



## **Investment Advisers vs. Broker-Dealers (Part 1)**

Over the years market actors have been evolving their products and services to keep abreast of changes in the market, and to meet the increasing demands of investors. While each market actor has a distinct role, the Trinidad and Tobago Securities and Exchange Commission (“TTSEC”) has taken note that the line intended to clearly distinguish the activities performed by Investment Advisers from those performed by Broker-Dealers has become blurred.

As at the end of 2019, the TTSEC conducted compliance reviews in accordance with Section 89 of the Securities Act, 2012 (“SA 2012”) of all Investment Advisers registered with the TTSEC. In the course of these reviews, it was discovered that, for several reasons, some Investment Advisers were conducting activities which generally fall under the remit of Broker-Dealers. This predicament presents a challenge not only for the local securities industry; but has also captured the attention of international regulators who, based on studies conducted in this area, have concluded that it is very important for activities to be clearly demarcated. Therefore, in this article; and in the next issue of Express Business, the TTSEC will aim to better clarify the activities that distinguish the work of the Investment Advisers versus Broker-Dealers. We begin with Investment Advisers:

### **Regulatory Definition**

In accordance with Section 4 of the SA 2012:

***“Investment advice” means advice with respect to an investment in, or the purchase, sale or holding of, a security.***

***“Investment Adviser” means a person engaging in, or holding himself out as engaging in, the business of providing investment advice, and includes a person that provides investment advice to a manager of a collective investment scheme.***

Entities which perform the function of an Investment Adviser as defined by the SA 2012, are required to be registered under Section 51(1) of the SA 2012. As at December 2019, there were fifteen (15) registered Investment Advisers, of which, **80 percent** and **20 percent** were registered

in the Corporate and Individual categories, respectively. An Investment Adviser, categorised in the Corporate group, can be either an independent company or part of a group of companies; and an Investment Adviser which falls in the Individual group is normally a sole trader or company.

The data collected from the TTSEC's Micro-Macro Prudential Reporting Framework ("MMRF") shows that as at December 2019, **73.3 percent** of Investment Advisers were independent companies and the remaining **26.7 percent** comprised Investment Advisers belonging to a banking group or non-banking financial group. A listing of registered Investment Advisers can be accessed via our corporate website at [www.ttsec.org.tt](http://www.ttsec.org.tt).

### **Business Activities**

Given the definitions above, an Investment Adviser is only permitted to provide investment advice in respect of the purchase, sale or holding of a security. In accordance with By-law 58(3) of the Securities (General) By-laws, 2015 ("the By-laws"), a registered entity under Section 51 of the SA 2012, solely in the business of an Investment Adviser, shall not keep securities for, or on behalf of, a client. Therefore, no Investment Adviser is authorised to hold cash or securities in its name, on behalf of clients. The data collected from the TTSEC's MMRF as at December 2019, further indicates that the number of clients that the 15 Investment Advisers act on behalf of, account for less than one percent of the total clients of registered Registrants under Section 51(1) of the SA 2012. Based on the business activities performed by an Investment Adviser, the income recorded on the entity's income statement is mainly income earned from Investment Advisory Services provided.

## Registration Requirements

Figure 1 outlines Investment Advisers' registration requirements in accordance with By-law 19 of the By-laws.

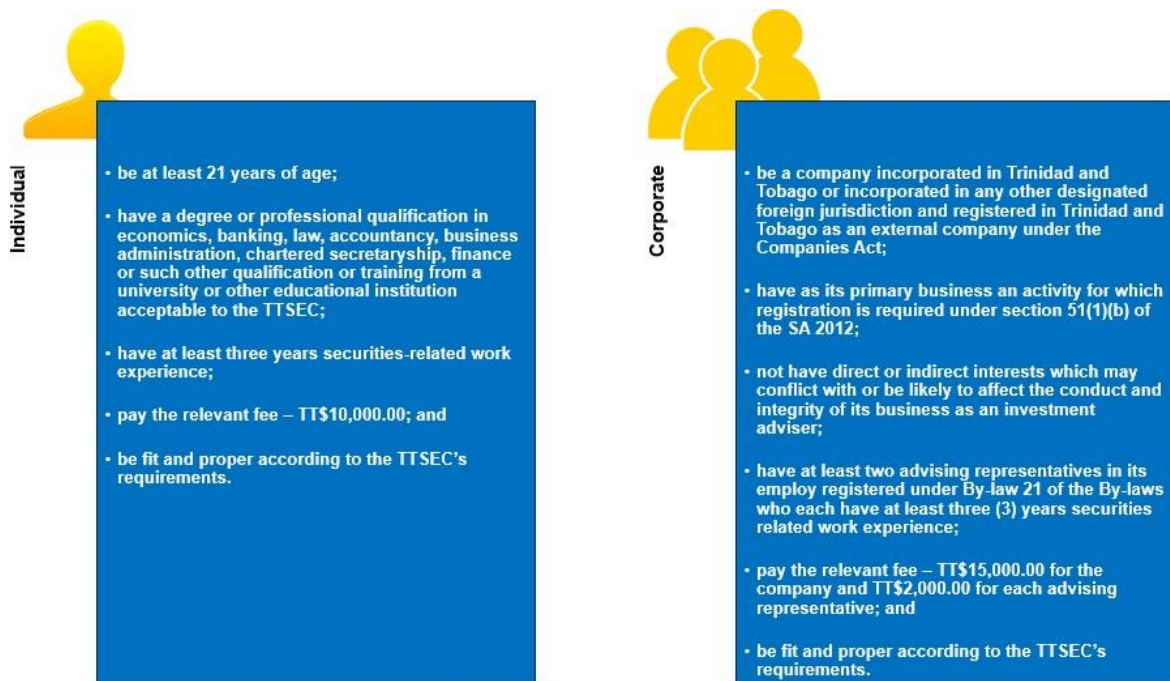


Figure 1

## Continuous Disclosure and Filing Obligations

Investment Advisers are required to file with the TTSEC the following:

- i. **Interim and Audited Financial Statements**
- ii. **MMRF Forms** – In the case of Investment Advisers, only the “SEC MMRF – 01 Balance Sheet and Client Assets” and “SEC MMRF – 02 Income and Expenditure” forms are required to be submitted.
- iii. **Quarterly Confirmation of Capital Requirements** – In accordance with By-law 27 of the By-laws, a Registrant registered under Section 51(1) of the SA 2012 is required to maintain stipulated capital levels at all times. In particular, Investment Advisers are required to have a minimum capital of TT\$50,000.00, all of which shall be regulatory capital.
- iv. **Conflict of Interest Rule Statement**
- v. **Renewal of Registration**
- vi. **Notification of Changes**

The above outlines some of the distinctive activities and requirements of Investment Advisers operating in Trinidad and Tobago. In Part 2 to this article, we will focus on Broker-Dealers and also give details regarding the TTSEC's response to the blurred line between both Registrant groups.

**END**

For more information, please visit our corporate website, [www.ttsec.org.tt](http://www.ttsec.org.tt).  
You may also visit our Investor Education website at [www.investucatett.com](http://www.investucatett.com) or  
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