



Capital Requirements for Market Intermediaries

\\ Trinidad and Tobago Securities and Exchange Commission

What is Capital and Regulatory Capital?

In business terms, capital typically refers to the financial resources a company utilizes to fund its operations. Financial resources are however, not limited to only cash. Rather, it refers to the assets held on an entity's balance sheet and include cash, cash equivalents, property, and buildings among other assets. Capital is used by companies in their continued production of goods and services to generate wealth for the company. Therefore, when one speaks of raising capital, this refers to a company issuing debt or equity in exchange for cash that would be channelled into production of its goods and/or services.

While there are many types of capital, in finance and economics, there are three basic categories. These three categories of capital are Debt Capital, Equity Capital, and Working Capital.

Debt Capital – This refers to funds or capital received when a company acquires debt. That debt can be any loan or borrowings that the company takes on and can be sourced from other companies, financial institutions, government, or even private individuals.

Equity Capital – This is the capital raised through the selling of shares in the company. Such equity can be issued privately or to the public at large. This is not a loan but rather the sale of an ownership interest in the company.

Working Capital – This capital is simply the difference between the current assets and current liabilities on the company's balance sheet. It represents the funds required to meet the company's current, short term obligations.

Regulatory capital, which is generally a subset of an entity's total capital as reflected on its balance sheet, can be described as the required minimum capital levels (to be maintained in specific liquid assets) set by regulatory agencies such as Central Banks and Securities Commissions for the entities that they regulate. These capital adequacy regulations are guided by agreed methodologies, such as guidance issued by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions ("IOSCO").

Regulators set the required minimum capital levels for the entities that they regulate with the aim of establishing levels of protection for customers and depositors. This regulatory capital provides a buffer of liquidity to mitigate against any unexpected losses a financial market intermediary may incur in the course of doing business.

In Trinidad and Tobago, the Securities (General) By-Laws, 2015 defines regulatory capital as-

- (i) “cash or cash equivalents held in a financial institution;
 - (ii) money market accounts of a collective investment scheme in Trinidad and Tobago;
 - (iii) the market value of securities of the Government of Trinidad and Tobago; or
 - (iv) assets held in such other form as approved by the Commission,
- which is free and clear of any encumbrances”.

Capital Requirements for Market Intermediaries

Pursuant to By-Laws 27(1)(a) of the Securities (General) By-Laws, 2015 (“the By-Laws”), the Trinidad and Tobago Securities and Exchange Commission (TTSEC) prescribes minimum capital requirements (including regulatory capital as defined above) for its registrants registered under Section 51(1) of the Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago (“the Act”). These minimum capital adequacy requirements are summarised in Table 1 below.

Table 1 – Minimum Capital Levels for Securities Market Intermediaries

| Registrant Type | Type of Market Activity | Capital Required (TTD) | Minimum Regulatory Capital Required (TTD) |
|---------------------------|--|------------------------|---|
| Investment Adviser | Investment advisory services | 50,000 | 50,000 |
| Underwriter | Underwriting | 5,000,000 | 2,000,000 |
| Broker-Dealer | Effecting transactions in securities for the account of others ONLY | 2,000,000 | 1,000,000 |
| | Effecting transactions in securities for the account of others and for its own account | 5,000,000 | 2,000,000 |
| | Effecting transactions in securities and underwriting | 6,000,000 | 3,000,000 |

Further, By-Law 27(3) gives the TTSEC the power to set minimum capital levels in accordance with international standards and to modify same from time to time.

Form 24 – Quarterly Capital Requirements Reporting

While By-Law 27 of the By-Laws prescribes the minimum capital levels to be maintained by the various categories of registrants registered under Section 51(1) of the Act, By-Law 28 outlines their reporting requirements - specifically, a statement showing the calculation of capital levels of the registrant as at the last day of the end of quarterly period; a statement of any additions or withdrawals of equity capital; and certification by a senior officer of the registrant.

In order to comply with the reporting requirements of By-Law 28, registrants are required to complete and file a “Form 24 – Quarterly Capital Requirements” with the TTSEC within thirty business days following the end of each quarterly period in the registrant’s financial year. The Form 24 is available via the following URL: <https://www.ttsec.org.tt/wp-content/uploads/Form-24-Quarterly-Capital-Requirements-2020.pdf>.

The key portion of the Form 24 is Section 4 as shown in Figure 1 below. Section 4 details the levels of capital of the registrant, inclusive of share capital, reserves, retained earnings and other equity from the registrant’s balance sheet. Additionally, this Section provides for the disclosure of the regulatory capital levels of the registrant.

Figure 1

CAPITALIZATION LEVELS

| All values should be stated in Trinidad and Tobago dollars. | |
|---|----|
| | \$ |
| Share Capital | |
| Reserves | |
| Retained Earnings | |
| Other | |
| | |
| TOTAL CAPITAL | |
| Regulatory Capital: | \$ |
| Cash & Cash Equivalents held in a Financial Institution | |
| Money Market Accounts of a Collective Investment Scheme in Trinidad and Tobago | |
| Market Value of securities of the Government of the Republic of Trinidad and Tobago | |
| Assets held in such form as approved by the Commission | |
| | |
| TOTAL REGULATORY CAPITAL | |

Registrants’ compliance with the Form 24 filing requirement is pivotal to the protection of investors and to maintaining public confidence in the securities industry in Trinidad and Tobago. It enables the TTSEC to understand and monitor the ability of broker-dealers, underwriters, and investment advisers to continue to safely provide their services to the investing public whilst promoting growth of the securities market in Trinidad and Tobago. Further, it provides early warning signs of possible distress, thereby giving the relevant stakeholders the best opportunity to intervene and avert any negative occurrence.

The Future of Risk-based Capital Requirements

Presently, the Securities (General) By-laws, 2015 impose static capital requirements, which do not consider the risk inherent in the activities of market intermediaries. Principle 30 of IOSCO's Objectives and Principles of Securities Regulation recommends that regulators establish "*initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake*".

The TTSEC agrees that capital adequacy standards should be aligned to risks inherent and associated with the activities of its registered market intermediaries. In that regard, significant work has been expended towards the establishment and implementation of a risk-based capital adequacy framework for the securities industry in Trinidad and Tobago.

Adopting a risk-based approach will aid in the mitigation of systemic risk in the Trinidad and Tobago securities markets.

For more information on the securities market and the role and functions of the TTSEC, please visit our corporate website at www.ttsec.org.tt. To become a smart investor, [download our Investor Protection App via the Google Play and Apple Stores](#). You can also take the investor education online course on our investor education website, www.InvestUcateTT.com, and test your knowledge in our interactive investing game InvestorQuestTT at www.InvestorQuest-tt.com, and remember, to connect with us via Facebook; Twitter, Instagram, LinkedIn or YouTube.

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