission, the Superintendent of Insurance and the Securities Commission will be the respective signatories/regulatory agencies.

25. This Memorandum of Understanding will allow for consolidated supervision and conduct of coordinated examinations for dually licensed entities, minimize the risks of contagion and facilitate timely discussion on policy for the financial sector. The legislative amendments to facilitate this process are being tabled together with a signed copy of the Memorandum of Understanding - attached as **Appendix I** to this Ministry Paper.

### **Regulatory Policy Council**

26. In order to ensure that there are consistent rules governing the different areas of the financial sector, the different pieces of legislation will be harmonized and a Regulatory Policy Council will be established. The members of the Regulatory Policy Council will be:

- i. Supervisor of Banks, who will chair the Council,
- ii. Head of the proposed Financial Services Commission. Until this Commission is established, the Superintendent of Insurance and the head of the Securities Commission will serve on the Council.
- iii. Head of the Jamaica Deposit Insurance Corporation;
- iv. Financial Secretary or nominee.

The consultations that emerge from the Regulatory Policy Council will result in a proactive approach to developing policy for the financial sector thus helping to anticipate problems while the coordinated approach will allow the supervisors to share information to facilitate detection of problems as they arise. This will prevent the recurrence of the problems which arose in the 1990's.

### **Crisis Intervention Matrix**

27. To continue with the improvement in transparency of the system of enforcement and intervention an update of the ladder of enforcement originally issued to the banking industry in 1996 has been done. This is in accordance with recent legislative amendments. This new ladder of enforcement will allow the industry to have a clear



understanding and statement of what actions may be taken by the regulators. The Bank of Jamaica, the Financial Services Commission and the Jamaica Deposit Insurance Corporation have developed a Crisis Intervention Matrix which gives an indication of the type of actions which are likely to be taken in varying instances and the consequences of failing to rectify problems expeditiously. In addition, it makes explicit the concept of "lead regulator" as it relates to complex organizations having institutions regulated by differing regulators. This is reflected in the attached Crises Intervention Matrix – **Appendix II.**

### **Establishment of Financial Crimes Unit and a Commercial Court**

28. During FINSAC's intervention phase, external Forensic Accountants were utilised to work with local security personnel in investigating instances of impropriety in the Financial Sector.

29. During the new phase of the reform it is proposed that the forensic auditing expertise be added to the crime fighting system. This will be formalised by the establishment of the Financial Crimes Unit in the Office of the Director of Public Prosecutions.

30. To complement that a Commercial Court will shortly be established.

### **Appeals Tribunal**

31. To further enhance transparency of the system in relation to "unfair treatment" meted out to prospective and current players in the industry, an appellate body will be established. This body will be independent in nature and will hear appeals in respect of licensing, registration, cancellation, revocation, suspension and imposition of penalties not imposed by the judicial system.

### **D. Conclusion**

32. The initiatives outlined above should lead to the Government's exit from the Financial Sector. The Government's intervention has achieved the following:

- (a) Protection of 1.4 million deposit accounts with a value of J\$68.6B and 569,000 individual insurance policies with a sum insured of JS174.4B. Also, through FINSAC's intervention, protection has been given to 55,000 pensioners with a pension fund value of J\$19.023B.
- (b) Commissioned and provided oversight guidance over the merger of the four intervened commercial banks to form a single entity, Union Bank of Jamaica Limited, which is now the third largest bank in Jamaica with assets

of J\$34B at March 31, 2000. FINSAC further assisted in the restructuring the merged bank's balance sheet and addressing its liquidity challenges.

- (c) Improvement in the viability of NCB, several small merchant banks, Victoria Mutual Building Society and Dyoll Group Limited.
- (d) Acquisition of approximately J\$33B in non-performing loans from the intervened entities thereby facilitating the recapitalisation of the entities and the creation of "good bank/bad bank" resolution scenario.
- (e) Collection of approximately J\$3.91B against the portfolio of non-performing loans, as at September 26, 2000,. At the end of March 2000, foreign and domestic currency loans with an aggregate value of approximately J\$8.9B had been restructured or rehabilitated at rates of interest ranging from 12% to 15% for US\$ denominated loans and 25% to 30% for domestic loans.
- (f) Development of a clear loan collection policy and procedural manual to ensure transparency and uniformity in the process of collection of the NPL portfolio.
- (g) Sale of the traditional insurance portfolios of Crown Eagle Life Insurance, Dyoll Life Limited and Jamaica Mutual Life Assurance Society following a bid process involving nine life-insurance companies from the region. The successful bidders were Guardian Holdings of Trinidad and Tobago.
- (h) Negotiated scheme through the Bank of Nova Scotia Jamaica Limited and Scotia Trust Merchant Bank Limited for the establishment of savings accounts for holders of non-traditional lump sum interest sensitive policies in the failed insurance companies. The accounts have been established for full value of the investment component of these policies up to a maximum of J\$200,000 for each policy, where the policy value exceeds \$200,000, holders were issued negotiable certificates entitling them to receive full payment at the end of five years, with interest being paid at six-monthly intervals. Pensioners receive interest monthly. FINSAC has also assisted in discussions with at least one financial institution to permit the holders of these certificates to trade them for a discounted cash figure.
- (i) Successfully negotiated with Barbados Mutual Life Assurance Society for the acquisition of controlling interest in Island Life Insurance Company limited. Under the agreement Barbados Mutual has injected US\$6M into the company and FINSAC will inject additional capital to maintain its 26% holding in Island Life. When re-capitalised the company will meet and



surpass the capital adequacy requirements of the new Insurance Act.

- (j) Divestment of assets valued at approximately \$11.396B as at September 30, 2000.
- (k) Commencement of litigation against the principals of several of the intervened financial entities and related companies to recover losses suffered due to their fraud and/or negligence.
- (l) Protection of Life of Jamaica managed funds by assisting in the realignment of the investment portfolio. FINSAC purchased real estate and Citizens Bank shares from the funds, and issued FINSAC bonds in return.
- (m) The Government has secured a commitment from three multilateral institutions for a loan of US\$325M. The proceeds of this loan will be utilised to reduce the debt obligations arising from Government's intervention in the Financial Sector.

33. These are specific achievements but undoubtedly the most important achievements have been the prevention of a full-scale collapse of the local financial sector and the restoration of a strong measure of confidence in the sector.

34. Additionally, emphasis is again being placed on accountability and proper risk management in a number of financial institutions in which interventions occurred.

35. Significant progress has been made in guiding intervened institutions back to profitability and most are now ready for divestment, the final stage of the sector restructuring process. Based on the Government's intention to monetise the current stock of FINSAC bonds during fiscal year 2001/2002, the rehabilitative process should further enhance the growth and profitability prospects of these institutions.

36. The Government has embarked on a number of initiatives in order to address the issues of the financial crisis that has affected the country. These reforms are not without their costs, but in concluding they are necessary for ensuring the soundness of the financial sector.

Omar Davies M.P.  
Minister of Finance and Planning  
October 19, 2000

## APPENDIX 1

### MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING IS EXECUTED THIS      DAY  
OF              2000 BETWEEN THE PARTIES NAMED HEREUNDER AND  
WITNESSETH AS FOLLOWS:

WHEREAS the **BANK OF JAMAICA** (hereafter the BOJ), through the office of the Supervisor of Banks and Financial Institutions is vested with responsibility for the supervision of Commercial Banks, institutions licensed under the Financial Institutions Act, Building Societies and Credit Unions;

AND WHEREAS the **FINANCIAL SERVICES COMMISSION** (hereafter the FSC) is vested with the responsibility for regulation of firms and individuals licensed under the Securities Act, Unit Trusts, Insurance Companies and Pension Funds;

AND WHEREAS the **JAMAICA DEPOSIT INSURANCE CORPORATION** (hereafter the JDIC) is vested with the obligation to provide insurance coverage for deposits held in accordance with the provisions of the Deposit Insurance Act;

AND WHEREAS the **FINANCIAL SECRETARY** being the administrative head of the Ministry of Finance and Planning and having been assigned responsibility by the Minister of Finance and Planning to interface with the Financial Regulatory Policy Council on his behalf;

AND WHEREAS the parties are desirous of formalizing and improving the flow of regulatory information among them, it is HEREBY AGREED as follows:

#### **PART 1.      INTERPRETATION**

1.1.      In this Memorandum the following words shall have the following meanings:



- 1.1.1. "Member" means the persons appointed pursuant to section 2.2 of this Memorandum to sit on the Regulatory Policy Council at relevant time;
- 1.1.2. "Member institution" means such institution to which the Member is an employee and/or representative of.
- 1.1.3. "Supervisor" means the Supervisor of Banks and Financial Institutions or the Executive Director of the FSC.
- 1.1.4. "Intervention Action" means any exercise of statutory powers by a Supervisor or the Minister of Finance and Planning which results in the powers of management of the supervised institution being suspended and transferred to the relevant Supervisor, Minister of Finance or their agent.
- 1.1.5. "Lead Supervisor" means the Supervisor who exercises immediate jurisdiction/oversight over the financial institution with the highest asset value within a group of companies, where other institutions within the group are also supervised by another Supervisor.
- 1.1.6. "Regulatory Action" means any action undertaken by a Supervisor pursuant to a financial institution's governing statute, but which does not amount to an intervention action, as a result of the failure of that institution to adhere to any of the requirements mandated in the governing statute.

## **PART 2. REGULATORY POLICY COUNCIL**

- 2.1. There shall be established a Regulatory Policy Council, (hereafter "the Council") which shall be mandated with the development of policies and strategies to facilitate greater co-ordination and information sharing between the various supervisory agencies operating in the Jamaican financial sector.
- 2.2. the Members of this Council shall be the following parties or their nominees:
  - (a) The Supervisor of Banks and Financial Institutions;
  - (b) The Executive Director of the FSC;
  - (c) The Executive Director of the JDIC;
  - (d) The Financial Secretary.

- 2.3. The Supervisor of Banks and Financial Institutions or his nominee shall be the Chairperson of the Council.
- 2.4. The Council shall be empowered to determine its own procedures PROVIDED THAT:
- 2.4.1. Each Member shall present to the Council, at such intervals as the Council deems appropriate, a status report on its areas of operation in relation to the financial sector, including a report on the overall financial condition of institutions that are supervised by the presenting Member. Such report shall contain system data, together with trend analyses of the sector as a whole.
- 2.4.2. Each Member shall be required to advise the Council of any policy changes or measures that such Member intends to introduce, which may impact on the financial system, the activities of institutions supervised by other Members, or which may usefully be adopted by those institutions.
- 2.4.3. Each Member shall also advise the Council on areas of major regulatory concern that have come to its attention, whether these relate to general issues or are specific issues relating to particular institutions over which it exercises Supervisory and/or Regulatory jurisdiction. **In each case, the Member shall be obliged to make disclosure to other Members, once formal regulatory or intervention action, pursuant to the relevant governing statute has been taken or will be taken.**
- 2.4.4. Where any Supervisor makes disclosure on a matter of concern involving any institution over which it exercises Supervisory jurisdiction, in circumstances where that institution or any subsidiary, parent or affiliate thereof is also supervised by another Supervisor, both Supervisory Members shall consult prior to any formal regulatory or intervention action being taken. The Supervisor intending to act shall also share such information upon which it has based its actions with the other relevant Supervisor.
- 2.4.5. Where any Supervisor intends to initiate regulatory action on information provided by another Supervisor, it shall also consult with the Supervisor providing such information, prior to action being taken.



- 2.4.6. In any situation, where immediate action is required to be taken by any Supervisor, that Supervisor must indicate its proposed actions and the circumstances surrounding them to the Council at the earliest opportunity.
- 2.4.7. In any situation where intervention action is being proposed with regards to a supervised institution or a number of supervised institutions within a group where any of such institutions are supervised by different Supervisors, then the Lead supervisor shall coordinate the implementation of the intervention, including such measures as are necessary to minimize any dislocation or adverse effect on the financial sector.
- 2.4.8. The Lead Supervisor shall at all times act in consultation with the other relevant Supervisor.
- 2.4.9. All information which is provided to Members shall be treated in the strictest confidence and may only be disclosed to other parties by the receiving Member, where there is a clear need for access to such information, and with the prior consent of the Member who provided the information.
- 2.4.10. Where in the course of any examination or other dealing with a supervised financial institution, a Supervisor discovers in relation to any individual or institution over which another Supervisor exercises jurisdiction:
- (a) any fact relating to the supervised institution or any manager, shareholder or director thereof involving criminal conduct;
  - (b) any fact that may otherwise affect such shareholder, manager, or director's status as a fit and proper person,
  - (c) any fact that may affect the financial viability or stability of any parent, subsidiary or affiliated company;
  - (d) any fact that may threaten the stability of the financial sector;
- then the Supervisor so discovering this fact shall share the said information with such other Supervisor, who shares jurisdiction over that individual or institution.

### **PART 3 STAFF UPGRADING**

- 3.1. Members shall seek to keep other Members abreast of relevant regulatory staff training programmes in place at their institutions and shall where practicable and relevant allow for participation by staff of other Member Supervisors by invitation.

### **PART 4 COORDINATION OF EXAMINATIONS**

- 4.1. Each Supervisor shall ensure that in circumstances where there is shared jurisdiction over any financial institution or group of institutions, examinations are carried out by these Supervisors in a coordinated manner to ensure that the time, and resources of the respective supervisory staff are efficiently utilized, to minimize the separate collection of similar data and the burden on supervised institutions. In such cases, the Supervisors involved shall share relevant information which is obtained by virtue of such examinations with the other Supervisor involved.
- 4.2. Where there are a number of financial entities within a group, which are supervised by different Supervisors, in the circumstances specified in paragraph 4.3, a Supervisor may request in writing, the Supervisor having jurisdiction to carry out such inspection, examination or other procedures necessary to obtain information relating to the operations of the institution supervised by the requesting Supervisor.
- 4.3. The special circumstances referred to in paragraph 4.2 are as follows:
- 4.3.1. The requesting Member establishes a nexus between the information being sought and the possible impact on the institutions supervised by that Member, e.g. where the institution that is the subject of the request is a parent, subsidiary or otherwise affiliated to an institution supervised by the requesting Supervisor;
  - 4.3.2. There is evidence of false information having been reported to the requesting Supervisor, whether such information was provided voluntarily or by virtue of any statutory obligation.



- 4.3.3. The requesting Supervisor and the Supervisor having jurisdiction agree that such examination or other procedures will contribute to better regulation of the Financial System.

**PART 5. EXCEPTIONS:**

- 5.1. Nothing contained in this Memorandum of Understanding shall compel the release of the following categories of information:

5.1.1. Information relating to individual customer  
accounts;

5.1.2. Confidential Reports made to the Minister of Finance.

**PART 6. REVIEW AND RENEWAL**

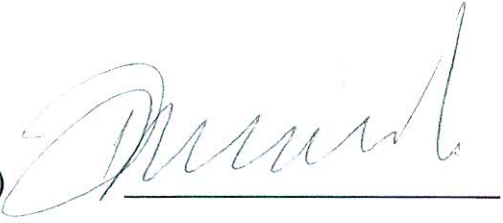
- 6.1. The Members of the Council shall review this Memorandum of Understanding on a periodical basis, and upon completion of such review shall if necessary, execute a new Memorandum.
- 6.2. This Memorandum is intended to continue in effect until it is replaced by another Memorandum executed by the Members.
- 6.3. This Memorandum may be amended by instrument in writing executed by all parties hereto.

**PART 7. MISCELLANEOUS**

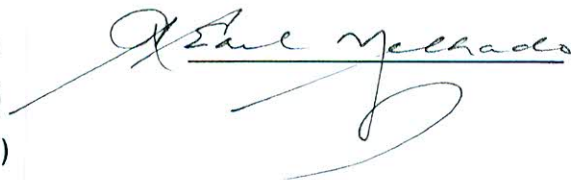
- 7.1. The Council shall endeavour to meet at least on a quarterly basis. Where circumstances warrant, meetings may be convened at shorter intervals.
- 7.2. Secretariat services for the Council shall be provided by the Bank of Jamaica.
- 7.3. Members may request that officers or staff of the Member institutions attend at meetings of the Council for the purposes of making presentations or for such other purposes as may assist the Council in its deliberations.

- 7.4. Nothing contained in this Memorandum shall affect any reporting relationship currently existing between a member institution and the Minister of Finance.

SIGNED THIS 24<sup>th</sup> DAY OF October 2000)  
BY THE SUPERVISOR OF BANKS AND )  
FINANCIAL INSTITUTIONS )



for SIGNED THIS 24<sup>th</sup> DAY OF October 2000)  
BY THE EXECUTIVE DIRECTOR OF )  
THE FINANCIAL SERVICES COMMISSION)  
OR HIS NOMINEE)



SIGNED THIS 24<sup>th</sup> DAY OF October 2000)  
BY THE EXECUTIVE DIRECTOR OF )  
THE JAMAICA DEPOSIT INSURANCE CORPORATION)  
OR HIS NOMINEE)



SIGNED THIS 24<sup>th</sup> DAY OF October 2000 )  
BY THE FINANCIAL SECRETARY )





## **APPENDIX II**

### **GUIDE TO INTERVENTION FOR FINANCIAL ENTITIES**

The Bank of Jamaica (BOJ), through the Governor as the Supervisor named under The Bank of Jamaica Act, is responsible for the supervision and regulation of commercial banks, non-bank financial institutions licensed under The Financial Institutions Act and building societies. The financial institutions statutes administered by the Bank of Jamaica provide the Bank and the Minister of Finance with authority and a wide range of discretionary powers to intervene in the activities of financial institutions to address situations which are of supervisory concern to the Bank.

The Jamaica Deposit Insurance Corporation (JDIC) is an independent statutory body that insures deposits in deposit-taking institutions that are policyholders of the JDIC. In order to fulfil its legislated mandate, control its risk and minimise the exposure of JDIC to loss, JDIC may take certain measures in respect of policyholders.

The Financial Services Commission is a new regulatory body that is being created to regulate and supervise the insurance industry, private pension plans and the securities industry.

The attached intervention guide is designed to ensure that regulatory and/or supervisory gaps do not occur. This guideline establishes the protocol that (i) BOJ is lead supervisor for the parent company of a bank controlled financial group (i.e., financial holding company) and (ii) the FSC is the lead regulator for a non-bank financial group controlled by an insurance company (or other non-bank financial institution).

This intervention guideline relates directly to the supervision of institutions or persons licensed and operating under the Banking Act, Securities Act, Unit Trust Act, Insurance Act, Financial Institutions Act, Cooperative Societies Act, Building Societies Act, Bank of Jamaica (Building Societies Regulations 1995), and the proposed Private Pensions Act.

As part of the information sharing arrangements it is expected that procedures for joint on-site examinations of dually licensed regulated entities, and/or close coordination of examinations are established to minimize cost of supervision while ensuring that regulatory gaps do not occur.



<b>No problems/Normal activities</b> -- Routine supervisory and regulatory activities pursuant to mandates of BOJ, FSC and JDIC. In addition, all agencies conduct research and analyse industry-wide issues and trends, appropriate to their respective functions.			
Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
<p>BOJ and FSC report to Minister on status of supervised institutions.</p> <p>BOJ advises the JDIC on post examination results for individual deposit-taking policyholders and confirms material compliance with standards of sound business and financial practices.</p> <p>Regular meetings of the Regulatory Policy Council to discuss the corporate governance, activities and financial condition of financial entities.</p>	<p>Licensing of financial institutions to carry on business (inward and outward authorisations -- initial assessment) :</p> <ul style="list-style-type: none"> <li>• assess the "fit and proper" suitability of the applicants to receive a licence</li> <li>• review and assess all relevant documentation and information</li> <li>• impose terms and conditions, if necessary</li> <li>• make recommendations to Minister</li> <li>• provide applicants whose applications have been refused with opportunity to be heard.</li> <li>• Notify the JDIC once new licence granted</li> </ul> <p>Review and assess wide range of applications and requests for regulatory consents required by statutes including:</p> <ul style="list-style-type: none"> <li>• alterations in Articles and Memorandum of Association</li> <li>• corporate reorganizations</li> <li>• changes in ownership</li> <li>• changes in directors and senior managers</li> <li>• acquisitions of other financial institutions/mergers</li> <li>• transfers of business</li> <li>• branching and subsidiaries applications for local and/or overseas market</li> <li>• foreign exchange dealership licences exemptions from statutory lending limits.</li> </ul>	<p>Registration of new financial institutions:</p> <ul style="list-style-type: none"> <li>• review and assess all relevant documents and information</li> <li>• assess the "fit and proper" suitability of the applicants to receive a licence</li> <li>• impose terms and conditions, if necessary</li> <li>• grants licence/make recommendation to Minister.</li> <li>• provide applicants whose applications have been refused with opportunity to be heard</li> </ul> <p>Review and assess wide range of applications and requests for regulatory consents required by statutes including</p> <ul style="list-style-type: none"> <li>• corporate reorganisations</li> <li>• changes in ownership</li> <li>• changes in directors and senior managers</li> <li>• acquisitions of other financial institutions/mergers</li> <li>• transfers of business.</li> <li>• branching and subsidiaries applications for local and/or overseas market</li> <li>• satisfaction of requirements under Bank of Jamaica Act re: dealings in foreign currency</li> </ul>	<p>Consider applications for a policy of deposit insurance including obtaining appropriate guarantees and undertakings.</p> <p>Deal with applications to accept deposits without being a policyholder</p> <p>Assess selected policyholders via:</p> <ul style="list-style-type: none"> <li>• information available from BOJ, and, where necessary, individual financial institution reports</li> <li>• review and analysis of results of annual examinations of policyholders carried out by BOJ</li> <li>• other sources.</li> </ul> <p>Ensure compliance with the JDIC Act, the policy of deposit insurance and JDIC regulations.</p> <p>Assess and collect annual premiums from policyholders.</p> <p>Cancel a policyholder's deposit insurance when the policyholder has ceased to accept deposits.</p>



<b>No problems/Normal activities</b> -- Routine supervisory and regulatory activities pursuant to mandates of BOJ, FSC and JDIC. In addition, all agencies conduct research and analyse industry-wide issues and trends, appropriate to their respective functions.			
Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
	<p>Ongoing monitoring and risk assessment of supervised institutions via information obtained from statutory filings and financial reporting requirements:</p> <ul style="list-style-type: none"> <li>• consider compliance with statutory and other regulatory requirements</li> <li>• assess financial situation and operating performance.</li> </ul> <p>Annual on-site examinations of supervised institutions or as otherwise required by statutes:</p> <ul style="list-style-type: none"> <li>• inform management and board of directors of findings</li> <li>• management requested to provide copy of report to external auditors</li> <li>• require that concerns be addressed by institutions</li> <li>• monitor remedial measures if required.</li> </ul> <p>Assess financial soundness and compliance with legislation, regulations and standards of sound business and financial practices.</p> <p>BOJ reports to Minister on status of supervised institutions</p>	<p>Ongoing monitoring of supervised institutions via information obtained from statutory filings and financial reporting requirements:</p> <ul style="list-style-type: none"> <li>• consider compliance with statutory and other regulatory requirements</li> <li>• assess financial situation and operating performance</li> <li>• assess foreign currency dealings under BOJ Act</li> </ul> <p>Periodic on-site examinations of supervised institutions as required by statutes:</p> <ul style="list-style-type: none"> <li>• inform management and board of directors of findings</li> <li>• management requested to provide copy of report to external auditors</li> <li>• require that concerns be addressed by institutions</li> <li>• monitor remedial measures if required.</li> </ul> <p>FSC reports to Minister on status of supervised institutions/persons.</p>	



**Stage 1 -- Early warning** -- Deficiency in policies or procedures or the existence of other practices, conditions and circumstances including conditions requiring remedial action under regulations against unsafe practices outlined in applicable Acts or in Regulations made pursuant to those Acts, that could lead to the development of problems described at Stage 2. Situation is such that it can be remedied before it deteriorates into a Stage 2 problem.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
<p>Activities below are in addition to those previously mentioned.</p> <p>BOJ, FSC and JDIC coordinate on requested remedial measures to deal with concerns and on establishment of time frame within which situation should be remedied.</p> <p>BOJ's post-examination report which is provided to JDIC identifies issues requiring remedial measures, including any material breaches of standards of sound business and financial practices, regardless of whether such issues are treated as formal qualifications to BOJ's report. The status of such issues is reviewed at regular inter-agency meetings.</p>	<p>Management and board of directors of financial institution are formally notified of concerns and are requested to take measures to rectify situation.</p> <p>Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations.</p> <p>BOJ may summon the institution's external auditor to make enquiries into the condition of the licensee and advise the institution</p> <p>BOJ may require that institution's external auditor enlarge scope of examination of institution's financial statements or that external auditor perform other procedures, and prepare a report thereon at the institution's expense.</p> <p>BOJ communicates its concerns to institution and may place it on its preliminary "watch list" and inform institution of that fact.</p> <p>BOJ requires remedial measures to deal with concerns and establish time frame within which situation should be remedied.</p> <p>BOJ requires regular reporting to measure results of remedial action.</p> <p>BOJ's post-examination report to institution identifies issues requiring remedial measures, including any material breaches of standards of sound business and financial practices.</p>	<p>Management and board of directors and/or licensees of regulated entities are formally notified of concerns and are requested to take measures to rectify situation.</p> <p>Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations.</p> <p>FSC may require that institution's external auditor enlarge scope of examination of institution's financial statements or that external auditor perform other procedures, and prepare a report thereon. FSC may assign cost of external auditor's work to institution.</p> <p>FSC may require that institution's appointed actuary perform dynamic solvency testing using assumptions established by the FSC, and prepare a report thereon. FSC may assign cost of appointed actuary's work to institution</p> <p>FSC's post-examination report to regulated entity identifies issues requiring remedial measures, including any material breaches of standards of sound business and financial practices.</p>	<p>JDIC risk assessment and interventions listed here are in addition to those mentioned previously.</p> <p>Depending on JDIC's assessment of situation</p> <ul style="list-style-type: none"> <li>• JDIC may request additional information from BOJ if available, or from the institution if necessary</li> <li>• If circumstances warrant JDIC may through BOJ commission a special examination to obtain more information on the policyholder and to be in a position to assess the extent of the institution's problem and JDIC's exposure</li> </ul>



**Stage 2 – Risk to financial viability or solvency** – Situation or problems that, although not serious enough to present an immediate threat to financial viability or solvency could deteriorate into serious problems if not addressed promptly, as evidenced by:

- concerns over the institution's ability to meet capital and surplus requirements or vesting requirements on an ongoing basis
- deterioration in the quality or value of assets, or the profitability of the business undertaken by the financial institution
- undue exposure to off-balance sheet risk
- poor earnings or operating losses or questionable reporting of earnings or expenses
- low level of accessible liquidity or poor liquidity management in context of the institution's situation
- less than satisfactory management quality or deficiency in management procedures or controls (including material breaches of standards of sound business and financial practices)
- other concerns arising from:
  - a financially weak or troubled owner
  - non-compliance with regulatory requirements
  - systemic issues
  - rapid growth
  - credit rating downgrades.
  - related party transactions
  - market conduct
- conditions requiring remedial action under regulations against practices outlined in applicable Acts or in Regulations made pursuant to those Acts.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
<p>Activities below are in addition to those previously mentioned.</p> <p>The relevant regulatory agencies coordinate communications with the institution.</p> <p>BOJ immediately notifies JDIC of situation when uncovered, with a formal report to follow. Institution is placed on "watchlist".</p> <p>BOJ sends a "watchlist" progress report at least monthly to the JDIC and the Minister; report is discussed in regular meeting of Committee.</p> <p>FSC sends a "watchlist" progress report at least monthly to the Minister; report is discussed at regular meetings of committee</p> <p>Progress on remedial measures discussed at regular Committee meeting.</p> <p>Institution may be discussed at Regulatory Policy Council</p>	<p>BOJ may require an undertaking from institution or from an entity that controls the institution to rectify areas of concern.</p> <p>Senior BOJ officers meet with management and board of directors of financial institution and with external auditor of institution to outline concerns and discuss remedial actions. Management and board of directors are formally notified of the fact that institution is being placed on the regulatory 'watchlist'.</p> <p>Institution must produce an acceptable business plan that reflects appropriate remedial measures that will rectify problems within a specified time frame.</p> <p>Business restrictions appropriate to circumstances may be imposed on the institution via undertakings provided by the institution, restrictions on the institution's licence or business activities via directions, or cease and desist orders, where it appears to the BOJ to be desirable in the interest of depositors and potential depositors, covering such matters as:</p> <ul style="list-style-type: none"> <li>▪ payments of dividends or management</li> </ul>	<p>Senior FSC officers meet with management and board of directors of financial entity and/or individual licensee and with external auditor of institution to outline concerns and discuss remedial actions.</p> <p>Management and board of directors are formally notified of the fact that institution is being placed on the regulatory 'watchlist'.</p> <p>External auditor of institution may be required to perform a particular examination relating to the adequacy of the institution's procedures for the safety of its clients, policyholders, other creditors or shareholders, or any other examination that may be required in the public interest, and report thereon to FSC. FSC may assign cost of external auditor's work to institution.</p> <p>Scope of on-site examination and/or frequency of onsite examinations may be enlarged or increased.</p>	<p>JDIC risk assessment and intervention listed here is in addition to those previously mentioned.</p> <p>JDIC informs management and board of directors of policyholder of situation and of the fact that institution is being placed on JDIC's "watchlist" leading to more vigorous monitoring.</p> <p>If a policyholder is not following BOJ's standards of sound business and financial practices, or is in breach of JDIC's policy of deposit insurance or a JDIC regulation applicable to the policyholder, JDIC may send the CEO or the Chairman of the institution a formal report.</p> <p>JDIC may advise the policyholder that if JDIC is not satisfied with progress made in rectifying the situation referred to in the above mentioned formal report, JDIC may (unless the Minister advises that the</p>



**Stage 2 -- Risk to financial viability or solvency** – Situation or problems that, although not serious enough to present an immediate threat to financial viability or solvency could deteriorate into serious problems if not addressed promptly, as evidenced by:

- concerns over the institution's ability to meet capital and surplus requirements or vesting requirements on an ongoing basis
- deterioration in the quality or value of assets, or the profitability of the business undertaken by the financial institution
- undue exposure to off-balance sheet risk
- poor earnings or operating losses or questionable reporting of earnings or expenses
- low level of accessible liquidity or poor liquidity management in context of the institution's situation
- less than satisfactory management quality or deficiency in management procedures or controls (including material breaches of standards of sound business and financial practices)
- other concerns arising from:
  - a financially weak or troubled owner
  - rapid growth
  - credit rating downgrades.
  - market conduct
  - non-compliance with regulatory requirements
  - related party transactions
  - systemic issues
- conditions requiring remedial action under regulations against practices outlined in applicable Acts or in Regulations made pursuant to those Acts.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
Contingency planning commences.  JDIC would inform policyholder about placement on "watchlist" and possible cancellation of policy.	<ul style="list-style-type: none"> <li>▪ fees</li> <li>▪ requirements for increased capital</li> <li>▪ lending or investment powers</li> <li>▪ level of deposits and other indebtedness</li> <li>▪ interest rates paid on deposits</li> <li>▪ removal of directors or managers</li> <li>▪ other restrictions tailored to circumstances</li> </ul> <p>Progress of remedial measures is monitored via special reporting requirements and/or follow-up examinations.</p>	<p>Monitoring of financial institution is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted.</p> <p>Institution must produce a business plan acceptable to FSC that reflects appropriate remedial measures that will rectify problems within a specified time frame.</p> <p>Business restrictions appropriate to circumstances may be imposed on institution via undertakings provided by the institution, restrictions on the institution's order to carry on business or via direction of compliance covering such matters as:</p> <ul style="list-style-type: none"> <li>• payments of dividends or management fees</li> <li>• lending or investment powers</li> <li>• level of deposits placed with the supervisor</li> <li>• claims management processes</li> <li>• level of indebtedness</li> </ul>	Minister is of the opinion that it is not in the public interest to do so) give the policyholder notice of the termination of its policy or deposit insurance.
	<p>External auditor of institution may be required to examine the adequacy of the institution's policies and procedures for the safety of its depositors, other creditors or shareholders, or perform any other examination that may be required in the public interest, and report thereon to BOJ at the institution's expense.</p> <p>Scope of on-site examination and/or frequency of onsite examinations may be enlarged or increased.</p>		



**Stage 2 -- Risk to financial viability or solvency** -- Situation or problems that, although not serious enough to present an immediate threat to financial viability or solvency could deteriorate into serious problems if not addressed promptly, as evidenced by:

- concerns over the institution's ability to meet capital and surplus requirements or vesting requirements on an ongoing basis
- deterioration in the quality or value of assets, or the profitability of the business undertaken by the financial institution
- undue exposure to off-balance sheet risk
- poor earnings or operating losses or questionable reporting of earnings or expenses
- low level of accessible liquidity or poor liquidity management in context of the institution's situation
- less than satisfactory management quality or deficiency in management procedures or controls (including material breaches of standards of sound business and financial practices)
- other concerns arising from:
  - a financially weak or troubled owner
  - rapid growth
  - credit rating downgrades.
  - market conduct
  - non-compliance with regulatory requirements
  - related party transactions
  - systemic issues
- conditions requiring remedial action under regulations against practices outlined in applicable Acts or in Regulations made pursuant to those Acts.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
	<p>Off-site monitoring of financial institution is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted.</p> <p>BOJ may advise institution that it is not satisfied with progress made in rectifying the problem situation and will impose further directions or other sanction.</p> <p>BOJ sends a "watch list" progress report at least monthly to the Minister; report is discussed in regular meetings with the Minister.</p>	<p>FSC may order entity to increase its capital.</p> <p>FSC develops contingency plan in order to be able to take rapid action to facilitate the appointment of a Temporary Manager to take control of the assets of the financial institution or to revoke or suspend the licensee's licence if changes in circumstances so warrant.</p>	
	<p>BOJ develops contingency plan in order to be able to take rapid action to facilitate the appointment of a Temporary Manager to take control of the assets of the financial institution or to recommend to the Minister the revocation or suspension of the licensee's licence if changes in circumstances so warrant.</p>		



**Stage 3 – Future financial viability in serious doubt** – Situations or problems described at Stage 2 are at a level where, in the absence of mitigating factors such as unfettered access to financial support from a financially strong financial institution's parent, or principal shareholders, unless effective corrective measures are applied promptly, they pose a material threat to future financial viability or solvency.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
<p>Activities below are in addition to those previously mentioned.</p> <p>BOJ immediately notifies JDIC of any material new findings or developments, with a formal report to follow.</p> <p>Results and data from enhanced examinations, expanded audits, etc. and from enhanced monitoring are discussed with JDIC.</p> <p>If financial institution is a deposit-taking institution and it is deemed to be, or is about to become, non viable, BOJ sends a formal report to JDIC to that effect.</p> <p>Special update report sent to Regulatory Policy Council and the Minister.</p>	<p>Management, board of directors and external auditor of institution are informed of problems.</p> <p>A special audit (at the institution's expense) may be required from an auditor other than the institution's own external auditor, if BOJ is of the opinion that it is required.</p> <p>Enhanced examinations may be carried out focusing on particular areas of concern such as asset or loan security valuations. Such examinations may involve any of the following:</p> <ul style="list-style-type: none"> <li>substantial increase in sampling of credit files</li> <li>more in-depth review of files</li> <li>engagement of specialists or professionals to assess certain areas such as quality and perfection of loan security, asset values, sufficiency of reserves, etc.</li> </ul> <p>BOJ examination staff required to monitor situation on an ongoing basis</p> <p>Business plan revised to reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (See Stage 4).</p> <p>Results and data from enhanced examinations, expanded audits, etc. and from enhanced monitoring are discussed with board of directors and management of institution. Minister of Finance is kept informed.</p> <p>BOJ may order institution to further</p>	<p>Management, board of directors and external auditor of financial entity are informed of problems.</p> <p>A special audit may be required from an auditor other than the institution's own external auditor if FSC is of the opinion that it is required. FSC may assign cost of external auditor's work to institution.</p> <p>A special actuarial evaluation may be required from an actuary other than the institution's own appointed actuary if FSC is of the opinion that it is required. FSC may assign cost of external actuary's work to institution</p> <p>Enhanced examinations may be carried out focusing on particular areas of concern such as asset valuations or policy reserving. Such examinations may involve any of the following:</p> <ul style="list-style-type: none"> <li>more in-depth review of reinsurance contracts</li> <li>engagement of specialists or professionals to assess certain areas such as asset values, sufficiency of actuarial reserves, claims management practices, etc.</li> </ul> <p>Depending on situation, FSC appointee may be posted at financial entity to monitor situation on an ongoing basis.</p> <p>Business plan must reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (See Stage 4).</p>	<p>JDIC risk assessment and interventions listed here are in addition to those mentioned previously.</p> <p>JDIC may terminate the policyholder's policy of deposit insurance (unless the Minister advises that the Minister is of the opinion that it is not in the public interest to do so).</p> <p>In order to minimize its risk or exposure to loss, JDIC may provide a policyholder with temporary financial assistance by such measures as:</p> <ul style="list-style-type: none"> <li>acquiring assets from the institution</li> <li>making or guaranteeing loans or advances with or without security, to the institution</li> <li>making or guaranteeing a deposit with the institution or providing support for a restructuring transaction.</li> </ul> <p>Following receipt of formal BOJ report to the effect that institution has ceased, or is about to cease, to be viable, JDIC may initiate a restructuring.</p>



**Stage 3 -- Future financial viability in serious doubt** -- Situations or problems described at Stage 2 are at a level where, in the absence of mitigating factors such as unfettered access to financial support from a financially strong financial institution's parent, or principal shareholders, unless effective corrective measures are applied promptly, they pose a material threat to future financial viability or solvency.

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
	<p>increase its capital.</p> <p>Monitoring of institution may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.</p> <p>Follow-up examinations may be carried out as required.</p> <p>Depending on circumstances, business restrictions may be intensified or additional ones imposed on institution by the BOJ.</p> <p>Depending on circumstances, the BOJ may require management and board of directors to restructure institution or to seek out an appropriate prospective purchaser.</p> <p>BOJ reviews and updates contingency plan in order to be able to take rapid action to facilitate the appointment of a Temporary Manager by the Minister to take control of the assets of the financial institution or to recommend to the Minister the revocation or suspension of the licensee's licence if changes in circumstances so warrant.</p>	<p>FSC may order entity to further increase its capital.</p> <p>Monitoring of entity may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.</p> <p>Follow-up examinations may be carried out as required.</p> <p>Depending on circumstances, the FSC may require management and board of directors to restructure institution or to seek out an appropriate prospective purchaser</p> <p>Depending on circumstances business restrictions may be enhanced or additional ones imposed on institution.</p> <p>FSC reviews and updates contingency action to facilitate the appointment of a Temporary manager to take control of the assets of the financial institution or to revoke or suspend the licensee's licence if changes in circumstances so warrant.</p>	



**Stage 4 -- Non-viability/ insolvency imminent** -- Severe financial difficulties resulting in the conditions requiring remedial action under regulations against unsafe practices outlined in applicable Acts or Regulations made pursuant to those Acts, including:

- failure or imminent failure to meet regulatory capital requirements in conjunction with inability to rectify the situation within a prescribed period of time
- OR
- statutory conditions for appointing temporary manager and taking control or revoking or suspending licence being met
- OR
- failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
<p>Other relevant regulatory agencies (foreign) are notified (subject to the approval of responsible regulatory authority) of proposed regulatory intervention measures to be applied to institution.</p> <p>If the institution meets any of the conditions that would make it eligible to be wound up under the governing statute and/or Companies Act, the institution itself may voluntarily seek a winding-up order subject to the approval of the regulatory authorities. Alternatively, either BOJ or JDIC or FSC, working in collaboration with the other agencies, may seek a winding-up order (subject to existing legal arrangements).</p> <p>All intervention measures applied to regulated financial entities at this stage, whether initiated by BOJ or FSC or JDIC, are the subject of close coordination between the three agencies and the Minister.</p>	<p>New business restrictions may be imposed on institution or existing restrictions may be expanded.</p> <p>Pressure to rectify situation is exerted on management and board of directors of financial institution through frequent meetings with senior BOJ officers to reinforce concerns of the Bank.</p> <p>BOJ notifies management and board of directors of institution of intended regulatory intervention measures that will be taken unless situation is rectified imminently.</p> <p>If statutory conditions for appointing Temporary Manager and taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of depositors and other creditors, BOJ may take such action.</p> <p>BOJ may engage in discussions with other institutions or other third parties duly approved by the Minister, in the formulation of contingency plans to deal with the situation within the limits of confidentiality requirements.</p> <p>If the institution meets any of the conditions that would make it eligible to be wound up, the institution itself may voluntarily seek a winding-up order subject to the prior to and</p>	<p>New business restrictions may be imposed on financial entity or existing restrictions may be expanded.</p> <p>Pressure to rectify situation is exerted on management and board of directors of financial entity through frequent meetings with senior FSC officers.</p> <p>FSC under s68(2) of the Securities Act may appoint a person to manage the entity based on the findings of any routine examination or special investigation conducted.</p> <p>FSC notifies management and board of directors of entity of intended regulatory intervention measures that will be taken unless situation is rectified imminently.</p> <p>If statutory conditions for appointing temporary manager and taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of policyholders and other creditors, FSC may take control of the assets of the entity for a short period.</p> <p>If statutory conditions exist, such as failure to comply with order to increase capital, FSC may maintain control of assets or take control of the entity.</p>	<p>If JDIC and BOJ are of the opinion that the policyholder is or is about to become insolvent, JDIC may cancel the institution's policy of deposit insurance (unless the Minister advises that the Minister is of the opinion that it is not in the public interest to do so). If there is a disagreement between BOJ and JDIC, the Minister shall decide whether the policy should be cancelled.</p>



**Stage 4 -- *Non-viability/ insolvency imminent*** -- Severe financial difficulties resulting in the conditions requiring remedial action under regulations against unsafe practices outlined in applicable Acts or Regulations made pursuant to those Acts, including:

- failure or imminent failure to meet regulatory capital requirements in conjunction with inability to rectify the situation within a prescribed period of time
- OR
- statutory conditions for appointing temporary manager and taking control or revoking or suspending licence being met
- OR
- failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time

Statutory and Inter-Agency Activities/Responsibilities	BOJ Activities	FSC Activities	JDIC Activities
	<p>approval of the BOJ. Alternatively, the BOJ may apply to the Courts for a winding-up order, after assumption of temporary management.</p> <p>Minister may on the recommendation of the BOJ, suspend or revoke the institution's licence or vest the shares of the licensee in himself.</p> <p>Other relevant regulatory agencies are notified of proposed regulatory intervention measures to be applied to the institution.</p>	<p>Other relevant regulatory agencies are notified of proposed regulatory intervention measures to be applied to the institution.</p>	