Managing the assets\liabilities of banks in foreign currencies

Memo No. (179\2000) dated 5\7\2000

Proceeding from the Central Bank's policy aimed at openness and liberating banking activities from various restrictions and in a framework that enhances the safety and soundness of the banking sector, and for the purposes of improving and motivating the ability of licensed banks to manage their assets in foreign currencies in accordance with the rules of prudent and active money management and in a manner that contributes to preserving the value of these assets first and then achieving an appropriate return on it so that the banks take into account achieving the appropriate balance between the elements of risk, return and liquidity, and within the framework of the Central Bank's aim that the banks acquire more experiences and skills in the global financial markets, which will contribute to the development and modernization of the Jordanian capital market.

This memorandum aims to give banks more investment opportunities within the rules of banking security so that banks can employ their foreign assets in a prudent manner, whether in the money market or the capital market.

This memorandum allows freedom of movement between markets and instruments in light of the investment options of the bank and in light of the criteria contained in this memorandum.

And for the purposes of risk distribution, the prudent investment policy requires setting investment controls in the various capital markets, and the Central Bank has decided that banks must abide by the investment controls and the following areas of employment:

First: Placements in the money market:

The money market instruments include deposits, certificates of deposit, treasury bills, commercial papers, bank acceptances, repurchase agreements and their reverse of which its terms do not exceed one year. And for the purposes of this memorandum, long-term bonds with a remaining maturity of one year or less are treated as money market instruments.

A- Banks employ, at any time, no less than 40% of the total sources of their funds in foreign currencies (minus the mandatory reserve at the Central Bank) in money market instruments and with banks or financial institutions, provided that the credit rating of these instruments, banks, or Financial institutions, provided that the credit rating of these instruments, banks or financial institutions shall not be less than any of the following ratings:

(3-A)	According to Standard & Poor's rating
(3-P)	According to Moodys rating
(3A)	According to FITCH rating
(TBW-3)	According to Thomson Bank Watch rating

B- The classifications corresponding to the classifications indicated in Paragraph (A) of Item (First) above shall be accepted, provided that they are issued by a well-known classification institutions.

C- The following are excluded from the before mentioned classifications:-

1- Bank deposits or investments (and these investments include certificates of deposit and bank acceptances) with their branches or centers or with banks and related financial institutions abroad that are subject to full supervision or joint supervision or apparent influence, or sister banks and financial institutions and sister companies and non-financial institutions or related thereto Abroad or the Jordan International Bank, and in all cases, and whatever the credit rating of the branch, center, bank or financial institution related to it abroad, these deposits/ placements should not exceed 50% of its total investments in the money market.
2- 10% (Ten percent) of the money invested in money market instruments and at unrated banks or financial institutions, or who has a credit rating less than what was stated in Paragraph (A) of Item (First) above.
3- Bank deposits or placements at the Jordan International Bank.
4- Deposit/ lending operations in foreign currency in the interbank market in Jordan.
5- Deposits of banks in their accounts with their correspondents abroad (such as current and demand accounts, insurances/ guarantees and other deposits) which they maintain for the purposes of conducting their external operations in order to meet remittances/ payment orders, credits, collection documents and other than that.
6- Money market instruments issued by the Jordanian government or its institutions (or guaranteed by it) or by Jordanian companies other than banks, whether these instruments are issued inside or outside the Kingdom.

D- The bank's investments with one of the correspondent banks (other than the center and branches) should not exceed 10% of the total sources of its funds in foreign currency (after deducting the mandatory cash reserve).

Second: Placements in the capital market:

Placements include bonds, syndicated loans, debt purchases and other credit instruments, and contributions to good companies and mutual funds.

A- Banks may, at any time, employ no more than (30%) of the total sources of their funds (minus the mandatory reserves at the Central Bank) in bonds issued in foreign currency with a maturity of not more than ten years from the date of their acquisition and for its credit rating not to be less than any of the ratings shown below, and from these ratings, bonds issued in foreign currency by the Jordanian government or its institutions or Jordanian companies are excluded, whether these bonds are issued inside or outside the Kingdom.

(A-)	According to Standard & Poor's rating
(3A)	According to Moodys rating
(A-)	According to FITCH rating
(A-)	According to Thomson Bank Watch rating

B- Banks may employ no more than (20%) of the percentage mentioned in Paragraph (A) of Item (Second) in bonds, debt purchases, pooled loan contributions, or other credit instruments (provided that the asset recovery period in them (Duration) does not exceed ten years from the date of its acquisition) not rated or rated less than the classifications referred to in Paragraph (A) of Item Second above.

C- Banks may employ no more than (15%) of the percentage mentioned in Paragraph (A) of Item (Second) in good shares (Blue-Chips) or in well-known stock indices such as Nasdaq and S&P and others, or in mutual investment funds or joint investment companies whose main objectives are to maintain the money invested, provided that the total contributions of the bank in these instruments or the total of its assets, including the percentages of contributions determined by the Central Bank, do not exceed.

Third: Direct facilities in foreign currencies inside the Kingdom:

Banks may grant credit facilities in foreign currencies within the Kingdom not exceeding, at any time, (30%) of the total sources of their funds in foreign currencies (minus the mandatory reserves at the Central Bank) so that these facilities are granted to export economic activities whose incomes generate foreign currencies in the Kingdom in accordance with banking rules and customs in lending and within the permissible percentage for one customer.

Fourth:

A- Islamic banks may grant financing in foreign currencies to export economic activities whose incomes are generated in foreign currencies in the Kingdom, not exceeding at any time (30%) of the total sources of their funds in foreign currencies (minus the mandatory cash reserve with the Central Bank and not including investment deposits allocated in foreign currency).

B- Islamic banks employ the remaining sources of their funds in foreign currency (as defined in paragraph (A) of this item) as follows:

1. Not less than (40%) in the investment tools available to it at any time with or through a bank or financial institution, or after obtaining the guarantee of a third party (a bank or financial institution), provided that the credit rating of the bank or financial institution is not less than any from the following categories:

(3-A)	According to Standard & Poor's rating
(3-P)	According to Moodys rating
(3A)	According to FITCH rating
(TBW-3)	According to Thomson Bank Watch rating

2. Not more than (60%) at any time in the investment tools available to it with or through Islamic institutions/banks/companies that are known for their sound financial conditions and according to their performance.
3. Not more than (20%) at any time of the percentage mentioned in Paragraph (2/B) of Item (Fourth) above in contributions to preferred companies (Blue-Chips), investment funds, or joint investment companies.

C- Islamic banks must conduct the appropriate financial analysis for these institutions/banks/companies referred to in paragraph (2/B) of item (Fourth) above on a semi-annual basis at least, and they must provide the Central Bank with the results of these analyzes.

Fifth: Direct facilities and financing for export activities and the contributions mentioned in this memorandum are subject to the provisions on concentrations in effect.

Sixth: Open positions in foreign currencies against each other:

1. It is left to the licensed banks to take Overnight Positions (long or short) in the main foreign currencies against each other and not to exceed (5%) of the shareholders' equity for each currency (the dollar is excluded from this percentage as its currency can be considered a Base Currency for this purpose) and so that the total position of all currencies does not exceed (15%) of the bank's total shareholders' equity.

2. Shareholders' rights for the purposes of this memorandum are defined as:

A- Paid-up/subscribed capital.
B- Legal reserve.
C- Optional reserve.
D- Premium version.
E- Retained profits/losses.

3. The bank sets internal instructions for the day and non-day open positions and the methods of covering them, and the Central Bank is provided with these instructions.

Seventh: Advanced Financial Instruments (Market Derivatives):

1. Licensed banks have the right to use market derivatives such as options markets, futures markets, and others, for the purposes of covering investment risks resulting from fluctuations in interest rates and/or fluctuations in exchange rates.
2. Banks may use these advanced financial tools for the purposes of trading in the currency markets, commodities, precious metals, stocks and their indices, provided that they do not exceed the maximum amount of net losses realized during one financial year and the potential that the bank may be exposed to at any time during the same financial year (after converting it to a monetary value such as premiums in banks' purchase of options rights) for (2%) of the total shareholders' equity (as defined in paragraph (2) of item Sixth of this memorandum).
3. Banks should avoid selling both types of Writing Options unless they have the appropriate means of covering, such as having the investment tool available in their portfolios (Underlying Instrument) when selling the purchase option (Sell Call), with the exception of selling the initially purchased options rights.
4. If the bank's net realized and probable losses reach the percentage referred to in Paragraph (2) of this item, the bank shall immediately stop dealing in market derivatives and shall immediately inform the Central Bank of this and send a report signed by the Chairman of the Board of Directors, the General Manager and the bank's auditor including an explanation In detail what

happened and the reasons for its occurrence, the bank may not resume this activity except after obtaining a prior approval from the Central Bank.

Eighth: The Central Bank shall be provided with the following:

1- The bank’s semi-annual policy approved by its board of directors regarding its investments / placements and any amendments in regard, and the Central Bank must be provided with this policy on a semi-annual basis, so that this policy includes the following main elements:

  A- Objectives of the bank's investment portfolio.
  B- Distribution of placements on different investment tools and the targeted credit ratings for these tools.
  C- Principal recovery period (Duration) on various credit instruments and where applicable.
  D- Performance indicators for the various credit instruments and where applicable.
  E- The expected return on the investment portfolio and on the various trading and investment tools.
  F- The Value At Risk is the maximum potential loss in the value of the asset during a given time period.
  G- The Gap Limit between the terms of foreign funds sources (deposits and other sources other than capital after weighting them in amounts) on the one hand, and the terms of placement of investments (weighted by amounts) on the other hand.
  H- Any other information and data requested by the Central Bank.

2- Detailed monthly statements for the placements\investments contained in this memorandum according to the forms requested by the Central Bank, banks shall continue to send these statements on their own forms until they are provided with the required forms from the Central Bank, these statements should include calculating the value of the funds at risk through the pricing method according to the market price (Mark-To-Market) by calculating the current replacement price according to the weighted market price.

Ninth: The Central Bank shall be immediately informed of any exceeding of the ceilings mentioned in this memorandum, the procedures that the bank will follow to remedy the excess, and the time period for the treatment.

The Central Bank, in any of the cases of an override and in light of the nature of the violation, may apply the penalties stipulated in the applicable Banking Law or in any orders issued by the Central Bank for this purpose.