



Market Conduct - What is expected from Registrants?

We are already into the second month of the year, and persons may at this time be implementing their financial goals. One way to reach those financial goals may be through investing in equities, debt securities (such as bonds) and mutual funds. This week, we focus on the types of market conduct that any prospective investor should expect from persons who are conducting securities-related business in Trinidad and Tobago.

First, any person or entity that seeks to conduct securities-related business (investing) on your behalf must be registered (i.e. a registrant) with the Trinidad and Tobago Securities Exchange Commission (“TTSEC”) pursuant to section 51 of the Securities Act, 2012 as amended (“SA 2012”). For the purposes of this article, whenever we refer to a registrant it’s one registered under section 51(1) of the SA 2012. The prescribed registrant categories include:

- i. Broker-Dealer;
- ii. Investment Adviser;
- iii. Underwriter;
- iv. Registered Representative;
- v. Sponsored Broker-Dealer; and
- vi. Sponsored Investment Adviser.

A person seeking to invest will likely speak to a **Broker-Dealer** (a person who conducts securities transactions on behalf of others, primarily clients, or his own account) or an **Investment Adviser** (a person engaging in, or holding himself out as engaging in, the business of providing investment advice).

As a result of their registration, these persons or entities are now expected to conduct their business activities (“Market Conduct”) in accordance with the rules and regulations prescribed by the TTSEC. These requirements can be found in the SA 2012 and the Securities General By-Laws, 2015 (“The 2015 By-Laws”). A non-exhaustive list of these activities from the 2015 By-Laws (<https://www.ttsec.org.tt/wp-content/uploads/Securities-By-Laws-2015.pdf>) are outlined below.

Trade Confirmations (By-Law 54) - This is the first important tenet that is handled under **Part VI** of the 2015 By-Laws titled “**Market Conduct and Regulation**”. A trade confirmation, which is required under section 109 of the SA 2012, shall contain the following information:

- i. The price at and the consideration for which the sale or purchase was effected: Simply put, if someone purchases 500 shares of Company X on the Trinidad and Tobago Stock Exchange, the Broker-Dealer must state in his trade consideration document the price (e.g. \$15 per share) and the total value of the purchase amount (\$7,500);
- ii. The commission charged in connection with the transaction and any other charges incurred: Essentially, the document must include the value of the Broker-Dealer's commission, which is usually calculated as a percentage of the transaction amount.
 - a. For example, if the Broker-Dealer's commission rate is 3% of the transaction value, the commission paid is 3% of \$7,500 or \$225.
 - b. Other fees would be transaction fees charged by the Trinidad and Tobago Stock Exchange and the Trinidad and Tobago Central Depository, which are 0.14% and 0.07% respectively of the value of the transaction. In our example, these fees equal 0.21% of \$7,500 or \$15.75.
 - If you are purchasing corporate bonds, the fee is \$0.10 for every \$1,000 of the transaction value. For example, if you purchase \$1,000,000 in corporate bonds, your fee will be \$100 ($\frac{\$0.10}{\$1,000} \times \$1,000,000$).

Handling of Client Accounts (By-Law 55) - This states that any payments made into client accounts for the purposes of section 107(1)(a) and (b) of the SA 2012, shall be made within three business days of the transaction. Under section 107(1), a broker-dealer shall establish and keep one or more trust accounts, or such other accounts, as the Commission may determine into which it shall, upon receipt, pay—

- i. all amounts, less any commission and other proper charges, that are received from or on account of any person, other than another broker-dealer, for the purchase of securities; and
- ii. all amounts, less any commission and other proper charges, that are received on account of any person, other than a broker-dealer, from the sale of securities and not paid to that person or as that person directs.

Commingling of Client Assets (By-Laws 57 & 58) - There are two aspects regarding the separation of client assets. By-Law 57 focuses on the supervision of such assets and states that a registrant shall ensure that the account of each client is supervised separately and distinctly from the accounts of other clients. By-Law 58 focuses on the segregation of client assets and takes a three-pronged approach in this regard:

- i. Securities that are held by a registrant for a client, that are not being used as loan collateral, shall be kept apart from all other securities; and be identified as being held for a client in the registrant's records (required to be kept under By-Laws 29 to 38).
- ii. Such securities may be released only on an instruction from the client and not solely because the client has become indebted to the registrant.
- iii. A registrant registered solely as an investment adviser, shall not keep securities for, or on behalf of, a client.

Improper use of Client Assets (By-Law 59) - This provision states that no registrant shall improperly use a client's assets or borrow, lend, pledge or otherwise use a client's assets without written authorisation.

Know Your Client ("KYC") obligations (By-Law 60): This is an important aspect of a registrant's responsibility to the client and has three main aspects:

- i. A registrant shall take reasonable steps to—
 - a. establish the identity of a client;
 - b. ascertain whether the client is a senior officer of a reporting issuer;
 - c. ensure that it has sufficient personal and financial information about a client to meet its obligations pertaining to client recommendations, trade instructions from clients and discretionary trading; and
 - d. establish the credit worthiness of a client, if the registrant is financing the client's acquisition of a security.
- ii. If the client of the registrant is an entity, the registrant shall, in order to comply with the obligation under paragraph (1)(a), establish—
 - a. the nature of the client's business;
 - b. the identity of any directors; and
 - c. the identity of any person who owns ten per cent or more of the paid-up share capital of the entity.
- iii. The registrant must make reasonable efforts to keep the information required under this By-Law up to date.

Suitability Obligation (By-Law 61) - Means that the Broker-Dealer must determine whether the proposed investment is appropriate for the client. The Broker-Dealer must have reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry as to his investment objectives, investment experience, financial situation and needs, or on any other information known to the registrant.

By-Law 61(2) states that if a client instructs a registrant to buy, sell or hold a security and the registrant, acting reasonably, is of the opinion that carrying out the instruction would not be suitable for the client, the registrant shall inform the client of their opinion and shall proceed unless the client instructs the registrant to do so nonetheless.

Discretionary Trading (By-Law 62) - A Discretionary Account (i.e., Discretionary Trading) allows an authorised Broker-Dealer to buy and sell securities without the client's consent for each trade. The client must sign a discretionary disclosure with the broker as documentation of consent. Furthermore:

- i. A Broker-Dealer shall not execute any trade for a client unless the registrant has the client's prior authorisation for the transaction.
- ii. Such a registrant may only execute investment discretion over a client's account if—
 - a. it has entered into a written agreement with the client granting such authority; and
 - b. the agreement has been signed and approved by a senior officer of the registrant prior to the first transaction for the client.

Hopefully, this article provides some clarity as to what should be expected from your Broker-Dealer.

For more information, please visit our corporate website, www.ttsec.org.tt.
You may also visit our Investor Education website at www.investucatett.com or
connect with us via any of our social media handles:



Published Article – Business Express Newspaper
February 10, 2021