TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION

SECURITIES MARKET BULLETIN

September 2017

ISSUE 1

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CEO'S MESSAGE

It is my pleasure to introduce the Trinidad and Tobago Securities and Exchange Commission's (the Commission) inaugural semi-annual Securities Market Bulletin (Bulletin). This Bulletin is a ground-breaking achievement for us as it allows us to communicate, for the first time, to our stakeholders the risk and vulnerabilities within our local securities market. The importance of identifying, monitoring and mitigating risks and vulnerabilities within securities markets was underscored by the Global Financial Crisis of 2008/09. It emphasized the interconnectedness between securities markets, the wider financial system and economies.

One of the most significant lessons to securities regulators was the urgent need to increase the scope of their regulatory tools, to include monitoring the risks and vulnerabilities to a greater degree within their respective securities markets. Given the negative impact that these vulnerabilities had on the global economy, the International Organization of Securities Commissions (IOSCO) identified the reduction of systemic risk as one of three (3) main objectives of securities regulation. In 2010, IOSCO revised its principles of securities regulation to encourage its members to place greater emphasis on systemic risk and financial stability. Principle 6 requires their members to "*have or contribute to, a process to monitor, mitigate and manage systemic risk appropriate to its mandate*".

Securities regulators are therefore more engaged in activities which would not only improve their understanding of systemic risk, but strengthen their ability to detect emerging risk and devise tools to mitigate it. One of these tools is the design and implementation of a framework which incorporates both micro and macro prudential mechanisms. This approach focuses on the system as a whole and calibrates standards with respect to both the systemic footprint of individual institutions and the evolution of system-wide risk. A two (2) pronged approach such as this, enables securities regulators to be more proactive in their approach to monitor and assess their markets for systemic risks.

We therefore adopted systemic risk identification and monitoring as part of our objectives in the Securities Act 2012 (SA 2012). Section 6 of the SA 2012, charges the Commission with the responsibility for "*assessing, measuring and evaluating risk exposure in the securities industry*". Our ability to effectively fulfil this responsibility, was severely challenged by the lack of formal reporting mechanisms, for the collection of essential financial data, related to our Registrants and markets. We therefore, engaged the Caribbean Technical Assistance Centre (CARTAC), a division of the International Monetary Fund (IMF) to assist us in developing a Micro and Macro Prudential Framework (Framework). In addition, we engaged in extensive consultations with market participants, namely the Securities Market Dealers Association of Trinidad and Tobago (SDATT) and the Mutual Fund Association of Trinidad and Tobago (MFATT) whose feedback were invaluable to the final implementation of the Framework.

The development and implementation of the Framework were not without its challenges which included data capture, communication and system issues. These challenges, however, presented us with opportunities to learn and to find innovative ways to treat with them, all of which led to improvements in the Framework.

The Framework provides for the capture of more detailed financial data from our Registrants, which will be used to calculate and monitor Financial Soundness and Health Indicators (FSHIs) relevant to our securities market. The FSHIs enable us to measure the financial health, soundness and stability of the various segments within the securities market, which is ultimately essential for promoting and ensuring financial stability in the overall financial sector. This Framework, and by extension the FSHIs, therefore enables us to fulfil our responsibilities specific to systemic risk and vulnerabilities within the securities market as well as investor protection. It will also inform the Commission’s policies related to the development and facilitation of the market.

Our Securities Market Bulletin publications will focus on providing assessments of the risks and vulnerabilities within each segment of the securities market to all our stakeholders with the hope that it empowers them to make more informed decisions. Confidence is the lifeblood of our financial system and we anticipate that this information will boost investor confidence levels which will redound to improved activity levels in the securities market, the financial system and ultimately our economic activity.

INTRODUCTION

The securities market in Trinidad and Tobago is one of the largest in the Caribbean when measured by the range of products offered, overall market capitalization and levels of trading activity. The range of products offered in the local securities market includes equities, retail repurchase agreements (Repos), government bonds, corporate bonds, and mutual funds. The size of individual product segments was quite significant. As an example, the aggregate value of the Collective Investment Schemes (CIS) market as at December 31 2016 stood at 32 percent of Gross Domestic Product.

The SA 2012, provides the Commission with the authority to regulate the securities market. A major objective of this regulation is the reduction of systemic risk and it is in the context of this specific mandate that the Commission must engage in macro prudential oversight of the securities market.

The term "macro prudential" was first used in the late 1970s in unpublished documents of the Cooke Committee (the precursor of the Basel Committee on Banking Supervision). However, it was only in the early 2000s—after two (2) decades of recurrent financial crises in industrial and, more often, emerging market countries—that the macro prudential approach to the regulatory and supervisory framework became increasingly promoted.

Macro prudential oversight of securities markets is aimed at identifying, monitoring and addressing vulnerabilities specific to these markets. The need for this type of oversight was underscored by the scale and synchronization of the asset price booms and busts, which led to the Global Financial Crisis of 2008/09. It is now increasingly accepted, that more attention is required, to ensure the development of FSHIs that facilitate macro prudential oversight of securities markets.

Over the last two (2) years, the Commission therefore has been working assiduously to develop its prudential oversight of the local securities market. In the first instance, forms and databases were created to capture, collate and store data related to Registrants. A review of the characteristics of these Registrants, the types of securities and investors, the infrastructure underpinning trading and settlement, as well as the connections between market participants and products were undertaken. This resulted in the development of a set of FSHIs, which will focus on the vulnerabilities within each segment of the securities market and would include indicators that focus on size, financing costs, segment exposures, substitutability and interconnections. This inaugural Bulletin focuses on the analysis of the size indicators and highlights some of the interconnections within the securities market for quarters ending September and December 2016.

DATA COLLECTION

The Commission developed a secured online submission portal on its website to receive the completed forms for analysis by the Staff of the Commission. Figure 1 provides an overview of this process. The submitted forms were subjected to various stages of verification and validation. Any errors found were communicated to Registrants and they were required to resubmit within a stipulated timeframe for collation and computation of the FSHIs.

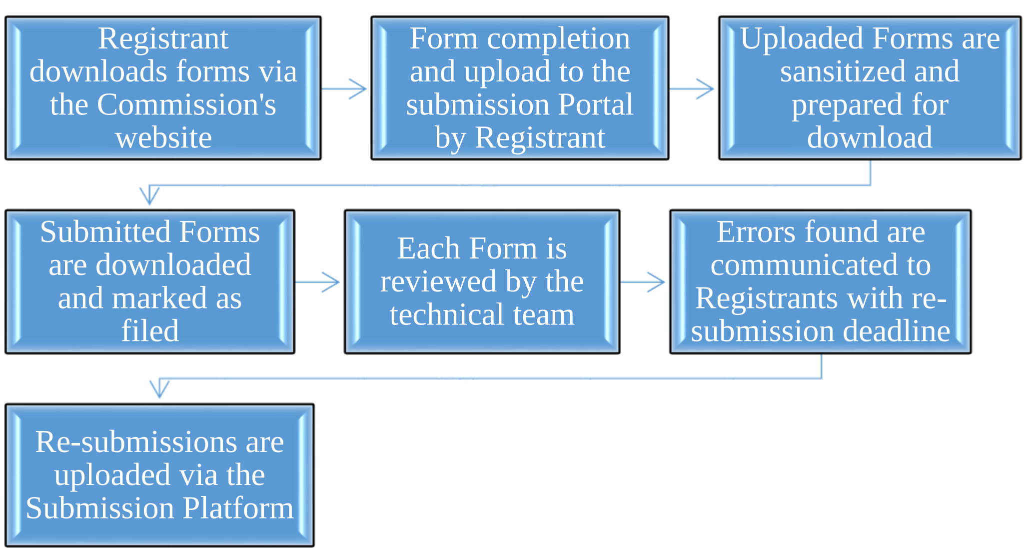
Data Collection Challenges

Challenges that were encountered during the data collection process are highlighted in Figure 1 and briefly discussed below.

Inaccurate submission of data

Several data inaccuracies were encountered in both the September and December 2016 submissions. This resulted in a lengthy review process for both, the Registrants and the Commission. As a consequence, a full list of FSHIs could not be generated for analysis and presentation to stakeholders in this Bulletin. The Commission also noted a high incidence of structural and format changes to

Figure 1: The Commission's FSHI Data Collection Process



the forms therefore they were amended and security features were enhanced.

Gaps in Reporting Systems

Discussions held during the consultation period highlighted that some Registrants were unable to capture and collate several of the required data fields. In order to meet these requirements, Registrants undertook to implement/amend existing reporting systems. The absence these data fields also hampered the development of key FSHIs.

SECURITIES MARKET OVERVIEW

This section highlights the initial FSHIs generated from the data received. These FSHIs are provisional and subject to revision, further to the compilation of a more complete dataset. All amounts in this section are expressed in TT Dollars (TTD).

As at December 31, 2016 there were 329 Registrants authorized by the Commission to conduct business within various segments of the securities market (Table 1). A description of the activities conducted by each category of Registrant can be found in Appendix 1.

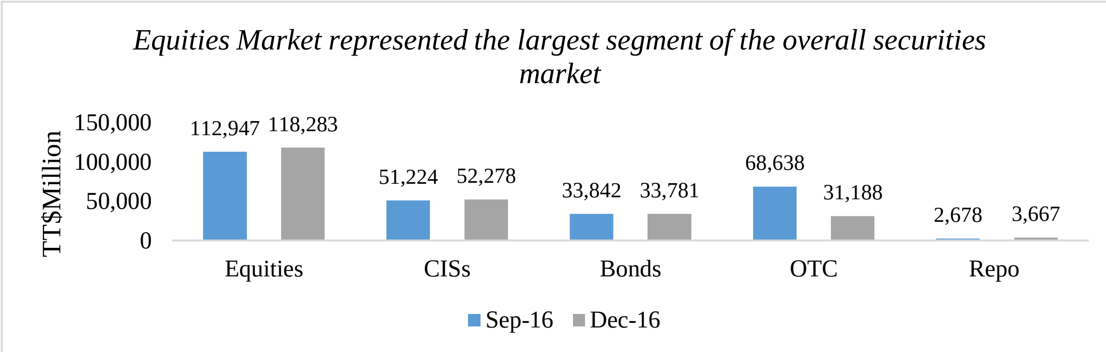
Table 1: Category of Registrants

Category	Number of Registrants
Reporting Issuers	82
Broker-Dealer	35
Sponsored Broker-Dealer	9
Investment Advisors	13
Registered Representatives	188
Self-Regulatory Organizations	2
Total	**329**

For the purposes of the Framework, Registrants under Section 51 of the SA 2012 (Broker-Dealers, Investment Advisers and Underwriters) were asked to complete forms specific to their business activities as well as the CISs they manage, where applicable.

The Trinidad and Tobago securities market is mainly comprised of five (5) segments: CIS, Repos, Government Bonds, Equities and Over-the-Counter (OTC) transactions. The nominal size of these segments is presented in Figure 2.

Figure 2: Market Size by Segment



FINANCIAL SOUNDNESS AND HEALTH INDICATORS

Collective Investment Schemes Market

A CIS is an investment instrument that is "*established for the principal purpose of investing property of any description, including money, provided by its security holders*[1]". As at December 31 2016, the CIS market was comprised of 63 CISs which were managed by 14 CIS Managers (Table 2). A review of the data submitted by CIS Managers indicated that total Assets under Management (AUM)[2] rose by approximately two (2) percent from September 30 2016 to TT$52,278Mn as at December 31 2016 (Figure 2).

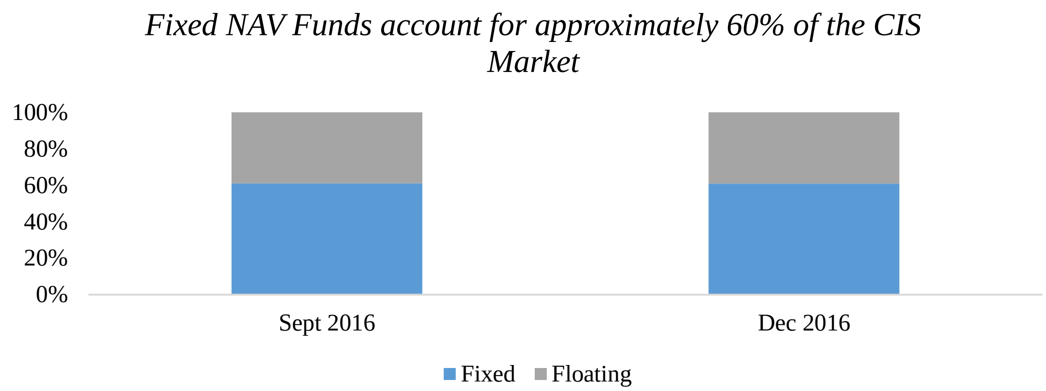
Table 2: Number of CISs in Reporting Period

	September 30, 2016	**December 31, 2016**
Number of CISs	63	63
Number of CIS Managers	14	14

Fixed Net Asset Value (NAV)[3] funds, over the reporting periods, accounted for approximately 60 percent of the CIS market's AUM. This highlighted the significance of these types of funds. As at December 31 2016, the AUM of these funds rose by approximately 1.58 percent from September 30 2016 (Figure 3).

[1] Section 2 of Collective Investment Schemes Guidelines, 2009.
[2] Assets under Management is defined as the total value of financial instruments held on the portfolio of a CIS and includes the gains from interest payments/dividends of these instruments as well as cash held by the CISs
[3] The Net Asset Value (NAV) is the price per unit of a CIS. A fixed NAV means that this price remains constant.

Figure 3: Total AUM (Fixed versus Floating NAV)

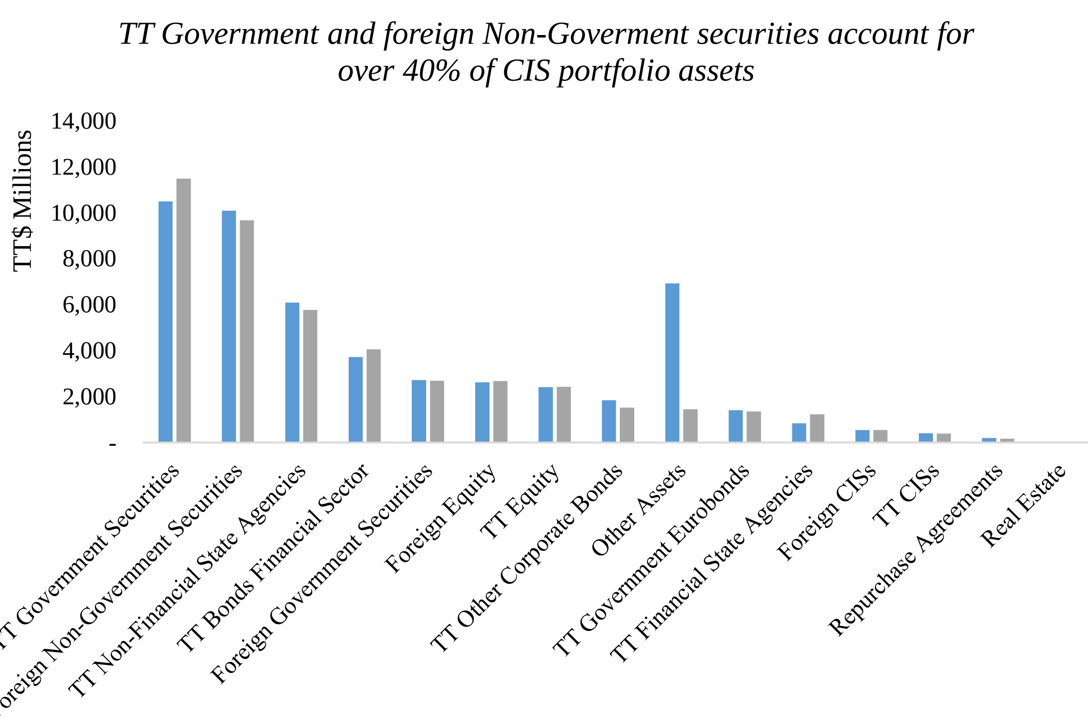


The three (3) largest categories of portfolio assets held by CISs during the reporting periods were: TT Government Securities, Foreign Non-Government Securities and TT Non-Financial State Agencies (Figure 4).

It was noted that for the September 30 2016 submissions, cash was reported in the "Other Assets" category on the CIS Portfolio form. A correction was issued to Registrants which led to a significant reduction of the total value of this category.

It was also noted that the exposure of the CIS market to the Repo market was less than one (1) percent (Figure 4).

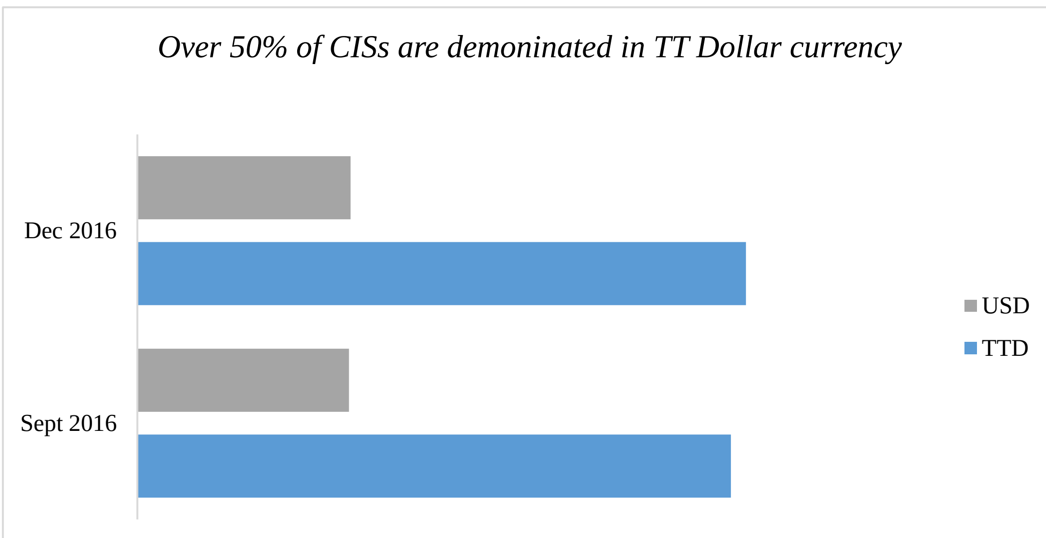
Figure 4: CIS Portfolio composition by category of security



CISs were mainly denominated in two (2) currencies: TTD and the United States Dollar (USD). CISs denominated in TTD accounted for approximately 70 percent of the market's AUM, while those denominated in USD accounted for less than 30 percent or an equivalent in TTD average TT$13,507Mn over the last two (2) quarters of 2016 (Figure 5).

As at December 31 2016, there were eight (8) Broker-Dealers responsible for 1,350 outstanding Repo contracts valued at TT$3,667Mn; a 37 percent increase from the value reported (TT$2,678Mn) on September 30 2016. This resulted, in large measure, from the growth in USD-denominated transactions (Table 3).

Figure 5: CIS Market by Currency Type



Repurchase Agreements Market

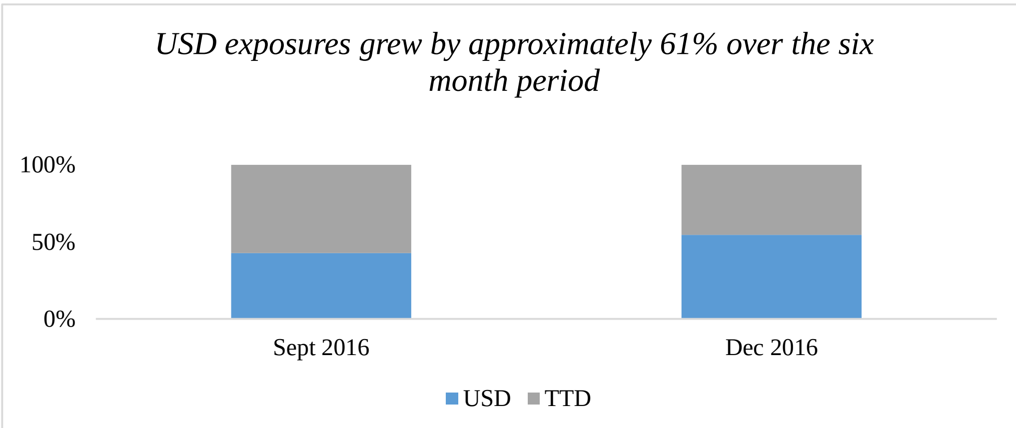
A Repo, as defined in the Commission's Repurchase Agreement Guidelines 2012, is *"the sale of a security with the commitment by the Seller to buy the same or equivalent security back from the Buyer at a specified price and at a designated date in the future"*.

Table 2: Total Repo Liabilities

	September 30, 2016	December 31, 2016
Value (TT$Mn)	2,678	3,667
No. of Repos	1,315	1,350
Number of Repo Dealers	8	8

Repos in the local market were denominated in two (2) currencies: TTD and USD. At the end of September 30 2016, 57 percent (TT$1,742Mn) of Repo Liabilities were denominated in TTD. However, at the end of December 31 2016 this position was

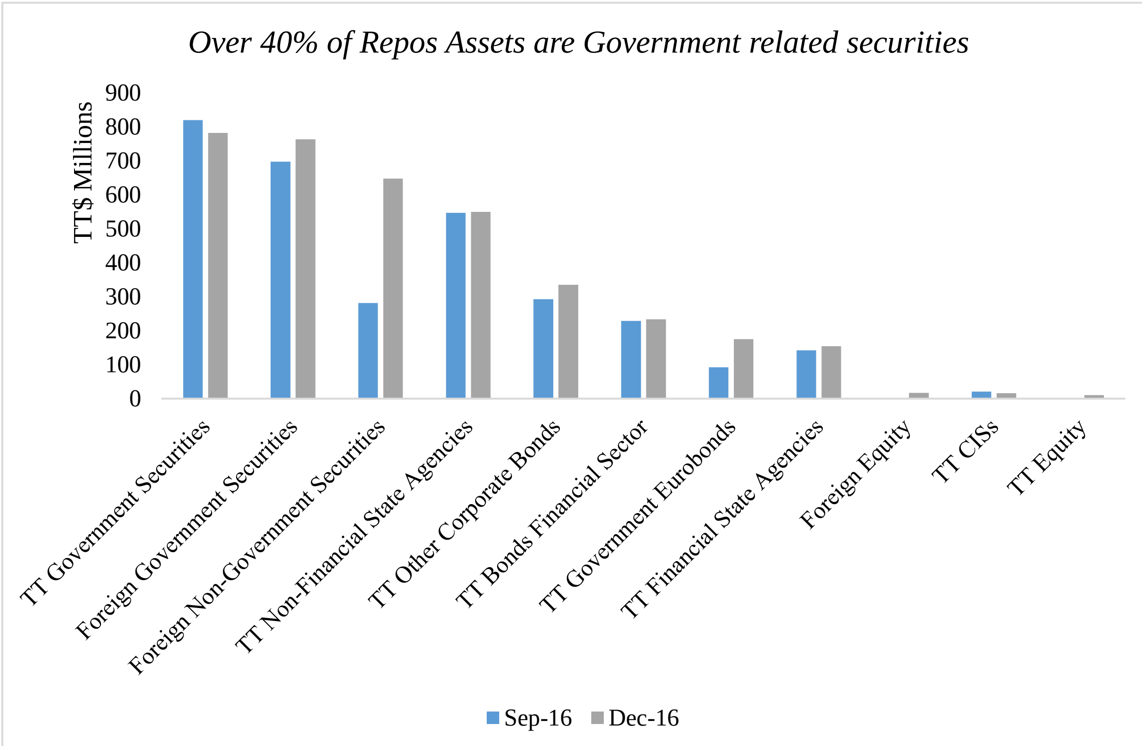
Figure 6: Total Repo Liabilities by Currency



reversed. This reversal was reflected in the overall Repo Asset composition for the market, as total value of foreign securities held by Repo Dealers rose by approximately 45 percent (Figure 6). This growth was led by increases in the holdings of: Foreign Non-Government Securities (129 percent), Foreign Government Securities (9 percent) and Foreign Equity (100 percent) (Figure 7).

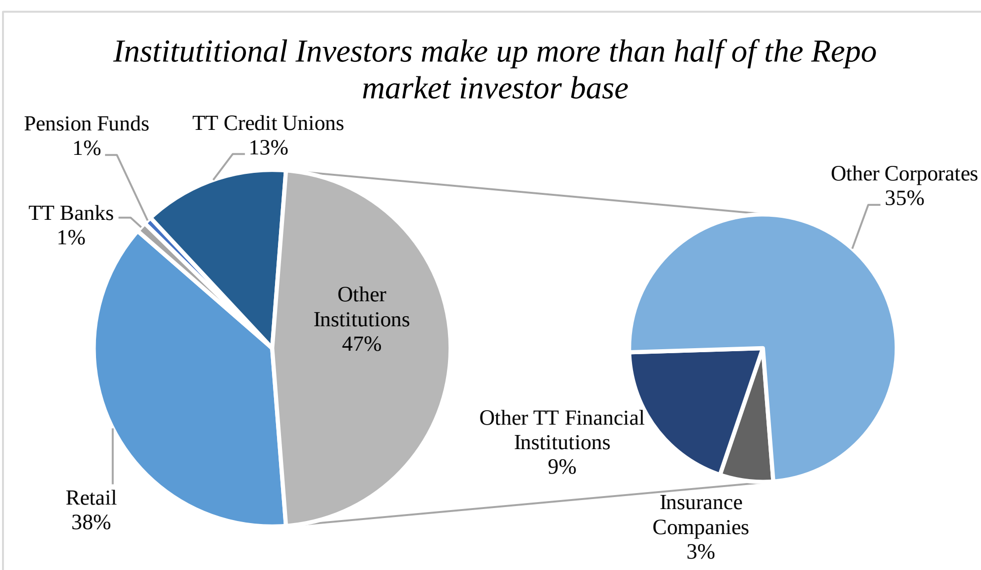
The four (4) largest categories of Assets underlying Repos during the reporting periods were: TT Government Securities, TT Non-Financial State Agencies, Foreign Government Securities and Foreign Non-Government Securities (Figure *7).*

Figure 7: Repo Portfolio Asset Composition



Repos were utilized by both institutional and retail investors. However, over the reporting periods, institutional investors represented more than 50 percent of the Repo market's investor base (Figure 8).

Figure 8: Repo Investor Breakdown by Category



Retail investors accounted for 38 percent of Repo transactions during the reporting periods.

Government Bond Market, Equities Market and the Over-the-Counter Market

Government Bond Market

As at December 31, 2016, there were 53 TTD denominated Government bonds in issue at a total nominal value of TT$33,780Mn. The value of these bonds rose by approximately 1.65 percent from the quarter ended September 30 2016 to the quarter ended December 31 2016 (Table 4). As at December 31 2016, one (1) Government of the Republic of Trinidad and Tobago (GORTT) bond was issued with a face value of TT$1,000Mn.

Table 4: Value of GORTT Bond Issues

	September 30, 2016	**December 31, 2016**
Value (TT$Mn)	33,223	33,780

Equity Market

There were 39 securities listed on the Trinidad and Tobago Stock Exchange as at December 31 2016. The total value of these securities, as measured by market capitalization, rose by approximately 4.02 percent (TT$5,336Mn.) from the quarter ended September 30 2016 (Table 5). There were no new listings of securities in either of the review periods.

Table 5: Market Capitalization of TTSE Listed Equities

	September 30, 2016	**December 31, 2016**
Value (TT$Mn)	112,947	118,283
No. of Listed Equities	39	39

Over-The-Counter Market

The OTC market is a decentralized market which facilitates the trades of securities such as bonds and equities. Transactions in this market, typically occur between Dealers who are not required to publish information on their transactions or the corresponding prices. To increase the transparency of this market, Registrants who facilitated OTC transactions, were asked to submit data related to all of these transactions during the reporting periods.

As at September 30 2016, there were 1,206 transactions facilitated in the OTC market valued at an estimated total of TT$68,637Mn. The volume and value of these transactions fell by approximately 26 percent and 55 percent in December 31 2016, respectively (Table 6).

Table 6: Total Value of OTC Activity in Reporting Period

	September 30, 2016	**December 31, 2016**
Value (TT$Mn)	68,637	31,187
Volume	1,206	908

SECURITIES MARKET INTERCONNECTIONS

The local securities market includes several different types of market participants and financial instruments which range from plain vanilla to complex instruments. Each segment of the market contains participants who are either part of the banking system, or affiliated to an entity that is part of the banking system. An example of this can be seen in the Repo Market. Of the eight (8) Repo Dealers, two (2) are subsidiaries of financial institutions, one (1) of which holds more than 60 percent of total TTD and USD Repo Liabilities.

This indicates the possibility of intricate interconnections between different parts of the securities market and other parts of the wider financial system. The data that the Commission is now capturing under the Framework as well as the FSHIs, will help identify and monitor these interconnections and potential risks. An example of the type of risks that the Commission can monitor is contained within the CIS market, where more than 30 percent of overall CIS Portfolio assets are invested in Trinidad & Tobago Government securities. This can lend itself to exposures to country risks, notwithstanding that Trinidad and Tobago's issuer rating is investment grade, minimizing the CIS market's overall exposure. In addition, on average more than 30 percent of aggregate CIS Portfolio Assets are invested in foreign related securities (Foreign CISs, Foreign Equity, and Foreign Government and Non-Government Securities) which means that CIS funds are exposed to fluctuations in foreign exchange rates.

The data collected also highlighted similar vulnerabilities within the Repo market as over 30 percent of Repo Assets were Government securities, both local and foreign. Given the data provided, an average currency mismatch of just over TT$50Mn over the two (2) quarters under review was identified. The Commission will continue to monitor this currency mismatch both on a market wide and individual firm level. In addition, the Commission was able to identify the categories of investors within the Repo market who would bear the risks associated with this instrument. Of note, Retail Investors comprise 38 percent of the investor base and Credit Unions accounted for over 10 percent. This highlighted that the general public, through their investments in other sectors of the financial system namely Credit Unions, are exposed to the Repo market.

The Commission will continue to expand the list of FSHIs to monitor the vulnerabilities within each segment of the securities market, and more specifically, the risks associated with liquidity, substitutability and interconnectedness.

APPENDIX 1

DEFINITION OF REGISTRANT CATEGORIES

- ***Broker-Dealer***
  A firm acting as an intermediary between a buyer and a seller of securities, usually for a fee or a commission. When acting as a broker, a Broker-Dealer executes orders on behalf of his/her client. When acting as a dealer, a Broker-Dealer executes trades for his/her firm's own account
- ***Investment Adviser***
  An individual or firm that advises clients on investment in, or the purchase or sale of securities on a professional basis.
- ***Registered Representative***
  An employee or officer of a registered Broker-Dealer, Investment Adviser or Underwriter who liaises with members of the public on behalf of their employers further to the offering, distribution or sale of securities.
- ***Reporting Issuer***
  A corporation that has issued or proposes to distribute securities to the public and is subject to the continuous disclosure requirements of the Commission.
- ***Self-Regulatory Organization***
  A non-governmental organization that has the power to create and enforce industry regulations and standards. The priority is to protect investors through the establishment of rules that promote ethics and equality.
- ***Sponsored Broker-Dealer***
  An individual who is employed by a Brokerage firm from a foreign jurisdiction. This individual aligns himself/herself with a local Broker-Dealer who sponsors his/her registration with the Commission. A Sponsored Broker-Dealer that is registered with the Commission can conduct securities business in Trinidad and Tobago for a maximum of 90 days in a calendar year.
- ***Underwriter***
  A company that arranges for the issuance or distribution of securities and/or agrees to purchase any unsold securities thereby guaranteeing full subscription.