



# Securities Market Bulletin

July 2019, Issue #3

# TRINIDAD AND TOBAGO SECURITIES & EXCHANGE COMMISSION



## SECURITIES MARKET BULLETIN

July 2019

ISSUE 3

## TABLE OF CONTENTS

CEO’S MESSAGE .....	4
INTRODUCTION .....	6
SECURITIES INDUSTRY REVIEW .....	7
FINANCIAL SOUNDNESS AND HEALTH INDICATORS (“FSHIs”) .....	8
Collective Investment Schemes Market.....	8
Repurchase Agreements Market.....	12
GOVERNMENT BOND MARKET, EQUITIES MARKET AND THE OVER- THE-COUNTER MARKET.....	14
Government Bond Market .....	14
Equity Market .....	14
Over-the-Counter (“OTC”) Market .....	14
SECURITIES MARKET INTERCONNECTIONS .....	15
APPENDIX.....	17

## CEO'S MESSAGE

It gives me great pleasure to present the Trinidad and Tobago Securities and Exchange Commission's ("the Commission's") Securities Market Bulletin ("the Bulletin") for the year 2018. As the securities regulator, the Commission aims *"to protect investors, promote and enable the growth and development of the securities industry by nurturing fair, efficient and transparent securities markets, cooperating with other regulators and mitigating systemic risk"*.

Market Development, one of three strategic pillars that support the Commission's mission, requires the development of the securities industry. To support this pillar, the Commission develops legislation, policies and frameworks geared towards promoting market efficiency, integrity, investor protection and confidence in the securities industry.

In response to the International Organization of Securities Commissions' ("IOSCO's") revised principles, regulators face an increasing responsibility for monitoring, mitigating and managing systemic risk, which includes the establishment of

processes to ensure regular review of the perimeter of regulation. As such, the development of the Micro-Macro Prudential Reporting Framework ("MMRF") has been beneficial as it allows the Commission to measure and monitor the level of systemic risk within the domestic securities industry. The Commission is also cognizant of the industry's evolution as new financial products and operating systems are introduced which may result in the emergence of other risks. In light of this, the Commission has to keep abreast of developments in the ever-changing global economy and the potential impact of these developments on the local securities industry.

I am proud to report that the Commission has successfully achieved significant milestones in the year 2018. Since the Commission's launch of the MMRF in 2016, the Commission has been successful in collecting the requisite information from Registrants and has provided periodic overviews of the market to date. The Staff of the Commission has noted that the quality of data provided by Registrants has improved with the progression of time. We take this opportunity to thank the Registrants for their willingness to provide the required data and

cooperate with the Commission to resolve issues encountered during the process.

In addition, the Commission continues to survey the market and develop necessary policies and frameworks to contribute to the development of the securities industry. Specifically, these policies or frameworks will aid in the identification and mitigation of emerging risks. During 2018, the Commission worked with the market to update the Repurchase Agreement Guidelines and made substantial progress towards development of By-Laws for the Collective Investment Schemes sector. New, updated and much more comprehensive Anti-Money Laundering/Combating the Financing of Terrorism (“AML-CFT”) Guidelines were drafted and disseminated. The Commission has embraced the promise of Financial Technology (“Fintech”) and has made tangible progress in developing its Fintech Policy. We anticipate that these initiatives, as well as others underway, will contribute to the overall operational efficiency and development of the securities industry.

This Bulletin encapsulates the data collected from the Registrants as required under the MMRF. With the use of Financial Soundness and Health Indicators (“FSHIs”), the Staff of the Commission was able to analyse the data

and present an overview of the market’s development and associated risk exposures.

This Bulletin will indicate that, in 2018, there was moderate growth in the number of Registrants in the securities industry. When compared to 2017, there was a two (2) percent increase in the number of Registrants. The value of the transactions of the main offerings in the securities industry remained steady at TT\$219.77Bn in 2018 compared with TT\$219.19Bn in 2017. This report further gives a review of each market segment and the interconnections that exist.

As the reporting and assimilation process evolves and matures, we are hopeful that in the not too distant future, MMRF data collection and analysis will allow personalised reports to be made available to Registrants, which will allow for self-to-market comparisons.

The Commission will continue to collaborate with other regulators within the financial sector to ensure that, through collective action, there will be the assurance of continued financial stability and effective management of systemic risk.

## INTRODUCTION

The Trinidad and Tobago securities market is one of the largest in the Caribbean. As at December, 31 2018, it was valued at TT\$219.77Bn and comprised of a range of product offerings such as Equities, Collective Investment Schemes (“CISs”), Bonds and Repurchase Agreements (“Repos”).

Under the powers of the Securities Act 2012 (SA 2012), the Commission monitors the risk exposure of registrants and self-regulatory organisations and takes measures to protect the interest of investors, clients, members and the securities industry. It is within the context of this specific obligation that the Commission must engage in macro-prudential oversight of the securities market. As such, the Commission continues to work assiduously to improve the quality of data that is available for the macro-prudential oversight of the local securities market.

A key component of reducing systemic risk 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 (“NAV”) CISs and their associated risks (i.e. currency, interest, liquidity, etc.), the potential for

concentration risk within the Repo Asset portfolios and 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 third issue of the Securities Market Bulletin analyses the size indicators and highlights some of the interconnections within the securities market for the quarters ending March, June, September and December 2018.

## SECURITIES INDUSTRY REVIEW

As at December 31 2018, 434 persons<sup>1</sup> were registered with the Commission to conduct business activities within the securities market. This represents a 2 percent increase in the number of persons registered by the Commission when compared to the same period in 2017 (**Table 1**). This was primarily due to an estimated 5 percent increase in Registered Representatives. Additionally, there was a new registration in the “Underwriter” category in 2018. A description of the activities conducted by each category of registered persons is contained in the **Appendix**.

Pursuant to the Micro and Macro-Prudential Reporting Framework (“MMRF”) Order, 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 CISs that they manage.

<sup>1</sup> As defined by Section 4 of SA 2012, a person “includes an entity” and an entity “means a body

*Table 1: Category of Registrants*

Category	Number of Registrants	
	December 31, 2017	December 31, 2018
<b>Reporting Issuers</b>	82	83
<b>Broker-Dealers</b>	34	34
<b>Investment Advisers</b>	17	13
<b>Underwriters</b>	0	1
<b>Registered Representatives</b>	282	295
<b>Sponsored Broker-Dealers</b>	8	6
<b>Sponsored Investment Advisers</b>	0	0
<b>Self-Regulatory Organizations</b>	2	2
<b>Total</b>	<b>425</b>	<b>434</b>

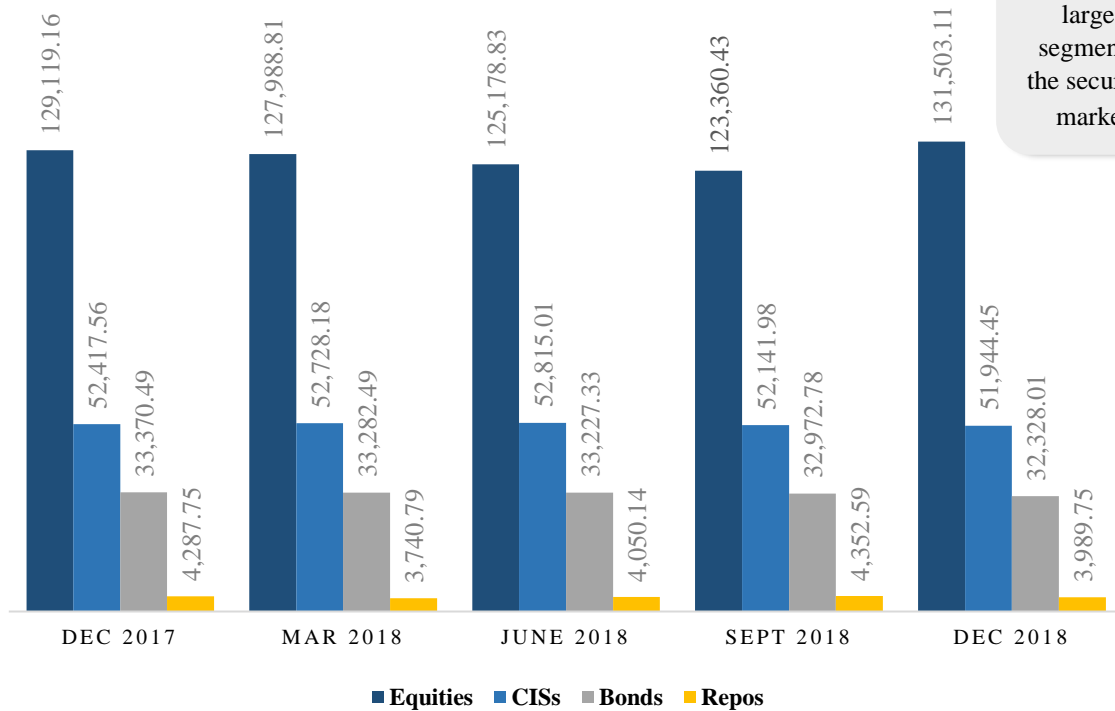
The local securities market mainly comprises of the following segments:

- Equities;
- CISs;
- Bonds; and
- Repos.

The nominal value of each segment in 2018 is presented in **Figure 1** overleaf.

corporate, trust, partnership, collective investment scheme, fund or other unincorporated enterprises or organizations”.

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



The Equity Market is the largest segment of the securities market.

## FINANCIAL SOUNDNESS AND HEALTH INDICATORS (“FSHIs”)

### Collective Investment Schemes Market

A CIS is an investment instrument that pools shareholders’/unit holders’ cash contributions and invests in a diversified securities portfolio with a specified objective. Section 4 of the SA 2012 states inter alia that

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 64 CISs managed by 12 CIS Managers<sup>2</sup> registered with the Commission as at December 2018 – the end of Quarter 4, 2018 (**Table 2**).

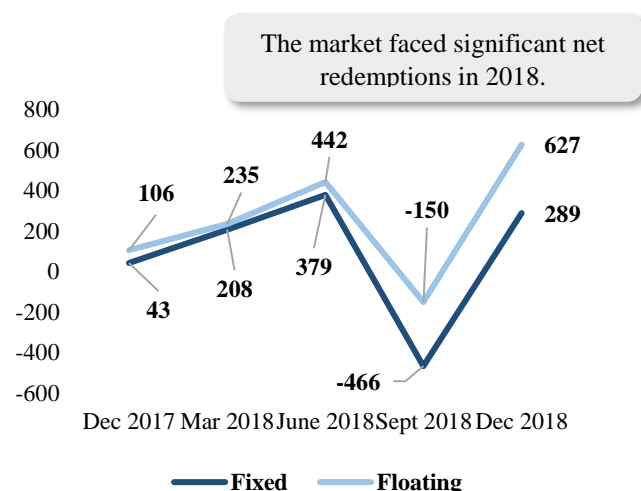
**Table 2: Number of CISs**

Indicators	Dec 2018	Dec 2017
Number of CISs	64	62
Number of CIS Managers	12	12

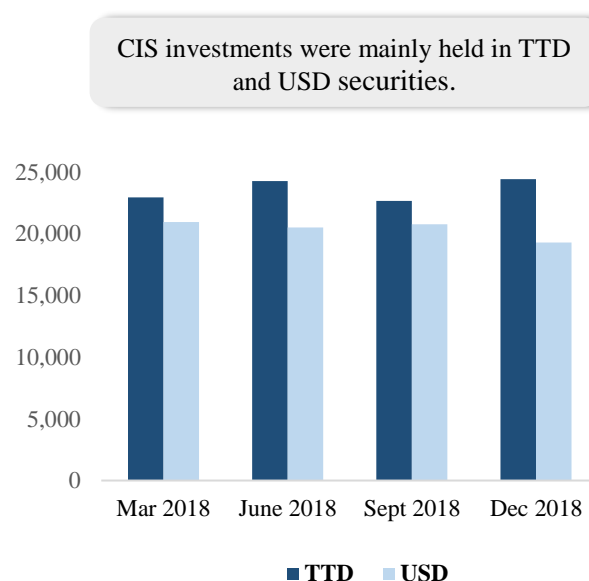
Analysis of the data submitted by these CIS Managers indicates that the average value of Assets under Management (AUM)<sup>3</sup> in 2018 was TT\$51.94Bn. The data also showed a less than 1 percent decrease in AUM (approximately TT\$473Mn) for the year (**Figure 1 on page 6**).

The CIS market recorded net sales of TT\$1.56Bn in 2018 despite its net redemptions of TT\$616Mn in Quarter 3 2018 (**Figure 2**).

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



**Figure 3: Denomination of investments held by CISs, (TT\$Million)**



CIS investments were mainly denominated in TTD and the USD currencies. **Figure 3** above illustrates the currency composition of

<sup>2</sup> CIS Managers are Broker-Dealers registered with the Commission.

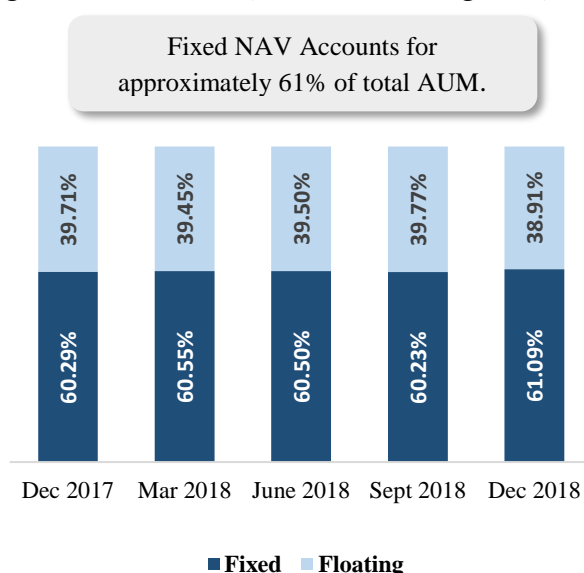
<sup>3</sup> Assets under Management is defined as the total value of financial instruments held on the portfolio of

a CIS and includes the gains from interest payments/dividends of these instruments as well as cash held by the CISs.

the market's investments. The Commission notes the market's exposure to fluctuations in USD denominated investments.

Fixed Net Asset Value (NAV)<sup>4</sup> CISs reported overall net sales of approximately TT\$409Mn in 2018. Fourteen (14) of the 64 CISs are Fixed NAVs which accounted for approximately 61 percent of the CIS market's AUM in 2018 (**Figure 4**).

**Figure 4: Total AUM (Fixed vs. Floating NAV)**



As at December 2018, the AUM of these CISs declined marginally by approximately TT\$193.6Mn, 0.6 percent from end of March 2018. However, a year-on-year review at December 2018, revealed a 0.4 percent

(TT\$131.4Mn) increase of the AUM of Fixed NAVs.

Nine (9) Fixed NAV CISs were denominated in TTD. These were estimated to account for over 71 percent of TTD denominated investments held within these CIS portfolios. The dominance of Fixed NAV 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.

The data highlighted that the CIS market was and may continue to be exposed to risks associated with investing in the following categories of securities:

- TT Government Securities; (“GORTT”)
- Foreign Securities; and
- Domestic Corporate Securities.

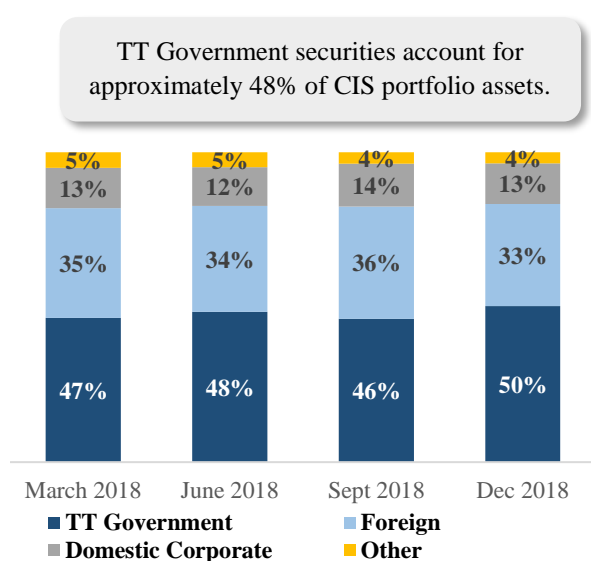
### TT Government Securities

On average, investments in Local Government Securities and State Agencies

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

were approximately 48 percent of the CIS market's portfolio composition (**Figure 5**). The value of these investments rose by 8 percent during the year 2018, which was mainly due to the resounding response from investors to the government's initial public

**Figure 5: CIS Portfolio Composition by category of security**



offering of domestic bonds in the capital market.

### Foreign Securities

Investments in Foreign Securities held the second largest share of the market's portfolio.

This category comprises of:

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

On average, investments in Foreign Securities accounted for 35 percent of the market's portfolio in 2018.

When compared to December 2017, investments in Foreign CISs recorded the largest movement, decreasing by 73 percent over the period under review. This substantial decline can be attributable to a significant increase in the liquidation of US denominated assets to access alternative sources of foreign exchange. Foreign Equities declined by 22 percent followed by Foreign Non- Government Securities, which also experienced a decrease of 8 percent. On the other hand, investments in Foreign Government Securities increased by approximately 6 percent from December 2017.

### Domestic Corporate Securities

On average, investments in Domestic Corporate Securities accounted for 13 percent of the market's portfolio in 2018. These securities comprise of:

- TT Equity
- TT Other Corporate Bonds
- TT CISs
- TT Bonds Financial Sector

There was a year-on-year decrease of 20.4 percent in Domestic Corporate Securities

during 2018, which was mainly attributable due to a 53.4 percent decrease in TT Other Corporate Bonds.

In **Figure 5**, the category of “Other” includes investments in Repos, Mortgages, Promissory Notes and Other Assets. These investments were valued at approximately 4 percent of the market’s portfolio.

### Repurchase Agreements Market

According to the Commission’s Repurchase Agreement Guidelines 2012, Repos are defined 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”*.

Of the 34 Broker-Dealers registered with the Commission, 8 participated in the Repo market at the end of December 31, 2018 (**Table 3**). In 2018, 5 Repo dealers closed their Repo positions in the market.

On average, there were approximately 1,446 outstanding Repo transactions in 2018 (**Table 3**). Repo Dealers reported a marginal increase of 0.3 percent in the number of outstanding Repo transactions; a notable

decline in growth when compared to the 6.7 percent increase in 2017. The market recorded a 15.8 percent (TT\$679.6Mn) year-on-year decrease in the value of Repo liabilities.

**Table 3: 2018 Repo Market Overview**

Indicators	Mar 31	June 30	Sept 30	Dec 31
Value (TT\$Mn)	3,729	3,737	4,162	3,608
No. of Repos	1,421	1,461	1,477	1,425
No. of Repo Dealers	13	13	9	8

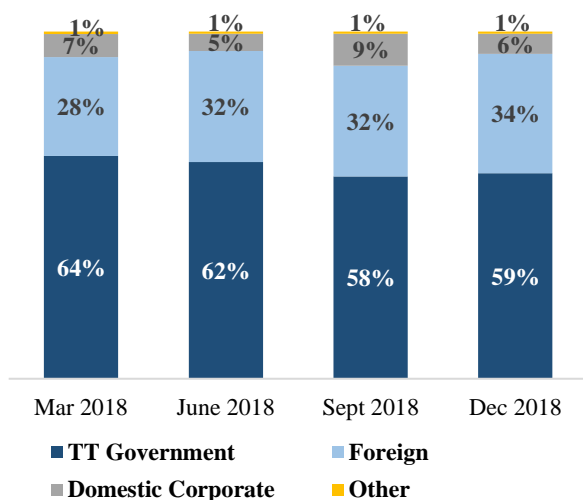
The four (4) largest categories of assets underlying Repos in 2018 were:

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

Although TT Government Securities accounted for 59 percent of all Repo Assets (**Figure 6**) overleaf, the total value of Foreign Securities held by Repo Dealers rose by 71 percent when compared to 2017.

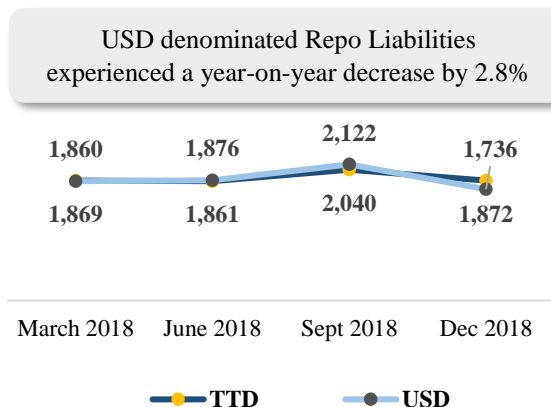
The growth in the value of Foreign Securities was mainly attributable to increases in the holdings of Foreign Government Securities (76.2 percent) and Foreign Non-Government Securities (64.2 percent).

**Figure 6: Repo Portfolio Asset Composition**



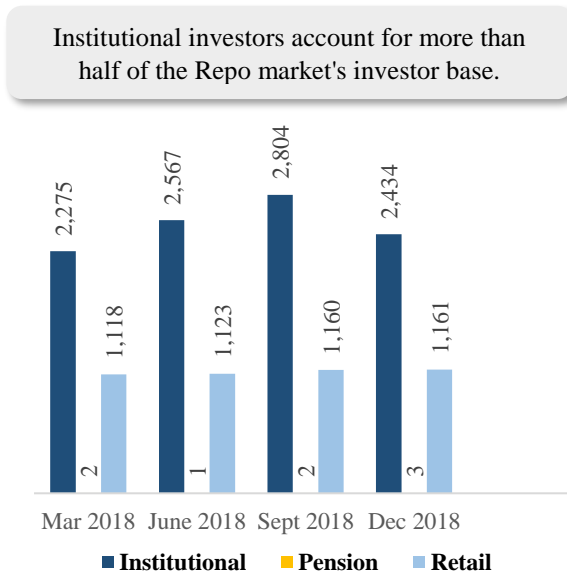
Approximately 50 percent (TT\$1,898.6Mn) of Repo Liabilities were denominated in USD which highlights the vulnerabilities of Repo Liabilities to fluctuations in the value of the USD. In Quarter 3 there was a spike in both USD and TTD denominated Repo liabilities by 13.1 percent and 9.6 percent, respectively. However, this was followed by a sharp decline of 18.1 percent and 8.2 percent for both USD and TTD denominated Repo Liabilities, respectively (**Figure 7**).

**Figure 7: Total Repo Liabilities by Currency, (TT\$Million)**



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

**Figure 8: Repo Investor Breakdown by Category**



The year-on-year value of Institutional and Retail investments rose by 28.6 percent and

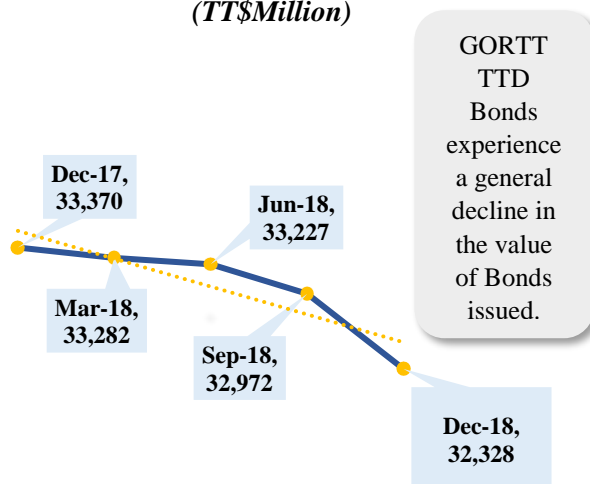
2.6 percent, respectively. The Institutional category consists of domestic investors such as Banks, Insurance Companies and Credit Unions.

## GOVERNMENT BOND MARKET, EQUITIES MARKET AND THE OVER- THE-COUNTER MARKET

### Government Bond Market

As at December 31 2018, there were 43 TTD denominated Government bonds in issue at a nominal value of TT\$32,328Mn. For the twelve-month period, December 2017 to December 2018, the value of the bonds issued declined by 3.1 percent (**Figure 9**).

**Figure 9: Value of GORTT Bond Issues, (TT\$Million)**

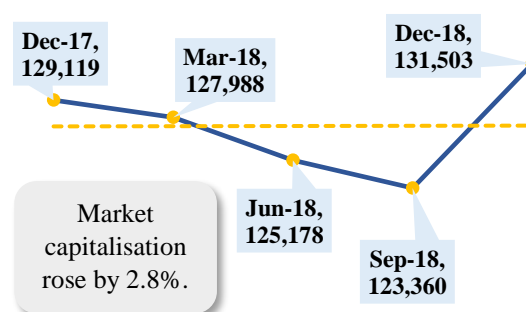


### Equity Market

There were 38 equity securities listed on the Trinidad and Tobago Stock Exchange as at

the period ending 2018. The total value of these securities, as measured by market capitalization, rose by approximately 2.8 percent (TT\$3,515Mn) from the quarter ended March 31 2018, the value also increased by 1.9 percent (TT\$2,384Mn) for the twelve-month period December 2017 to December 2018 (**Figure 10**).

**Figure 10: Market Capitalization of the TTSE Listed Equities, (TT\$Million)**



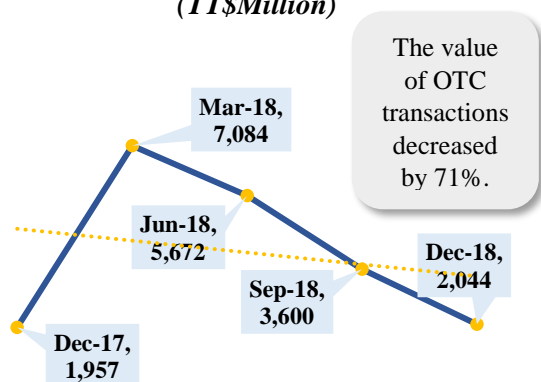
### Over-the-Counter (“OTC”) Market

The OTC market transactions typically occur “off exchange”; that is, they are private trades in securities, which occur between two (2) parties. Information on these transactions, such as the traded prices of securities is not required to be published. Therefore, to increase the level of transparency within this market, Registrants who facilitate OTC

transactions are required to submit data under the MMRF.

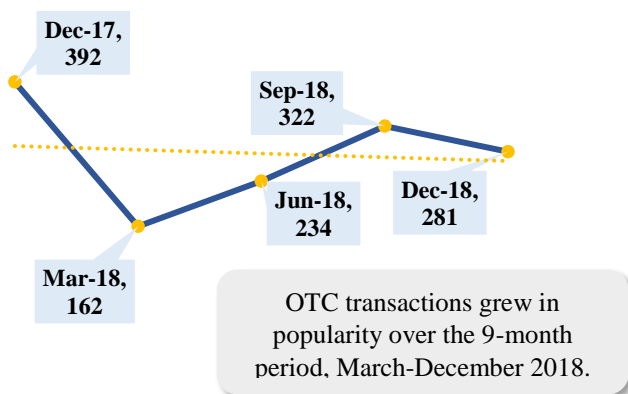
As at December 31 2018, there were 281 transactions valued at of TT\$2,044Mn. The overall value of OTC transactions in the market decreased by an estimated 71 percent in the nine-months to December 31, 2018. However, this increased by 4.5 percent over the twelve-month period, December 2017 to December 2018 (**Figure 11**).

**Figure 11: Value of OTC Transactions, (TT\$Million)**



In spite of the decrease in the value of OTC transactions during March 2018 to December 2018, there was an increase in the usage of the OTC market by 73 percent. Similarly, the year-on-year increase in the OTC market's value (4.5 percent) occurred alongside a decline in the market's usage (28.3 percent) during the same period (**Figure 12**).

**Figure 12: Volume of OTC Transactions**



## SECURITIES MARKET INTERCONNECTIONS

The Commission will continue to use the FSHIs to monitor the risk exposures of the local securities market to the wider financial system and its complex interconnections. In 2018, the global financial markets were exposed to many externalities due to intensified trade tensions and contractionary fiscal policies.

There continues to be intricate interconnections between the securities market and the banking system. Each market segment contained participants who were either part of the banking system or a subsidiary of a banking group. This interconnection persists in the Repo market.

Two (2) of the eight (8) Repo Dealers were subsidiaries of financial institutions, one (1) of which continued to hold on average 66 percent of total TTD and USD Repo Liabilities.

Repo investments in local and foreign Government Securities continued to grow and represented 78 percent of the market's investment portfolio in December 2018. In addition, institutional investors increased their appetite for repo instruments.

Furthermore, the data highlighted that institutional investors account for more than 50 percent of the repo client base. The purchase of repo instruments by financial institutions make the public susceptible to risk, namely by their investments in credit unions, banks and other financial institutions.

Fixed NAVs CISs posed unique risks to investors and represented approximately 61 percent of the AUM during 2018. As, Fixed NAV CISs continue to dominate the market, the Commission is mindful of its inherent risks and will be working with other regulators, relevant agencies and the market towards the development of an appropriate risk mitigation strategy going forward.

As the custodian of the securities market, the Commission will continue to develop our list of FSHIs to monitor the risk exposures within each segment of the securities market and, more specifically, the interconnectedness within the financial market.



## APPENDIX

### 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.