Importance of the Securities Market (Part 1)

The Trinidad and Tobago Securities and Exchange Commission ("TTSEC") is an autonomous agency whose primary roles are the protection of investors and fostering the orderly growth and development of the local capital market. While securities regulation exists to protect investors and foster growth in the market, the ultimate goal of securities regulation is to attain efficient financial markets and thereby improve the allocation of resources in the economy[1].

There are several economic theories that stress that banks provide services to the economy that differ from those provided by securities markets, predicting that both the operation of banks and the functioning of securities markets have independent influences on economic development. Furthermore, it is stated that better functioning banks and securities markets exert robust, independent, and positive effects on economic activity[2].

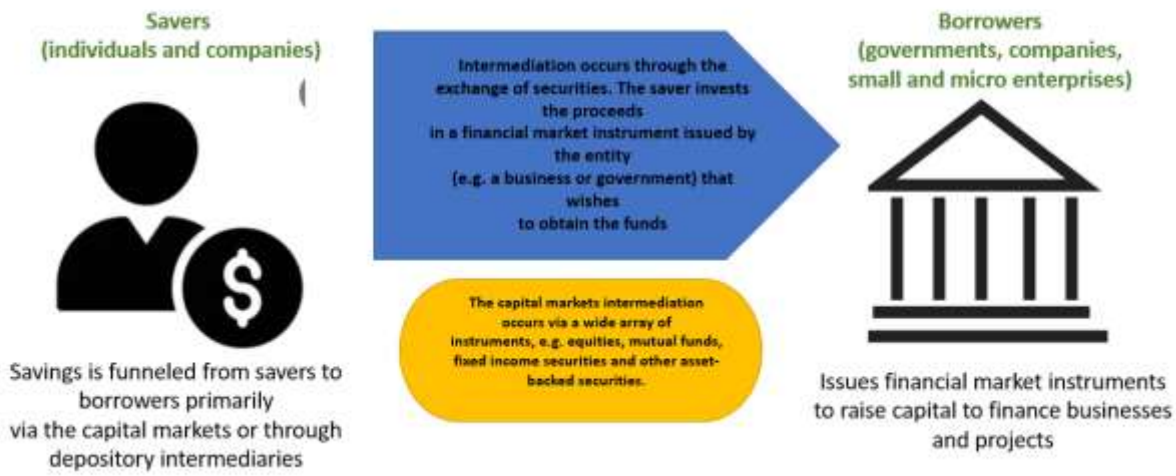
The Securities Market and Economic Development

The securities market is a subset of the financial sector in Trinidad and Tobago, and it is instrumental in facilitating the transfer of money from savers (individuals and companies) to borrowers (governments, companies, small and micro enterprises) who need capital to finance businesses and projects. **Figure 1** below shows the distribution of funds in the securities market.

Go Shen, Zohar, and Gideon Parchomovsky. "The Essential Role of Securities Regulation." *Duke Law Journal* 55, no. 4 (February 2006). https://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1279&context=dlj.

[2] Demirgu¨ c¸-Kunt, Asli, Erik Feyen, and Ross Levine. "The Evolving Importance of Banks and Securities Markets." *THE WORLD BANK ECONOMIC REVIEW*. Accessed January 30, 2022. https://openknowledge.worldbank.org/bitstream/handle/10986/21618/wber_27_3_476.pdf?sequence=1&isAllowed=y.

Figure 1: Distribution of Funds in the Securities Market



A study by Demirguc¸-Kunt and Levine (2001)[3] found that the association between economic activity and securities market development increases as countries grow. Put differently, as economies develop, the marginal increase in economic activity associated with an increase in securities market development rises. Essentially, the securities market contributes to the efficient allocation of resources in the economy. Without the securities market, savers would have to spend significant resources finding individuals, companies, and governments offering suitable investment opportunities. Similarly, spenders or users of capital would have to spend significant resources to search for capital rather than on considering how to best use it. The following lists some functions of the securities market in fostering economic growth:

1) It supports industrialisation through savings, investments and maturity transformation. Maturity transformation occurs when financial institutions take short-term sources of finance, such as deposits from savers and money market loans, and turn them into long-term borrowings, such as mortgages. Essentially the securities market fosters a culture of savings and investment in a country.
2) It provides a flow of long-term savings for economic development as these funds are channelled through these markets to meet not only domestic but also foreign demands.
3) The securities market can function as a mechanism that provides instantaneous feedback to policymakers. When policymakers propose policies that do not promote positive market development, equity and bond risk tend to rise. Stocks and bonds can also decrease in value. These price signals raise a red flag to lawmakers about the wisdom of pursuing the policies in question. In essence, because the securities markets anticipate future developments, they reduce the incentives to do things that provide short-term gains but rather look at long-term benefits that will boost a country’s economic performance.

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[3] Demirgu¨ c¸ -Kunt, A., and R. Levine. 2001. Financial Structures and Economic Growth: A Cross-Country Comparison of Banks, Markets, and Development. Cambridge, MA: MIT Press.

Some Key Forces Driving the Securities Market

The securities market is not static, it is constantly evolving to meet the needs of the market.

Some of these changes are driven by the following:

- **Regulation** - There is a need for robust regulation of the financial services industry, including the securities market. International co-operation among regulators is of paramount importance as it allows for the continuous raising of global standards of securities regulation.
- **Technology** - Changes in technology have dramatically decreased operating and processing costs and has increased investment providers processing capacity. It has also spurred the development of innovative financial technology products and services in the securities market.
- **Globalisation** - There are some locally distributed securities where the underlying assets in their portfolios comprise of investments from foreign jurisdictions. As such these securities and investors' returns are very susceptible to fluctuations in the international markets. Furthermore, some investors tend to look at the international market to diversify their investments and generate higher returns.

We encourage members of the public who are interested in investing in securities, to visit our website https://www.ttsec.org.tt/registration/ for a list of registered companies, individuals and securities or consult with professionals registered with the TTSEC for the necessary information.

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