



Securities Market Bulletin

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INTRODUCTION

The securities market in Trinidad and Tobago remains one of the largest when measured by the range of products offered, overall market capitalisation and levels of trading activity. The local securities market is comprised of five (5) major components, including the Equity market, the Collective Investment Schemes market, the Bond market, the Over-the-Counter market as well as the Repurchase Agreement market.

The Securities Act 2012 (SA 2012) provides the Trinidad and Tobago Securities and Exchange Commission (the Commission) with its regulatory mandate for the securities market. A major objective of this regulation is the reduction of systemic risk and it is in the context of this specific obligation that the Commission must engage in macro prudential oversight of the securities market.

This oversight includes establishing measures that ensure data quality standards. Over the last year, we at the Commission have been working on improving the quality of data that is available for the macro prudential oversight of the local securities market. The data used in the Securities Market Bulletin was for the four (4) quarters of 2017, which represented an improvement from the soft launch when

only two (2) quarters of data (i.e. September 2016 and December 2016) were available.

As noted in the inaugural Bulletin, macro prudential oversight of the securities market is aimed at identifying, monitoring and addressing vulnerabilities specific to these markets. There is a continued need for this type of oversight due to the lessons learned during the Global Financial Crisis of 2008/09. The continuous development of Financial Soundness and Health Indicators (FSHIs) will facilitate improvements in the macro prudential oversight of the securities market.

A key component in reducing systemic risk within the system is the identification of risk factors inherent within the securities market. Some of these risks include the continued and substantial presence of Fixed Net Asset Value Collective Investment Schemes and their associated risks (i.e. currency, interest, liquidity, etc.); the potential for concentration risk within the Repo Asset portfolios, currency risk associated with the composition of Repo Liabilities locally. It is hoped that the Securities Market Bulletin will play a vital role in identifying such risks so that the Commission can take a proactive role in

mitigating their impacts on the securities markets.

This second issue of the Securities Market Bulletin focuses on the analysis of the size indicators and highlights some of the interconnections within the securities market for the quarters ending March, June, September and December 2017.

CEO'S MESSAGE

I am pleased that we have been able to officially launch the Commission's Securities Market Bulletin (Bulletin) following our soft launch last year. We have been able to make significant headway in data collection and verification. This has allowed us to have four (4) quarters of additional data available for our analysis since the initial Bulletin. This provides a richer data set to communicate to all our stakeholders the risks and vulnerabilities that may exist within our local securities market.

The Commission is an integral part of the financial system of Trinidad and Tobago which is broadly made up of commercial banks, credit unions, insurance companies, pension funds, and more generally, securities. The Commission is mandated by the Securities Act 2012 to regulate the securities market. The size of the market together with the number of products that comprise the market including Equities, Repurchase Agreements, Bonds, and Collective Investment Schemes justify the need to properly regulate this component of the financial sector.

Set against the backdrop of the Global Financial Crisis of 2008/09, the wider financial system locally, the potential for

contagion and the state of the economy, this bulletin should be considered timely and very important. The 2008/2009 crisis highlighted the importance of identifying, monitoring and mitigating risks and vulnerabilities within the securities markets, and the interconnectedness between securities markets globally.

The intention of the Bulletin is to be beneficial to all stakeholders as it permits all interested market participants the opportunity to evaluate the associated risks of investing in the securities market of Trinidad and Tobago. In addition, it also provides investors with information that could serve in making their investment decisions.

The Securities Market Bulletin represents an important milestone for the Commission in our journey towards achievement of our Strategic Objectives. One important objective that we have set is to "improve our effectiveness as a securities regulator". Another major objective continues to be that of "fostering the development of the Securities Industry." We trust that, this publication will assist in achievement of the two objectives outlined, as well as promote investor confidence in the local securities markets.

The Securities Market Bulletin would indicate that we experienced growth of 29 percent in the number of registrants. We now have 425 registrants as at 31 December 2017 compared to 329 for the same time in 2016. I am also pleased to advise that despite negative growth in the economy during 2017, the data revealed marginal growth in Assets under Management in the Collective Investment Scheme market which is the second largest segment of the securities market. These positive indicators suggest confidence by market participants in the local securities market.

The Staff of the Commission have been quietly carrying out our regulatory role in supporting development of the local securities market. In July 2018 we updated the Repurchase Agreement Guidelines and we are currently working on updating key policy agenda items such as:

- The development of the Market Conduct Guidelines;
- The development of the Collective Investment Scheme By-Laws;
- The development of new Shelf Registration policies and guidelines;
- The development of De-registration guidelines and
- The revision of the AML-CFT guidelines

These important initiatives, once completed, will contribute towards improvement of our operational efficiency, allow market registrants quicker access to the capital market and further enhance investor confidence in our capital markets within the medium to long-term.

A key aspect for this push towards the improvement of operational efficiency within the Commission is our Centralized Repository and Registration System (CRRS). The CRRS, when fully implemented, will result in end to end automated integration of the Commission's database and work processes, one major feature of which will be the transition to electronic registration and the discontinuation of manual registration by market participants. In addition, and in the interest of improved service delivery and efficiency, CRRS will allow for automation of the receipt of registrant data to be utilized in the conduct of our Macro and Micro Prudential Reporting Framework in the not too distant future.

The Commission is committed to ensuring that a Market Bulletin is published every six (6) months. Let me take this opportunity to thank our registrants for their willingness to work with our staff to produce the data that has allowed the Commission to present the statistics found in this report, inclusive of the market risk review. As time progresses

and market familiarity increases, we anticipate more accurate and comprehensive data will be received from the market and this will allow for even more useful and relevant indicators to be used in this publication. We anticipate that soon, the Commission will be able to provide each registrant with a personalised report that allows for a comparison of their performance against that of the industry.

Our Securities Market Bulletin will provide you, our stakeholders, with information and data to assist in your evaluation of the risks

and vulnerabilities you face in the market. Our aim is to empower you to make more informed decisions with the benefit of relevant information. Against the background of the economic challenges we all face, the Commission is doing its part to engender confidence, which is the lifeblood of our financial system. It is our hope that the provision of timely and relevant information will enhance investor confidence and participation levels, which will result in greater levels of activity in the securities market and the local economy.

SECURITIES MARKET REVIEW

This section provides an analysis of the Commission’s initial Financial Soundness Health Indicators (FSHI) from the data collected under its Micro and Macro Prudential Reporting Framework (MMRF). The FSHIs, contained in this section, are provisional and are subject to revision, once amendments to the underlying data are submitted by registrants.

As at December 31 2017, 425 persons¹ were registered with the Commission to conduct business activities within the securities market. This represents a 29 percent increase in the number of persons registered by the Commission when compared to the same period in 2016 (**Table 1**). A description of the activities conducted by each category of registered persons is contained in Appendix 1.

For the purposes of the MMRF, Registrants under Section 51(1) of the SA 2012 (Broker-Dealers, Investment Advisers and Underwriters) are required to complete and submit forms specific to their business activities. They are also required to report

on any Collective Investment Schemes they manage.

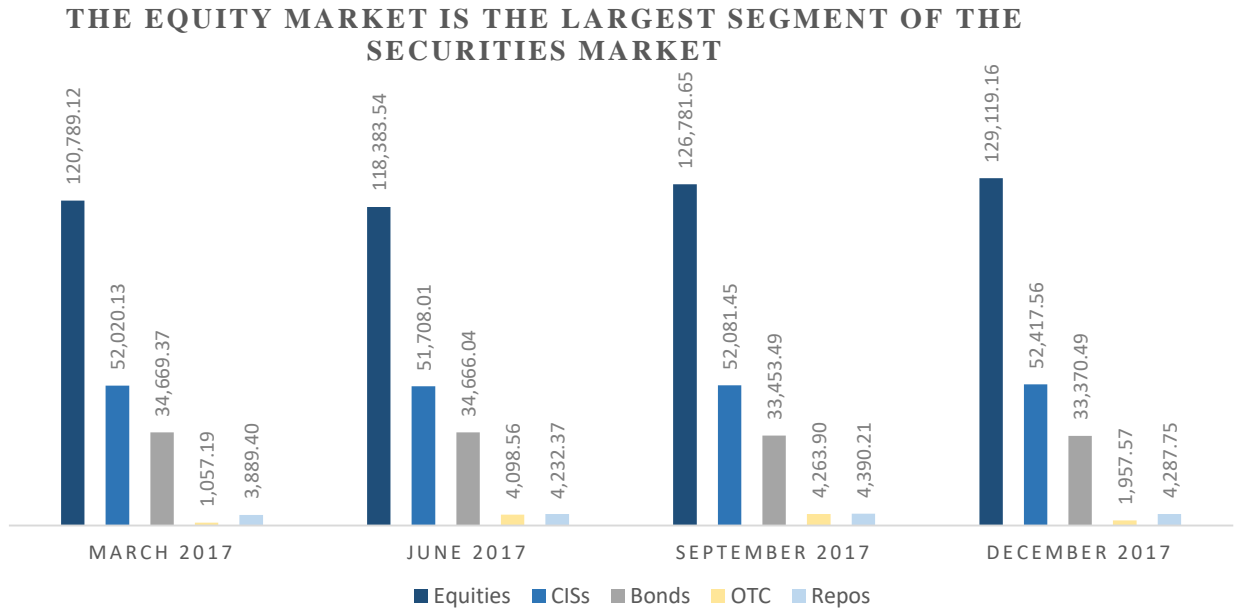
Table 1: Category of Registrants

Category	Number of Registrants	
	December 31, 2017	December 31, 2016
Reporting Issuers	82	82
Broker-Dealers	34	35
Investment Advisers	17	13
Registered Representatives	282	188
Sponsored Broker-Dealers	8	9
Self-Regulatory Organizations	2	2
Total	425	329

Currently, persons registered with the Commission are permitted to conduct activities within the following segments of Trinidad and Tobago’s securities market: Collective Investment Schemes (CIS), Repurchase Agreements (Repo), Equities, Bonds and Over-the-Counter (OTC) transactions. The nominal value of each segment in 2017 is presented in **Figure 1**.

¹ As defined by Section 4 of SA 2012, a person “includes an entity” and an entity “means a body corporate, trust, partnership, collective investment scheme, fund or other unincorporated enterprises or organizations”.

Figure 1: Market Size by Segment, (TT\$Million)



FINANCIAL SOUNDNESS AND HEALTH INDICATORS

Collective Investment Schemes Market

A CIS is an investment instrument that pools shareholder/unit holders’ cash contributions and invests in a diversified securities portfolio with a specified objective. As defined by Section 4 of the SA 2012 a CIS is, “any arrangement with respect to property of any description including money – (a) the purpose or effect of which is to enable persons taking part in the arrangement, whether by becoming owners of the property or any part of it, or

otherwise to participate in or receive profits of income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income.”

There were 63 CISs managed by 12 CIS Managers² registered with the Commission in 2017 (**Table 2**).

Table 2: Number of CISs in Reporting Period

	2017	2016
Number of CISs	63	63
Number of CIS Managers	12	12

² CIS Managers are Broker-Dealers registered with the Commission.

Analysis of the data submitted by these CIS Managers indicates that the average value of Assets under Management (AUM)³ in 2017 was TT\$52.06Bn. The data also showed a less than one (1) percent increase in AUM for the year.

The CIS market recorded estimated net sales of TT\$358Mn in 2017 despite its net redemptions of TT\$268Mn in June 2017 (**Figure 2**). However, Fixed Net Asset Value (NAV)⁴ CISs reported overall net redemptions of approximately TT\$11Mn in 2017. This represented less than one (1) percent of the market’s total AUM.

Sixteen of the 63 CISs have Fixed NAVs that accounted for approximately 60 percent of the CIS market’s AUM in 2017 (**Figure 3**). As at December 31 2017, the AUM of these CISs rose marginally by approximately TT\$139Mn or less than one (1) percent from March 31 2017.

Thirteen Fixed NAV CISs were denominated in TTD. These were estimated to account for over 60 percent of TTD investments held within these CIS portfolios. The dominance of these types of CISs in the market highlights the need to manage their inherent risks which include exposure to movements in:

- foreign currency;
- domestic interest rates;
- domestic equity prices;
- the price of international assets; and
- liquidity risks.

Figure 2: Net Redemptions of Fixed vs. Floating NAVs CISs, (TT\$Million)

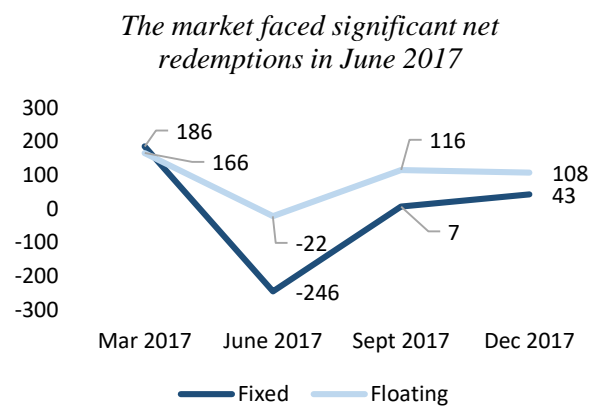
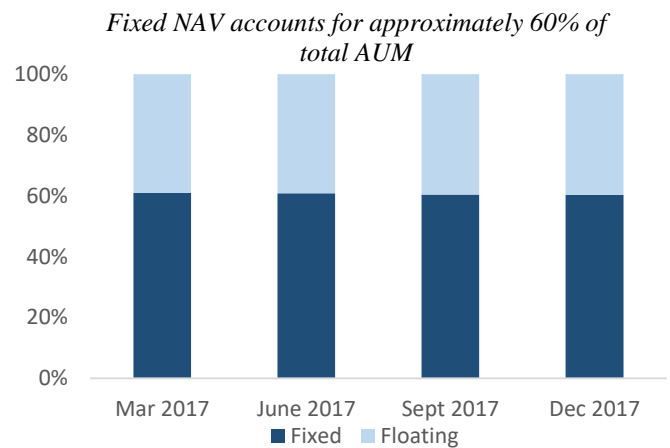


Figure 3: Total AUM (Fixed vs. Floating NAV)



The data highlighted that the CIS market was exposed and may continue to be

³ 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.
⁴ The Net Asset Value (NAV) is the price per unit of a CIS. For a Fixed NAV CIS, this price remains constant.

exposed to risks associated with investing in the following categories of securities:

- TT Government securities;
- Foreign securities; and
- Domestic Corporate Securities.

On average, investments in Foreign Securities accounted for 35 percent of the market’s portfolio in 2017. This category is comprised of the following:

- Foreign Equities;
- Foreign Non-Government Securities;
- Foreign Government Securities; and
- Foreign CISs.

Investments in Foreign Equities recorded the largest movement, increasing by five (5) percent over the period under review. This was followed by investments in Foreign CISs (6 percent). Of note, investments in Foreign Non-Government Securities declined by approximately three (3) percent.

The category of “Other” **Figure 4** includes investments in Repos, mortgages, promissory notes and options. These investments were valued at approximately three (3) percent of the market’s portfolio.

Figure 5 illustrates the market’s exposure to fluctuations in the value of USD as investments in foreign securities are predominantly transacted in this currency.

Figure 4: CIS Portfolio Composition by category of security

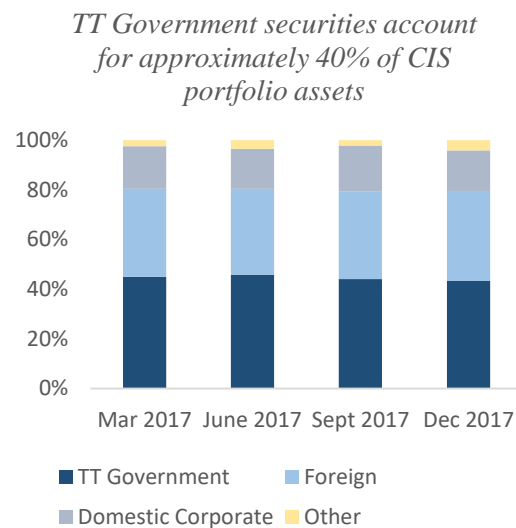
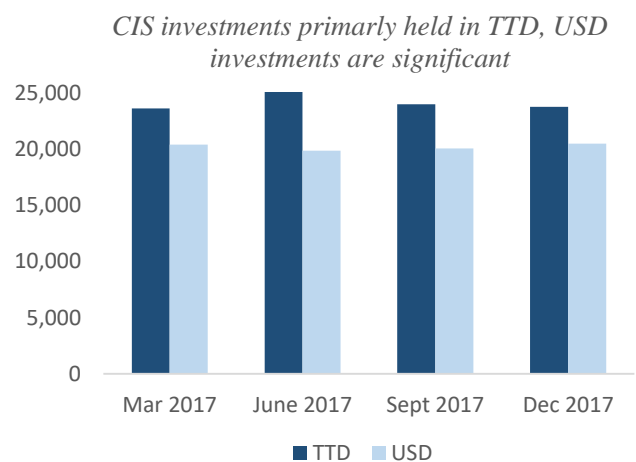


Figure 5: Denomination of investments held by CISs, (TT\$Million)



Repurchase Agreements Market

Repos are defined by the Commission’s Repurchase Agreement Guidelines 2012 as “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”.

As at December 31 2017, eight (8) Broker-Dealers (Repo Dealers) were registered with the Commission to participate in the Repo market (**Table 3**). In 2017, one (1) Repo dealer closed all Repo positions and exited the market.

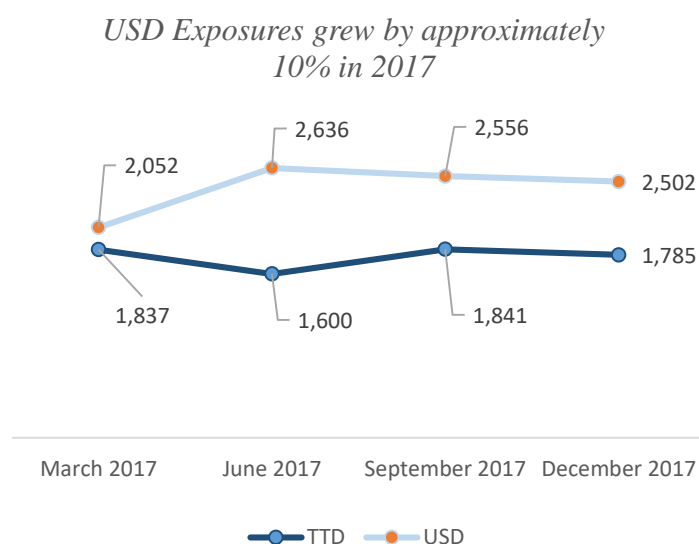
On average, there were approximately 1,404 outstanding Repo transactions in 2017 (**Table 3**). Repo Dealers reported a 6.7 percent increase in the number of outstanding Repo transactions. For the 2017 review period, the market recorded a 16.9 percent (TT\$620.6Mn) increase in the value of Repo liabilities.

Repos, in 2017, were mainly denominated in two (2) currencies: TTD and USD. On average, 57.8 percent (TT\$2,437Mn) of Repo Liabilities were denominated in USD (**Figure 6**). This is reflected in the overall portfolio composition of the market; as the total value of foreign securities held by Repo Dealers rose by an estimated 12 percent (**Figure7**).

Table 3: Repo Market Overview, 2017

	Mar 31	June 30	Sept 30	Dec 31
Value (TT\$Mn)	3,889	4,232	4,390	4,288
No. of Repos	1,377	1,356	1,442	1,440
No. of Repo Dealers	9	8	8	8

Figure 6: Total Repo Liabilities by Currency, (TT\$Million)



The growth in the value of foreign securities resulted from increases in the holdings of: Foreign Government Securities (17 percent) and Foreign Non-Government Securities (8 percent). Repo positions held in Foreign Equities and Foreign CISs in March 2017 and June 2017, respectively, were liquidated.

Figure 7: Repo Portfolio Asset Composition

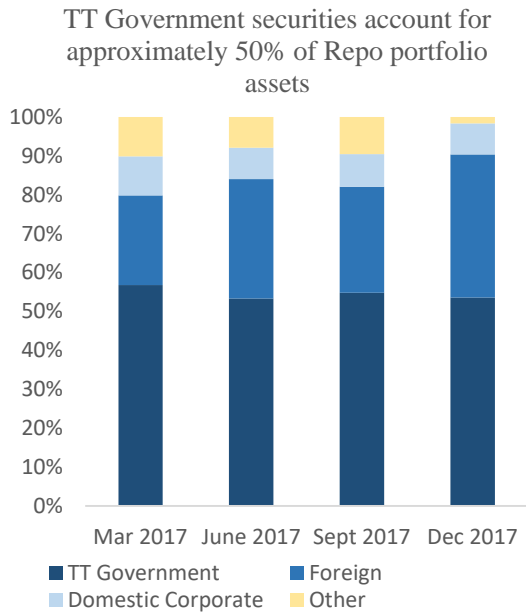
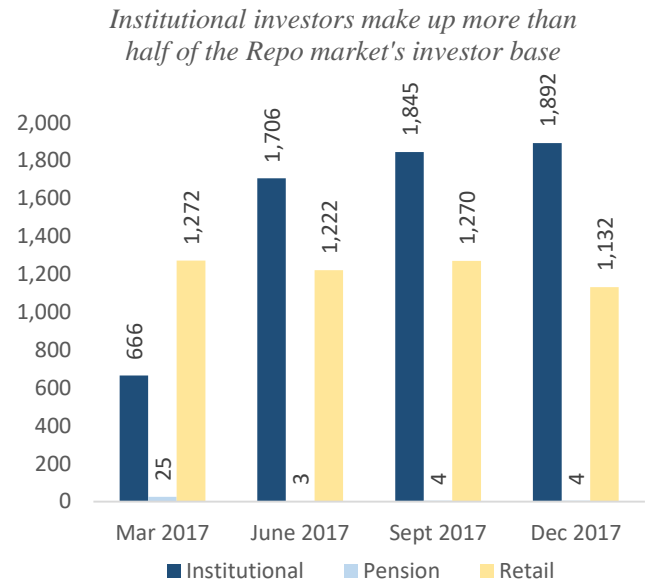


Figure 8: Repo Investor Breakdown by Category



The four (4) largest categories of assets underlying Repos in 2017 were:

- TT Government Securities;
- TT Non-Financial State Agencies;
- Foreign Government Securities;
- and
- Foreign Non-Government Securities.

Repo Liabilities held in USD outweighed those in TTD highlighting the vulnerabilities of Repo Liabilities to fluctuations in the value of the USD.

The Repo market's client base was mainly comprised of Institutional and Retail investors, with a very small number of Pension Plans utilizing the instrument as a form of investment.

The value of Institutional investments rose more than 100 percent, for the nine-month period to December 2017, while the value of retail investments declined by 11 percent. The Institutional category consists of domestic investors such as Banks, Insurance Companies and Credit Unions (**Figure 8**).

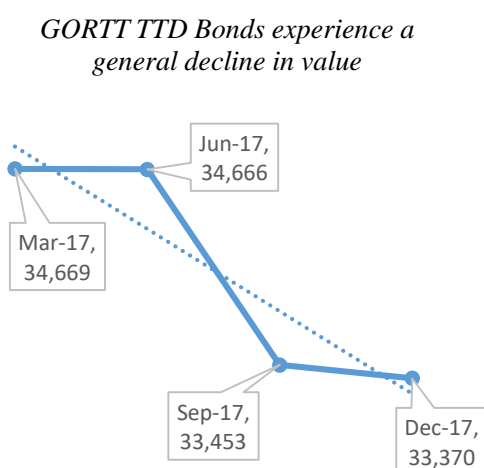
Government Bond Market, Equities Market and the Over-the-Counter Market

Government Bond Market

As at December 31 2017, there were 48 TTD denominated Government bonds in issue at a nominal value of TT\$33,370Mn. For the nine-month period to December 2017, the value of these bonds declined by approximately 3.75 percent. A 3.50 percent decline was reported during the period June to September 2017 (**Figure 9**).

In March 2017, one (1) Government of the Republic of Trinidad & Tobago (GORTT) bond was issued at a face value of TT\$1,000Mn.

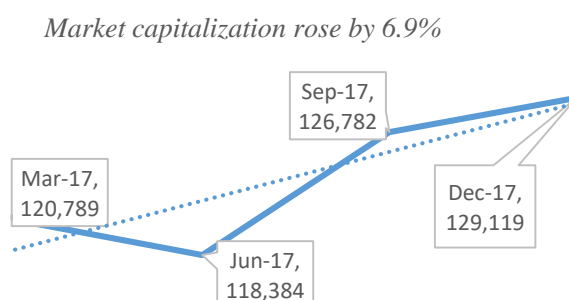
Figure 4: Value of GORTT Bond Issues, (TTMillion)



Equity Market

There were 39 equity securities listed on the Trinidad and Tobago Stock Exchange in 2017. The total value of these securities, as measured by market capitalization, rose by approximately 6.9 percent (TT\$8,330Mn) from the quarter ended March 31 2017 (**Figure 10**).

Figure 5: Market Capitalization of the TTSE Listed Equities, (TTMillion)



OTC Market

The Over-the-Counter (OTC) market transactions typically occur “off exchange”, in that these are private trades in securities which occur between two (2) parties. Information on these transactions, such as the traded prices of securities are not required to be published for the general

public. Therefore, to increase the level of transparency within this market, Registrants who facilitate OTC transactions are required to submit data under the MMRF.

As at December 31 2017, there were 392 transactions valued at of TT\$1,957Mn. The overall value of the market increased by an estimated 85 percent in the nine-months to December 31 2017 (**Figure 11**). The usage of the OTC market also increased by more than 100 percent over the 2017 review period (**Figure 12**).

Figure 6: Value of OTC Transactions, (TT\$Million)

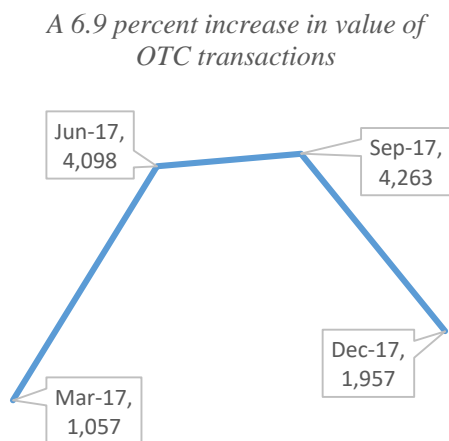
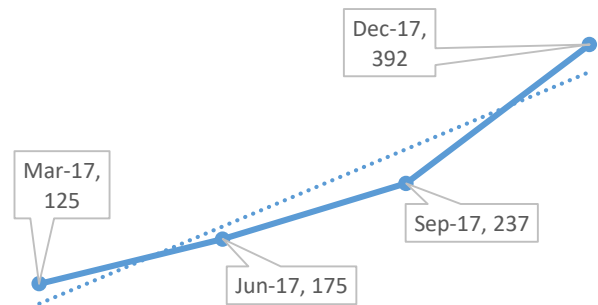


Figure 7: Volume of OTC Transactions

OTC transactions grew in popularity over the 9 month period, March-December 2017



SECURITIES MARKET INTERCONNECTIONS

Securities markets are both global and interconnected. The local securities market being no exception as the interconnections between the local securities market and the wider financial system are complex in nature. The importance of monitoring this global exposure was underscored by the 2008/2009 financial crisis when global markets collapsed due to their exposure to interconnected products and financial institutions that failed.

In 2017, each market segment contained participants who were either part of the banking system or affiliated to an entity that is part of the banking system. In the Repo market, this interconnection is more pronounced. Of the eight (8) Repo Dealers, two (2) were subsidiaries of financial

institutions, one (1) of which continued to hold more than 60 percent of total TTD and USD Repo Liabilities.

The initial FSHIs are assisting the Commission in monitoring these complex interconnections and their potential risks. For example, within the Repo market, approximately over 49 percent of Repo Assets were both local and foreign Government securities. In addition, the Commission notes the increasing institutional appetite for Repo instruments amongst Credit Unions, Insurance Companies, Banks and other Financial Institutions. The general public, therefore, is indirectly exposed to the risks associated with this market by their investments in these other sectors of the financial system.

The Commission also continues to observe the activities of Fixed NAV CISs as they dominate approximately 60 percent of the market's AUM and pose unique risks to the

wider CIS market. In light of these risks, the Commission engaged with consultants and industry participants to develop a way forward to mitigating them. In addition, the Commission notes the exposure to foreign exchange fluctuations borne by CISs resulting from overall aggregate investment in foreign securities of over 35 percent.

The Commission will continue to develop and monitor the risk exposures of the market through the FSHIs outlined in this issue of the Bulletin.

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.