TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION

REGISTRANTS' RISK ASSESSMENTS 2023 REPORT

MAY 8, 2024

Overview

About the Trinidad and Tobago Securities and Exchange Commission ("TTSEC")

The TTSEC is the regulator of the local securities industry. Our mission is to instill confidence in the securities market by protecting investors, promoting sustainable market growth, and reducing systemic risk, through collaboration and innovation.

About the TTSEC's enhanced Risk-Based Supervision Framework ("RBS")

The TTSEC is mandated under Section 6(l) of the Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago (the "Act") to "assess, measure and evaluate risk exposure in the securities industry". It is empowered under Section 7(1)(l) of the Act to "monitor the risk exposure of registrants and self-regulatory organisations and take measures to protect the interest of investors, clients, members and the securities industry." To fulfil these objectives, the TTSEC utilises a Risk-Based Supervision ("RBS") Framework, which was enhanced in 2021, to identify, assess, monitor, and mitigate the risks associated with registrants operating within the local securities market.

The TTSEC's enhanced RBS Framework seeks to assess the risks inherent to the significant business activities conducted by registered entities under Section 51(1) of the the Act (Broker-Dealers, Investment Advisers and Underwriters), the measures implemented by these entities to mitigate and manage their risk exposures as well as the potential impact that a failure or significant loss at any one of these entities may have on the local financial sector. The results of the assessments allow the TTSEC to develop its supervisory plan.

Registrants' Risk Assessments 2023 Report

In June 2023, the Trinidad and Tobago Securities and Exchange Commission (the "TTSEC") implemented its enhanced Risk-Based Supervision ("RBS") Framework for entities registered under Section 51(1) ("registrants") of the Securities Act, Chapter 83:02 of the Laws of the Republic of Trinidad and Tobago (the "Act"). The enhanced RBS Framework seeks to assess the risks inherent to the business activities conducted by registrants, the measures implemented by these entities to mitigate and manage their risk exposures, as well as the potential impact that a failure or significant loss at any one of these entities may have on the local financial sector.

The key pillars underpinning the TTSEC's enhanced RBS Framework are as follows:

- **Impact Assessment:** The potential impact on the TTSEC's mandate in the event that a registrant fails or experiences significant problems (for reasons such as insolvency, illiquidity, weak internal controls, and misconduct) is assessed. A registrant can be categorised in one out of five levels, ranging from low impact (one) to very high impact (five).
- **Risk Assessment:** The likelihood that a registrant may fail is determined. This includes the following specific analyses:
  - **Significant Activities** - the business model of the registrant is analysed to identify its significant business activities, that is, those actions that contribute most to its risk profile.
  - **Material Inherent Risks** - the analysis of the key risks associated with the registrant's significant activities. The following risks are assessed: climate, legal and regulatory, liquidity, market, money laundering/financing of terrorism and proliferation financing, operational/ technology and other risks.
  - **Internal Controls** - the registrant's control framework is assessed for the mitigating effect on those inherent risks. The key question is what aspects of the controls might indicate that the TTSEC should increase vigilance of the registrant. The following controls are assessed: anti-money laundering ("AML") and regulatory compliance, conduct, corporate governance, finance and risk management.
  - **Composite Risk Rating** - the final product of the risk assessment is the registrant's composite risk rating and the identification of areas of supervisory concerns within the organisation. A registrant can be categorised in one out of five levels, ranging from low risk (one) to high risk (five).

- **Supervisory Intensity:** The Commission gauges the priority of supervision for a particular registrant using both the firm's impact rating and the composite risk rating. The registrant is usually assigned to one of four levels of supervisory intensity (High, Moderate, Low and Very Low).
- **Supervisory Plan:** The results of the assessments of registrants are reviewed and the TTSEC's supervisory plan is developed.

The framework requires the input and review of both internal and external data and documents. Registrants were asked to electronically complete and submit a Risk Assessment Questionnaire and Request for Information Template. Based on the TTSEC's Registrant Listing as at June 30, 2023, the impact and risk of all 53 registrants were assessed. The illustration below summarises the results of the TTSEC's risk assessments. The TTSEC's observations are as follows:

- **A heavy reliance on group/ parent company policies:** several registrants that are affiliated with a financial or banking group are utilising group/ parent company policies for areas such as cybersecurity, information technology back-up plan, anti-money laundering and regulatory compliance, climate change, risk management, liquidity management, and code of conduct. In some instances, these group policies do not address the business activities of the registrant.
- **Lack of consideration for climate change and its implications for the securities market:** Most registrants do not have a Board approved comprehensive firm specific climate risk policy.
- **Deficient corporate governance framework:** specifically, as it pertained to the induction and training of board members, board diversity and independence, conflict of interest policy, the internal audit function, and senior management oversight of the risk management and compliance functions.
- **Inadequate risk management framework:** while many registrants have adopted a risk management policy, some of these policies are deficient as it pertains to the identification of business activities and risks covered within the framework, the experience and qualification of risk management staff, frequency of risk reporting to the board of directors, and stress testing.
- **Non-prioritisation of regulatory compliance:** while most registrants have adopted an AML compliance policy and had dedicated staff with relevant experience and board oversight of the AML compliance function, some registrants seem to overlook regulatory compliance. The AML Compliance Officer for some registrants also covered regulatory compliance, however, a review of these officers' job descriptions and resumes indicate that more focus would be placed on AML compliance. Furthermore, several firms fail to provide staff with timely updates of regulatory changes.

- **Poor quality of suspicious activity/terrorist reports ("SARs/STRs):** the timelines and quality of SARs/STRs can be improved.
- **Lack of contingency planning:** Some registrants do not have a contingent source of liquidity. For those registrants that explicitly stated that they have a liquidity management plan, further details were not provided nor did they specify the financial institution that is providing contingent support.

The TTSEC continues to provide regulatory support to the market and aims to provide guidance in the aforementioned areas of concern in the near future. The TTSEC shall schedule similar assessments in 2025 and registrants are encouraged to ensure the accuracy of the data that they provide.

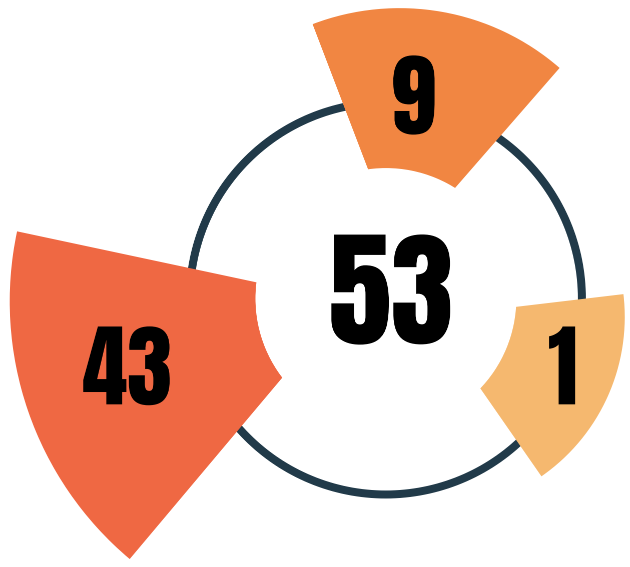
Registrants' Risk Assessments as at June 30 2023

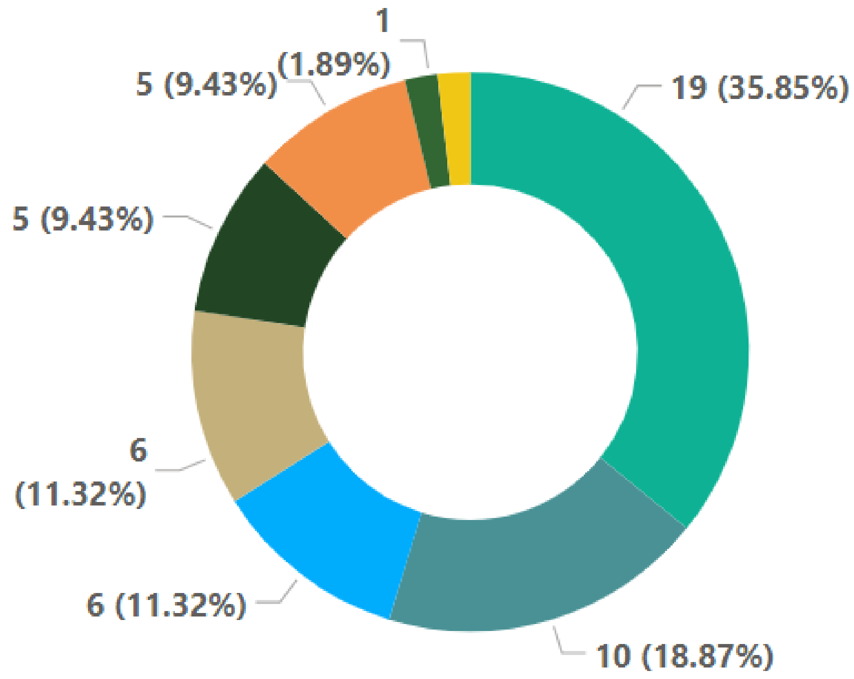
1

Number of Registrants assessed:

There were 53 registrants categorised as follows:

- 43 Broker-Dealers
- 9 Investment Advisers
- 1 Underwriter





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Prominent Business Activities

- Dealing
- Broking
- CIS Management
- Portfolio Management
- Investment Advice
- Repo Selling
- Broking;Portfolio Management
- Structuring/ Underwriting

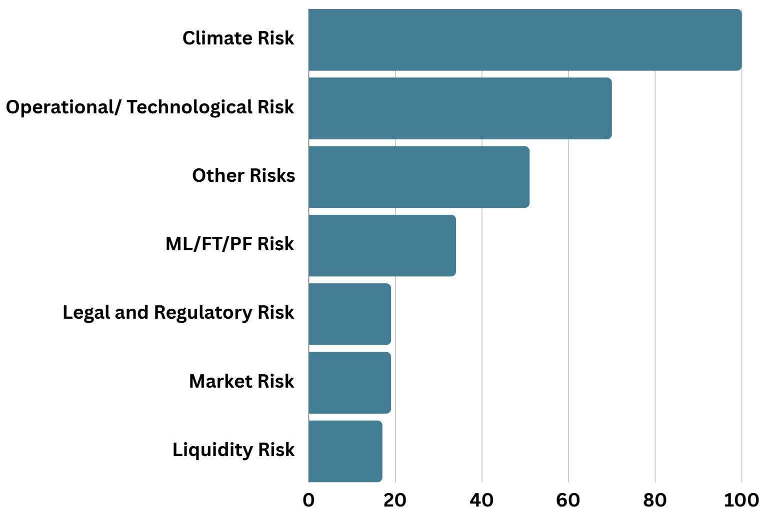
3

Inherent Risks (Rating ≥ 3)

The top 3 risks which have a rating ⩾ 3 include:

- Climate Risk
- Operational/ Technological Risk
- Other Risks

% of Registrants with a rating ≥ 3



% of Registrants with a rating ≥ 3

4

Weakest Controls ((Rating ≥ 3)

The 3 weakest controls which have a rating ⩾ 3 include:

- Corporate Governance
- Regulatory Compliance
- Risk Management

5 Observations:

- Reliance on group/parent policies
- Lack of consideration of climate change
- Deficient corporate governance framework
- Inadequate risk management framework
- Non-prioritisation of regulatory compliance
- Poor quality of suspicious activity and terrorist reporting
- Lack of contingency planning