



Role of Broker-Dealers in the securities market of Trinidad and Tobago

Facebook, Amazon, Apple, Netflix and Google are some of the more popular international investments/securities that may first come to mind when persons think about stocks and shares. For an investor in Trinidad and Tobago to acquire local or foreign stocks/equities¹, the services of a broker-dealer are required. In this week's article we will examine the role of broker-dealers in the securities market of Trinidad and Tobago and show how investors (individuals and companies) can utilise their services to grow their wealth. Figure 1 below shows a simplified diagram of the role of broker-dealers in the securities industry.

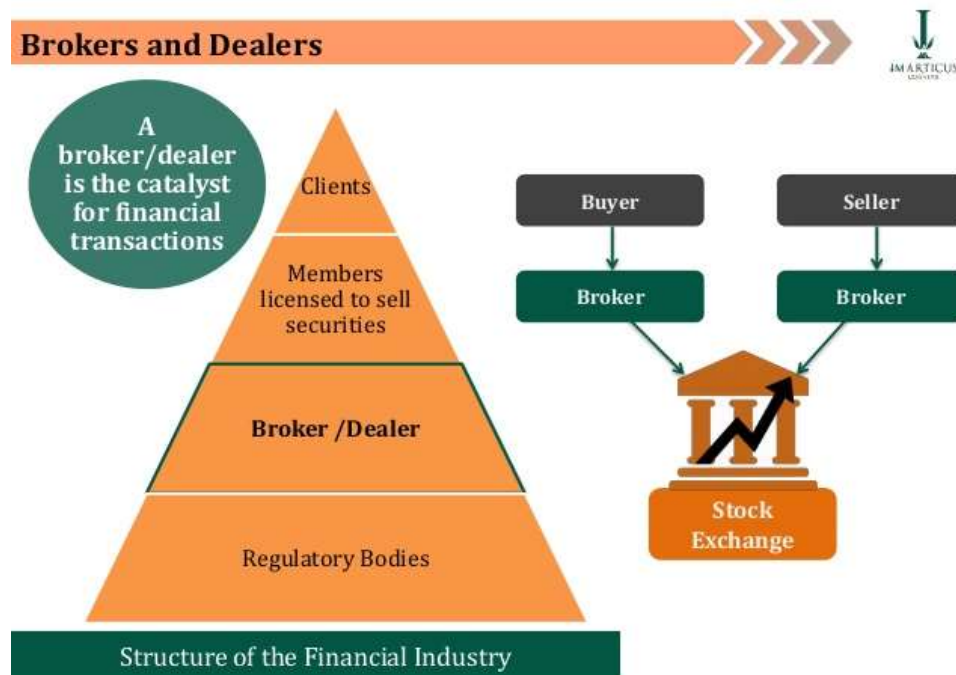


Figure 1: Simple Diagram of the Role of a Broker-Dealer

¹ Equity/shares represent ownership interest in a corporation mainly in the form of ordinary/common stock or preferred stock. Members of the public can purchase shares from companies listed on the Trinidad and Tobago Stock Exchange.

Regulatory Definition

To understand the role of broker-dealers it is important to state a clear definition, as specified by Section 4 of the Securities Act, 2012 (“SA 2012”) :

“Broker-Dealer” means a person engaging in, or holding himself out as engaging in, the business of— (a) effecting transactions in securities for the account of others; (b) buying or selling securities for his own account and who holds himself out at all normal times, as willing to buy and sell securities at prices specified by him; or (c) such other activities as may be prescribed;

To simplify the definition in the SA 2012, broker-dealers can trade securities on behalf of clients, but it can also trade for itself. **Broker** refers to *trading on behalf of others* and **dealer** refers to *trading on its own account*.

Entities performing these duties are required to be registered with the Trinidad and Tobago Securities and Exchange Commission (TTSEC) under Section 51(1) of the SA 2012. As at 30th April 2021, there were forty (40) registered broker-dealers among the business classes listed below:

- **Agent** (arranging a trade between third party buyers and sellers);
- **Principal** (purchasing or selling for its proprietary² book); and
- **Underwriter** (providing services in connection with the distribution of securities).

It is a common practice for broker-dealers to register in more than one of the business classes; and as at 30th April 2021, **87.5 percent (87.5%)** were registered in at least two (2) business classes while the majority, **92.5 percent (92.5%)**, were registered in the Agent class.

Business Activities

Broker-Dealers mainly earn income from: interest and dividends, brokerage and commission, fees from underwriting and portfolio management activities. Activities performed by broker-dealers include wealth and portfolio management as well as the sale of Repurchase Agreements (“Repo”); all of which we will explore further.

- **Wealth Management** provides a more holistic approach to financial and investment planning. Broker-Dealers have qualified representatives to serve in the capacity as brokers and investment advisers. Investment advice can be provided on a wide range of activities, from equity and bond trading to retirement planning. Apart from offering investment advice, a number of broker-dealers can also manage Collective Investment Schemes, known locally as mutual funds. As the manager of a mutual fund, they are tasked with utilising a pool of money from investors to invest in securities

² Proprietary – related to an owner or ownership

which are in line with the particular fund's investment strategy. Lastly, broker-dealers are able to execute trades in equities, stocks and bonds in local and international markets on behalf of investors.

- **Portfolio Management** involves building and overseeing a collection of different investment options that will meet the financial goals and risk tolerance of a particular investor. Two common types of portfolio management strategies used are discretionary and non-discretionary. With a discretionary portfolio management style, the broker has authorisation to make investment decisions without explicitly requiring the client's permission to execute transactions. Fees are generally higher with this style due to the additional effort required by the broker. On the other hand, with non-discretionary management the investor retains full control and ultimate responsibility for all investment decisions made. They may still rely on advice from the broker but no transactions can be executed without either verbal or written authorisation. Ultimately the client is required to be more involved with the burden of making investment decisions.
- **Repurchase Agreement (Repo) Selling** is currently one of the more specialised activities performed by broker-dealers in the local securities market. In a typical repo there is an agreement by one party, the repo seller, to sell a security to another party, the repo buyer, with a commitment to repurchase the same security at a higher price at a future date.

It is mainly used as a form of short term borrowing for broker-dealers, and the security that is sold acts as collateral, in the event that the repo seller is unable to repurchase the security from the repo buyer.

These are examples of some of the activities performed by broker-dealers and highlights their importance for the continued growth of the local securities market.

Broker-Dealers play an important role in the composition of the local securities industry, as they provide just one of the many investment avenues to help individuals make the most of their earnings. However, before getting started it is important to make sure the broker-dealer you are interested in is registered with the TTSEC. A list of all registered entities can be found on the TTSEC's website.

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You may also visit our Investor Education website at www.investucatett.com or
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