



Securities Market Bulletin

November 2019, Issue #4

TRINIDAD AND TOBAGO SECURITIES &
EXCHANGE COMMISSION



SECURITIES MARKET BULLETIN

November 2019

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CEO'S MESSAGE

The fourth issue of the Commission's Securities Market Bulletin encapsulates the data collected for the first two quarters of 2019 (as at March and June 2019). At the onset of 2019, geopolitical tensions stoked market volatility and heightened the anxiety of many investors globally. However, the Commission remained steadfast in executing its regulatory functions to limit the effects of market disruptions.

The Staff of the Commission is grateful for the continuous support and cooperation of our Registrants. Their commitment to improving the quality of the data submitted under the Micro and Macro-Prudential Reporting Framework ("MMRF") has produced a richer data set and a more valid overview of the industry.

In November 2019, the Commission welcomed the visit of the International Monetary Fund ("IMF"). Through the utilisation of the MMRF data, we assisted in the completion of the IMF's Financial Sector Assessment Program ("FSAP"). This information will confirm the extent of the Commission's regulatory oversight and systemic risk monitoring of Collective

Investment Schemes ("CISs") as well as other segments of the Securities Market. The FSAP will also allow for an in-depth analysis of our country's financial sector and an assessment of financial stability and market growth potential.

Pursuant to the Sections 6(1) and 7(1) of the Securities Act 2012 ("SA 2012"), the Commission is required to "*assess, measure and evaluate key risk exposure in the securities industry*" and "*monitor the risk exposure of registrants and self-regulatory organisations and take measures to protect the interest of investors, clients, members and the securities industry.*" To effectively carry out our mandate, the MMRF data will also be used for the development of our Stress Testing Framework which will form an integral part of our Risk-Based Supervisory ("RBS") Framework. Stress testing is an important tool that applies numerical techniques to simulate specific and hypothetical scenarios which gauge market and individual registrant's vulnerabilities to potential risks.

During the first two quarters of 2019, the Commission continued to engage market participants as we developed the necessary regulatory policies and frameworks for the

securities industry. With the benefit of market consultation, significant progress was made towards development of the CIS By-Laws. Additionally, we remain resolute in playing our role in the global battle against money laundering and the financing of terrorism. Our internal Anti-Money Laundering and Combatting the Financing of Terrorism (‘AML/CFT’) Working Group has been actively engaging Registrants to ensure their compliance with laws, policies and guidelines that relate to money laundering as well as terrorism and proliferation financing.

Year to date, the local securities market remains robust and experienced growth in many areas. The local equities market continues to be the largest segment and experienced growth of **5.9 percent (TT\$13Bn)**. Furthermore, there was marginal growth of **2.4 percent** in the number of Registrants for the six (6) month period ending June 2019. During the 2019 National Budget presentation, the Minister of Finance acknowledged that the capital market widened and strengthened. He also informed the public that investors in the National Investment Fund (‘NIF’) had benefited from approximately **TT\$112Mn** in semi-annual distributions. Due to the success of the NIF, the Minister also indicated the

Government’s intention to issue a second round of fixed income securities.

The Commission continues to facilitate the introduction of new securities and product offerings which will encourage market development. While the evolution of Fintech continues to drive innovation and market development, new potential risks to the investor community and increased investor uncertainty may also arise. To ensure an effective regulatory response to these new opportunities and risks, we are increasingly collaborating with other Regulators to strengthen the approach towards Fintech regulation to ensure investor protection and further development of the securities industry.

As we seek to improve the reporting process, our aim is to eventually make available to individual registrants, personalised assessments of their risks and vulnerabilities. It is hoped that these customised reports will empower users to make more informed investment and business decisions thereby mitigating their risk and improving performance assessments.

INTRODUCTION

The global financial landscape has seen many challenges in 2019. Tensions from the trade war between the United States and China as well as the uncertainty surrounding Brexit have negatively impacted global equity markets. These will continue to be areas of concern for investors in the immediate future.

Despite this anxiety, the Trinidad and Tobago securities market maintained its status as one of the largest in the Caribbean for the first two quarters of 2019. As at March 2019, it was valued at **TT\$224.93Bn** while its value as at June 2019, was **TT\$232.76Bn**. The market is comprised of a range of product offerings such as Equities, Collective Investment Schemes (“CISs”), Bonds and Repurchase Agreements (“Repos”).

Under the powers of the SA 2012, the Commission monitors the risk exposure of Registrants and self-regulatory organisations and takes measures to protect the interests 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 industry. 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 approach in mitigating their impacts on the securities industry.

This fourth issue of the Securities Market Bulletin analyses the key market indicators and highlights some of the interconnections within the securities market for the first two quarters as at March and June, 2019.¹

¹ It should be noted that the data reported in this Securities Market Bulletin is provisional.

SECURITIES INDUSTRY REVIEW

As at March, 2019, **433 persons**² were registered with the Commission to conduct business activities within the securities market. This represents a **3.6 percent** increase in the number of persons registered by the Commission when compared to the same period in 2018 (**Table 1**).

As at June, 2019, **436 persons** were registered with the Commission to conduct business activities within the securities market. This represents a **4.8 percent** increase in the number of persons registered by the Commission when compared to the same period in 2018 (**Table 1**).

These increases were primarily due to increases in Registered Representatives. The new registration in the “Underwriter” category occurred after June 2018. A description of the activities conducted by each category of registered persons is contained in the **Appendix**.

Table 1: Category of Registrants

Category	Number of Registrants			
	March 30, 2018	March 30, 2019	June 30, 2018	June 30, 2019
Reporting Issuers	81	84	81	85
Broker-Dealers	34	35	35	35
Investment Advisors	17	15	16	15
Underwriters	0	1	0	1
Registered Representatives	278	290	276	292
Sponsored Broker-Dealers	6	5	6	5
Sponsored Investment Advisors	0	1	0	1
Self-Regulatory Organizations	2	2	2	2
Total	418	433	416	436

The local securities market mainly comprises of the following segments:

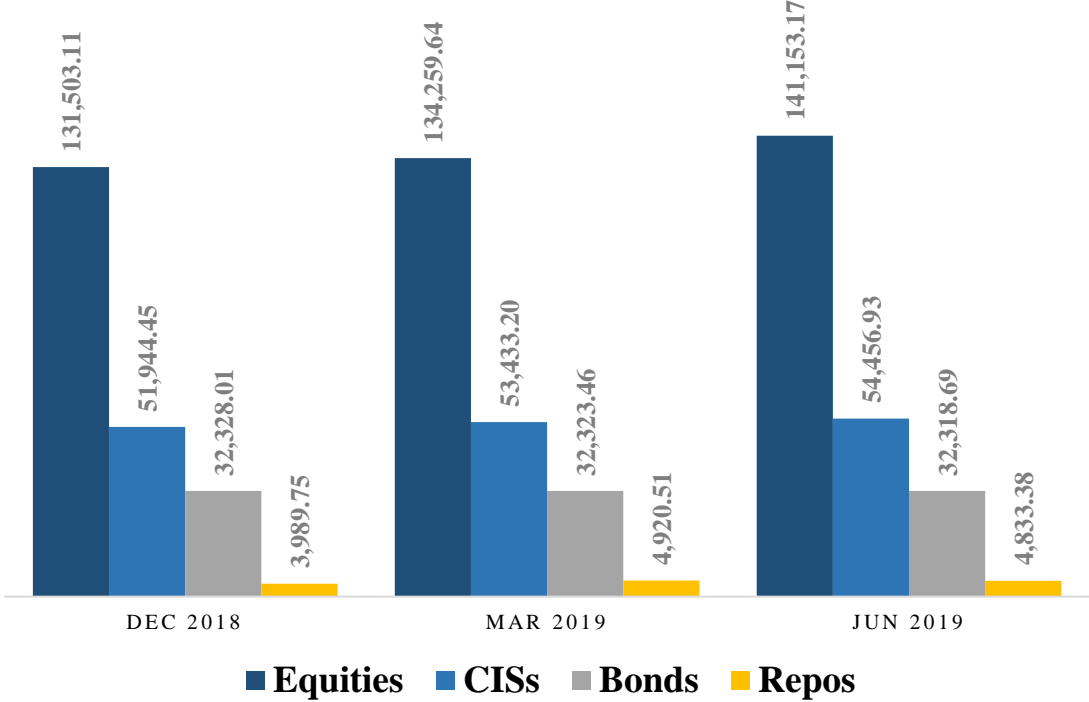
- Equities;
- CISs;
- Bonds; and
- Repos.

The nominal value of each segment as at December 2018, March 2019 and June 2019 is presented in **Figure 1** below.

² As defined by Section 4 of SA 2012, a person “includes an entity” and an entity “means a body corporate, trust, partnership, collective investment

scheme, fund or other unincorporated enterprises or organisations”.

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



FINANCIAL SOUNDNESS AND HEALTH INDICATORS (“FSHIs”)

Collective Investment Schemes Market

A CIS is an investment instrument that pools shareholders’/unitholders’ 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 Managers³ registered with the Commission as at June 2019 (**Table 2**).

³ CIS Managers are Broker-Dealers registered with the Commission.

⁴ Assets under Management is defined as the total value of financial instruments held on the portfolio of

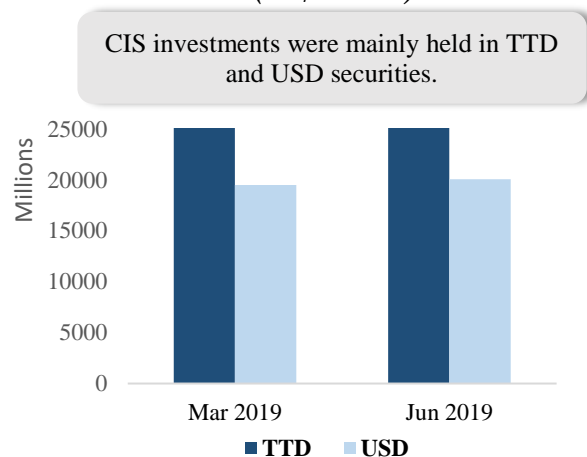
Table 2: Number of CISs

Indicators	Mar 2019	June 2019
Number of CISs	64	64
Number of CIS Managers	12	12

Analysis of the data submitted by these CIS Managers indicates that the total value of Assets under Management (AUM)⁴ as at June 2019 was **TT\$54.46Bn**. This represents an increase of **1.9 percent** in AUM (approximately **TT\$1.02Bn**) from March 2019 (**Figure 1 on page 5**).

CIS investments were mainly denominated in TTD and USD currencies. **Figure 2** below illustrates the currency composition of the market’s investments. The Commission notes

Figure 2: Denomination of investments held by CISs, (TT\$Million)

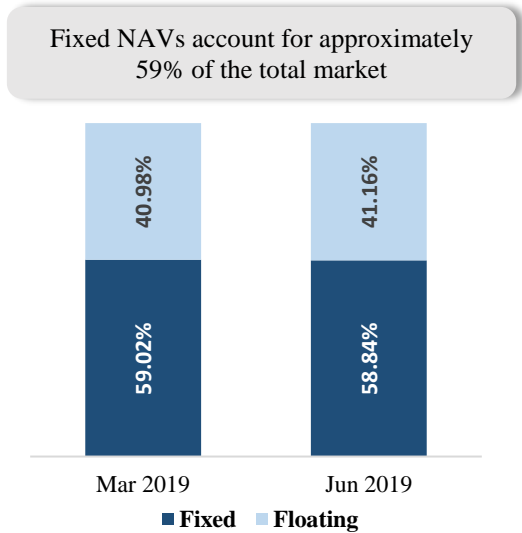


a CIS and includes the gains from interest payments/dividends of these instruments as well as cash held by the CISs.

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

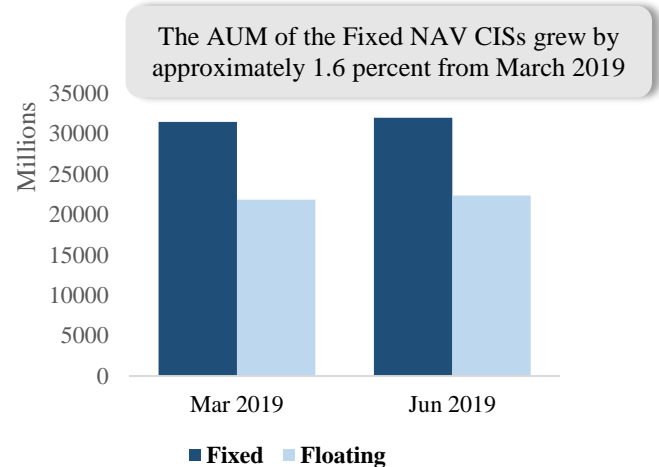
Fourteen (14) of the **64** CISs are Fixed NAVs which accounted for approximately **59 percent** of the CIS market's AUM as at June 2019 (**Figure 3**).

Figure 3: Market Share of Fixed and Floating NAVs



The AUM of these CISs also increased marginally by approximately **TT\$506.87Mn, 1.6 percent** from end of March 2019 (**Figure 4**). A year-on-year review also revealed an increase of **0.3 percent (TT\$92.2Mn)** from June 2018.

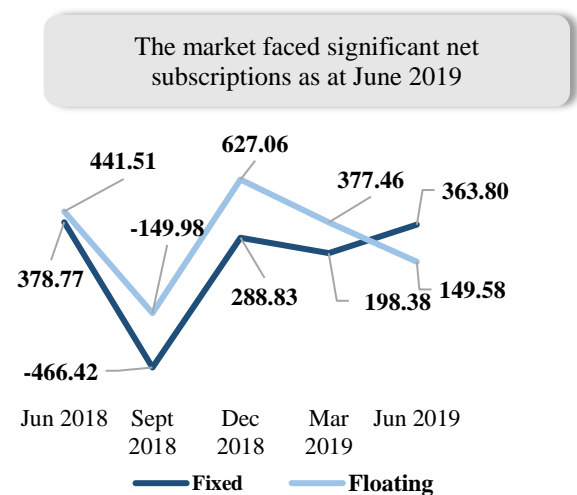
Figure 4: Total AUM (Fixed vs Floating) (TT\$Millions)



As at June 2019, the CIS market recorded total net encashments⁵ of **TT\$513.38Mn** a **10.7 percent** decrease from March 2019.

Fixed NAV⁶ CISs also reported overall net sales of **TT\$562.18Mn (Figure 5)**.

Figure 5: Net Encashment of Fixed vs. Floating NAVs, (TT\$Million)



⁵ Total Net Encashments is defined as the difference between Total Subscriptions and Total Redemptions.

⁶ The Net Asset Value (NAV) is the price per unit of a CIS. For a Fixed NAV CIS, this price remains constant.

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.

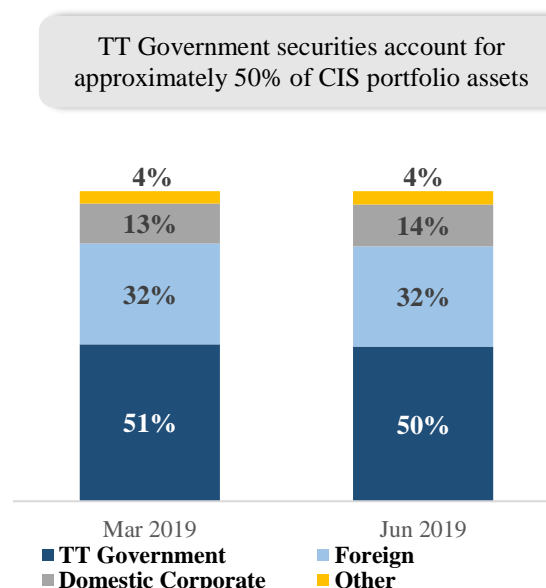
The data highlighted that the CIS market was and may continue to be exposed to risks associated with investing in the following categories of securities:

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

TT Government Securities

On average, investments in Local Government Securities and State Agencies were approximately **50 percent** of the CIS market’s portfolio composition (**Figure 6**). The value of these investments declined marginally **0.02 percent** from March 2019.

Figure 6: CIS Portfolio Composition by category of security



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 **32 percent** of the market’s portfolio as at June 2019. When compared to March 2019, investments in Foreign CISs recorded the largest movement, decreasing by **47.3 percent**. This substantial decline can be attributable to a significant increase in the liquidation of USD denominated assets to access alternative

sources of foreign exchange. Foreign Non-Government Securities increased by **3.3 percent** followed by Foreign Equities with an increase of **2.7 percent**. On the other hand, investments in Foreign Government Securities fell by approximately **6.1 percent** from March 2019.

Domestic Corporate Securities

On average, investments in Domestic Corporate Securities accounted for **14 percent** of the market's portfolio as at June 2019. These securities comprise of:

- TT Equity;
- TT Other Corporate Bonds;
- TT CISs; and
- TT Bonds Financial Sector.

There was a year-on-year increase of **10.4 percent** in Domestic Corporate Securities as at June 2019, which was mainly attributable to a **23.6 percent** increase in TT Bonds Financial Sector.

In **Figure 6 on page 8**, 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 (“Repo”) Market

According to the Commission’s Repurchase Agreement Guidelines 2018, a Repo is defined as, “a financial agreement in which a dealer of securities transfers ownership of securities to another person, or creates a beneficial interest (whether whole or fractional) in securities in favour of another person, with or without provisions allowing for –

(a) The substitution of the underlying securities by the dealer or

(b) the entitlement of the dealer to the coupon rate on the underlying securities.

In which the parties agree that an agreed future date the securities will be repurchased by the dealer in the terms and conditions specified in the agreement.”

Of the **35** Broker-Dealers registered with the Commission, **11** participated in the Repo market at the end of both reviewed quarters (**Table 3**).

On average, there were approximately **1,497** outstanding Repo transactions (**Table 3**). During the period there was a marginal decrease of **0.9 percent** in the number of outstanding Repo transactions. When

compared to June 2018, average Repo transactions increased by approximately **3.9 percent**.

Value of Repo Obligations decreased marginally by **1.8 percent (TT\$87.14Mn)** from March to June 2019, while Repo Assets showed an increase of **0.6 percent (TT\$29.65Mn)** (**Table 3**).

Table 3: 2019 Repo Market Overview

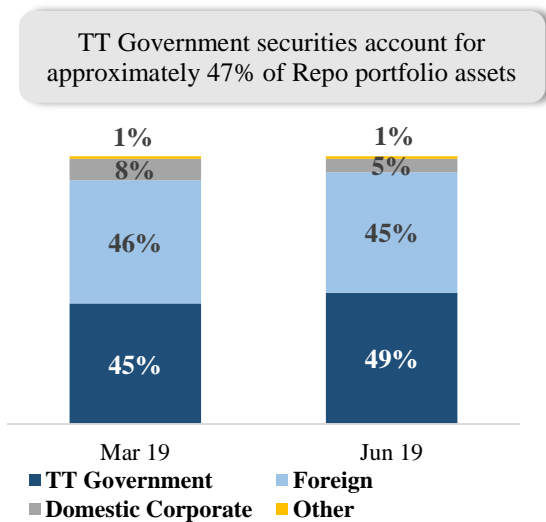
Indicators	Mar 2019	Jun 2019
Assets (TT\$Mn)	5,222.59	5,252.24
Liabilities (TT\$Mn)	4,920.51	4,833.38
No. of Repos	1,504	1,490
No. of Repo Dealers	11	11

The **four (4)** largest categories of assets underlying Repos in 2019 were:

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

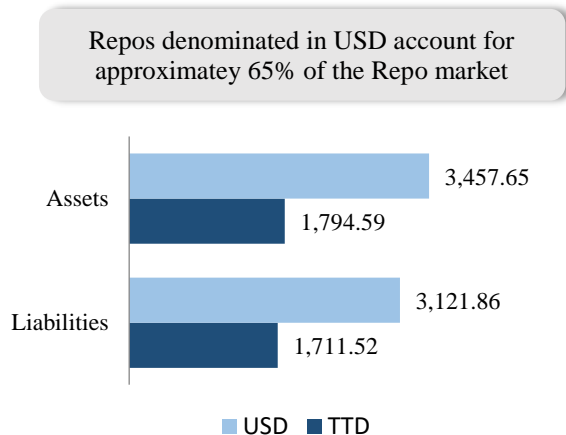
For the periods ending March and June 2019, TT Government Securities on average was **47 percent** of Repo Assets (**Figure 7**).

Figure 7: Repo Portfolio Asset Composition



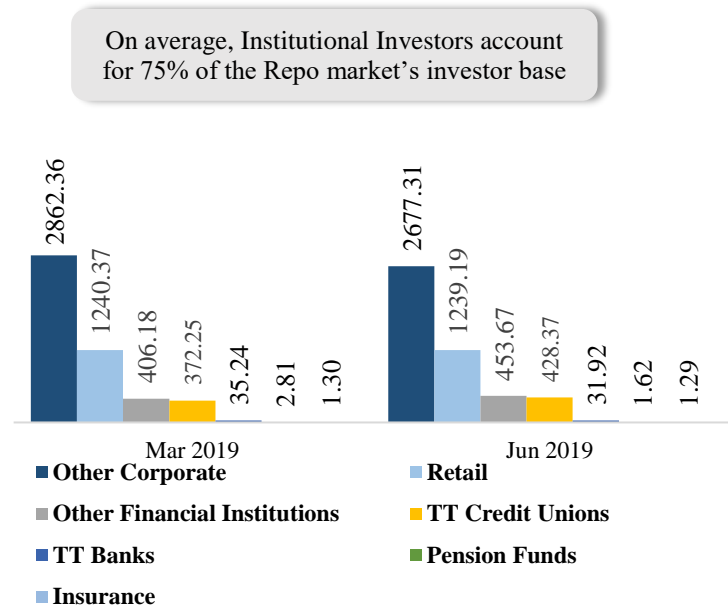
As at June 2019, approximately **65.8** percent of Repo Assets were denominated in USD. Notwithstanding this, **64.5** percent of Repo Liabilities were also denominated in USD which highlights the vulnerabilities of Repo Liabilities to fluctuations in the value of the USD (**Figure 8**).

Figure 8: Total Repo Assets and Liabilities by Currency as at June 2019, (TT\$Million)



Repos are utilised by both Institutional and Retail investors. The Institutional category consists of investors such as Other Corporate and Financial Institutions, Domestic Banks, Credit Unions and Insurance Companies, with a small number of Pension Funds utilising the instrument as a form of investment.

Figure 9: Repo Investor Breakdown by Category (TT\$Million)

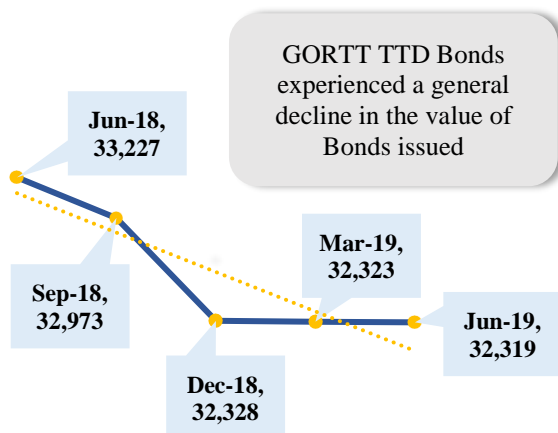


For the reporting period, on average, Institutional investors accounted for **75** percent of the Repo market's investor base and Retail investors accounted for the remaining **25** percent. Companies classified as "Other Corporate" accounted for more than **50** percent of all investors, the Pension Funds and Insurance Companies had the least investments in the Repo market.

Government Bond Market

As at June 2019, there were **43** TTD denominated Government bonds in issue at a nominal value of **TT\$32.3Bn**. For the twelve-month period, June 2018 to June 2019, the value of the bonds issued declined by **2.7 percent (TT\$0.91Bn)** (Figure 10).

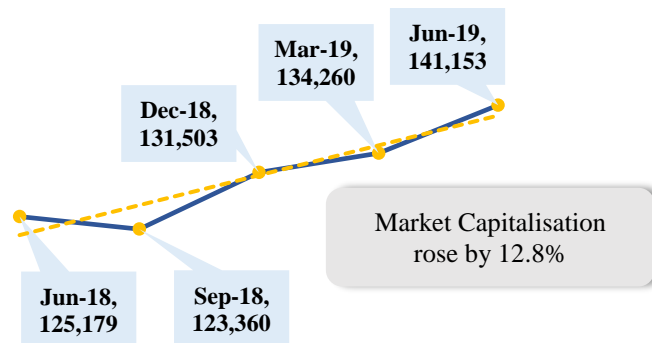
Figure 10: Value of GORTT Bond Issues, (TT\$Million)



Equity Market

There were **37** equity securities listed on the Trinidad and Tobago Stock Exchange as at the period ending June 2019. The total value of these securities, as measured by market capitalisation, rose by approximately **5.1 percent (TT\$6.89Bn)** as at March 2019. The value also increased by **12.8 percent (TT\$15.97Bn)** for the twelve-month period June 2018 to June 2019 (Figure 11).

Figure 11: Market Capitalization of the TTSE Listed Equities, (TT\$Million)

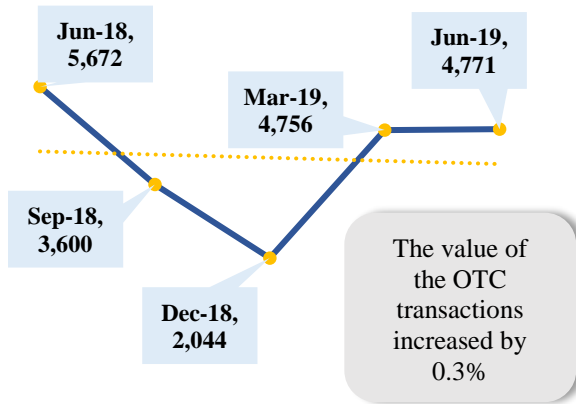


Over-the-Counter (“OTC”) Market

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.

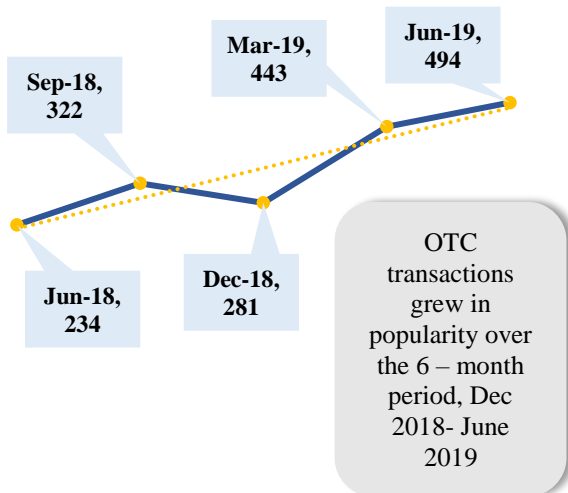
As at June 2019, there were **494** transactions valued at of **TT\$4.77Bn**. The overall value of OTC transactions in the market increased marginally by an estimated **0.3 percent** from March, 2019 (Figure 12 overleaf).

Figure 12: Value of OTC Transactions, (TT\$Million)



While there was only a marginal increase in the value of OTC transactions from March 2019 to June 2019, there was a substantial increase in the usage of the OTC market by **11.5 percent** during the same period. However, there was a year-on-year decrease in the OTC market’s value (**15.9 percent**) which occurred alongside a significant increase in the market’s usage (**111.1 percent**) during the same period (**Figure 13**).

Figure 13: Volume of OTC Transactions



SECURITIES MARKET INTERCONNECTIONS

Many of the risk exposures that were present in 2018 continue to prevail in the reviewed periods. The intensified trade tensions and Brexit have raised investors' concerns that global economic growth is slowing. The U.S. Federal Reserve has responded to these pressures by announcing cuts in interest rates. 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.

The intricate interconnections between the securities market and the banking system identified in 2018 persists into the first half of 2019. 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. **Eight (8)** of the **eleven (11)** Repo Dealers were subsidiaries of financial institutions, **one (1)** of which held approximately **55 percent** of total TTD and USD Repo Liabilities.

Repo investments in local and foreign Government Securities represented on average, **62 percent** of the market's

investment portfolio as at March and June 2019. Investments in TT Government Securities and Foreign Non-Government Securities were the main components of repo portfolios, which comprised approximately **50 percent** at the end of June 2019. In addition, institutional investors increased their appetite for repo instruments.

Furthermore, the data highlighted that institutional investors account for approximately **75 percent** of the repo client base. These institutions must measure, monitor and mitigate the associated risks of the Repo market on their investment portfolios.

Fixed NAVs CISs represented on average, **59 percent** of the AUM as at March and June 2019. As, Fixed NAV CISs continue to dominate the market, the Commission is mindful of their 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 regulator of the securities market, the Commission will continue to develop its list of FSHIs to monitor the risk exposures within each segment of the securities 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.