



Securities Market Bulletin

April 2020, Issue #5

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TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION



SECURITIES MARKET BULLETIN

April 2020

ISSUE 5

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CEO's Message

Despite market volatility mainly due to geopolitical tensions in early 2019, the latter part of the year showed some improvement. However, due to the outbreak of the novel Coronavirus (COVID-19), financial markets are now under pressure, the operations of major supply chains have been disrupted and oil prices have been negatively impacted. In this fifth issue of the Commission's Securities Market Bulletin, the analysis will focus mainly on the last two quarters of 2019 (as at September and December 2019).

While the analysis mainly focuses on the second half of 2019, it must be highlighted that the Assets Under Management ("AUM") of Fixed NAV CISs reduced by approximately **\$TT2Bn** between December 2019 and March 2020. Further analysis into the portfolios of the major Fixed NAV CISs suggest that there were significant reductions in both local and foreign equity values, by **14 percent** and **12 percent**, respectively. Managers of Fixed Net Asset Value ("NAV") Collective Investment Schemes ("CISs") in particular may encounter challenges in managing their widening exposures in the current environment due to fluctuations in value of underlying security portfolios.

With this mind, the Trinidad and Tobago Securities and Exchange Commission ("Commission") will continue to carry out its regulatory mandate by ensuring enhanced monitoring of the impact of financial developments on the securities market.

The Commission is appreciative of the continuous support and commitment demonstrated by Registrants towards improvement of the quality of the data submitted under the Micro and Macro-Prudential Reporting Framework ("MMRF"). This increased effort from the market has produced a richer data set and a more reliable overview of the industry in spite of current data consolidation challenges.

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 is used in the development of our Stress Testing Framework, which forms an integral part of our Risk-Based Supervisory ("RBS")

Framework. The Stress Testing Framework is an important tool that applies numerical techniques to simulate specific and hypothetical scenarios which gauge the vulnerabilities of individual registrants and the market as a whole to potential risks.

Initial results of the Commission's stress testing exercise highlighted certain potential vulnerabilities and risks within the registrant population. The Commission will therefore work with registrants in order to ensure that appropriate actions are taken by registrants to reduce their vulnerabilities and risks and thereby avoid more serious future challenges.

There was marginal growth in the number of Registrants during the last quarter of 2019. As at December 2019, the value of AUM held by the CIS market was **TT\$55.96Bn**. The value of Repo Obligations decreased by **10.7 percent (TT\$515.21Mn)** from September to December 2019, while market capitalisation of the equity market, rose by approximately **6.14 percent (TT\$8,699.48 Mn)** during the last quarter.

As we seek to improve the reporting process, and especially in light of the current financial climate, 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 enhancing risk management and mitigation..

Securities Industry

Performance Overview

The Trinidad and Tobago securities market maintained its status as one of the largest in the Caribbean for the last two quarters of 2019. As at September 2019, it was valued at **TT\$232.39Bn** while its value as at December 2019 was **TT\$242.32Bn**. The following depicts the main performance highlights over the period of review.

- As at December 2019, there were **440** registrants, an increase of just **two(2)** registrants when compared to the same period last year.
- At the end of December 2019, the value of AUM¹ within the CIS market was **TT\$55.96Bn**, a **2.5 percent (TT\$1.36Bn)** increase from September 2019. The CIS market also experienced a year on year growth in net sales by **3 percent**. A year-on-year review during the same period revealed an increase in the Fixed NAV AUM by **2.1 percent (TT\$656.58Mn)** from December 2018.
- The value of Repo Obligations decreased by **10.7 percent (TT\$515.21Mn)** from September to December 2019, while Repo Assets also showed a decrease of **8.7 percent (TT\$455.79Mn)**.
- As at December 2019, there were **41** TTD denominated Government Bonds in issue at a nominal value of **TT\$31,709Mn**, representing a year on year decrease by **1.9 percent (TT\$618.63Mn)**.
- There were **37** securities listed on the Trinidad and Tobago Stock Exchange (“TTSE”) as at the 4th quarter 2019. The total value of these securities, as measured by market capitalization, rose by approximately **14.4 percent (TT\$18,952Mn)** for the twelve-month period December 2018 to December 2019. For the year ended December 2019, there were **2,947** trades with approximately **19Mn** in volume traded at a value of **TT\$300.27Mn**. This therefore reflected a reduction of; **8.9 percent** in trades, **8.8 percent** in volume

¹ Assets under Management is defined as the total value of financial instruments held on the portfolio of a CIS and includes the gains from interest

payments/dividends of these instruments as well as cash held by the CISs.

traded and **12.8 percent** in traded value.

- The Over the Counter (“OTC”) market continues to grow as suggested by the increase in the value of transactions by **58.8 percent** over the twelve-month period, December 2018 to December 2019. However, for the year ended December 2019, there were **682** transactions valued at **TT\$841.78Mn**, which represented a decrease by an estimated **82 percent** from the period ending March 2019.

Introduction

The global financial landscape continued its tumultuous path in 2019. The first half of 2019 saw an escalation of the U.S. - China trade war and the fallout from Brexit, both of which disrupted financial markets. The last quarter of 2019 (October - December 2019) saw the emergence of the novel Coronavirus (COVID-19) in Wuhan, China; which forced economic slowdowns and shutdowns worldwide, commencing the first quarter of 2020. As governments continue to impose strict lockdown policies around the world to control the spread of COVID-19, analysts are fearful of a recession akin in magnitude to the Great Depression of the 1930s. However, investors remain hopeful that stability will begin to return to the global financial markets in late 2020/early 2021.

A key component of reducing systemic risk is the identification of risk factors inherent within the securities market. In the context of the local market, some of these risks include; the continued and substantial presence of Fixed NAV CISs and their associated risks (i.e. market, 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.

Under the powers of the Securities Act 2012 (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 engages in macro-prudential oversight of the securities industry by providing an overview of the industry through the publication of the Securities Market Bulletin, utilising the data submitted by registrants under the Micro and Macro-Prudential Reporting Framework (“MMRF”).

This Securities Market Bulletin analyses the key market indicators and highlights some of the interconnections within the securities market by comparing data for the quarters ended September 2019 and December 2019.

As at September 2019, **429** persons were registered with the Commission to conduct business activities within the securities market. This represents a **1.4 percent** increase in the number of persons registered by the Commission when compared to the same period in 2018 (**Table 1** overleaf).

As at December 2019, **440** persons were registered with the Commission to conduct business activities within the securities market, representing a **0.5 percent** increase in the number of persons registered by the Commission when compared to the same period in 2018 (**Table 1**). This reflects a **1.6 percent** increase in reporting issuers during 2019.

These increases were primarily due to increases in Reporting Issuers. A description of the activities conducted by each category of registered persons is contained in the **Appendix**.

The local securities market mainly comprises of the following segments:

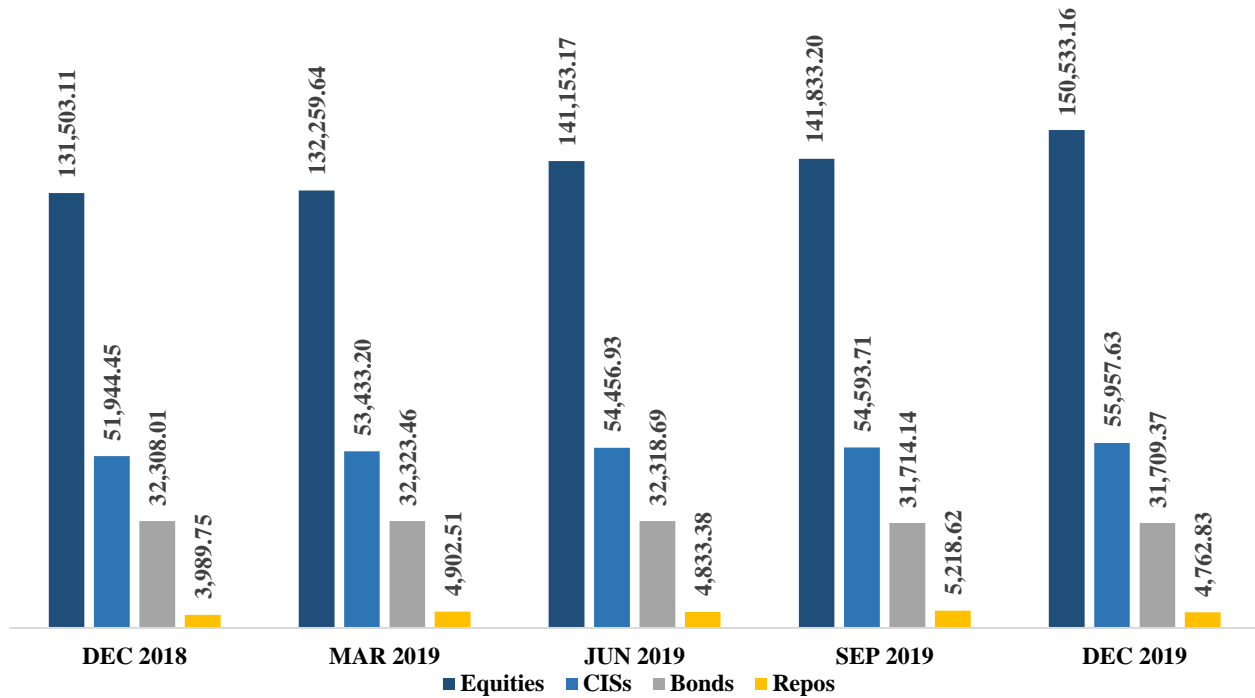
- Equities;
- CISs;
- Bonds; and
- Repos.

The values of each segment for the period December 2018 to December 2019 are presented in **Figure 1** overleaf.

Table 1: Category of Registrants

| Category | Number of Registrants | | | |
|-------------------------------|-----------------------|-------------|-------------|-------------|
| | Sep 30 2018 | Sep 30 2019 | Dec 31 2018 | Dec 31 2019 |
| Reporting Issuers | 82 | 87 | 84 | 89 |
| Broker-Dealers | 35 | 35 | 34 | 35 |
| Investment Advisors | 16 | 15 | 15 | 15 |
| Underwriters | 1 | 1 | 1 | 1 |
| Registered Representatives | 281 | 283 | 295 | 292 |
| Sponsored Broker-Dealers | 6 | 5 | 6 | 5 |
| Sponsored Investment Advisors | 0 | 1 | 1 | 1 |
| Self-Regulatory Organisations | 2 | 2 | 2 | 2 |
| Total | 423 | 429 | 438 | 440 |

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



– (a) the purpose or effect of which is to

Collective Investment Schemes Market

A CIS is an investment instrument that pools shareholders’/unit holders’ cash contributions which are invested into diversified securities portfolios with specified objectives.

Section 4 of the SA 2012 states inter alia that a CIS is, “any arrangement with respect to property of any description including money

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 Managers² registered with the Commission as at December 2019 – the end of Quarter 4, 2019 (**Table 2** overleaf).

² CIS Managers are Broker-Dealers registered with the Commission.

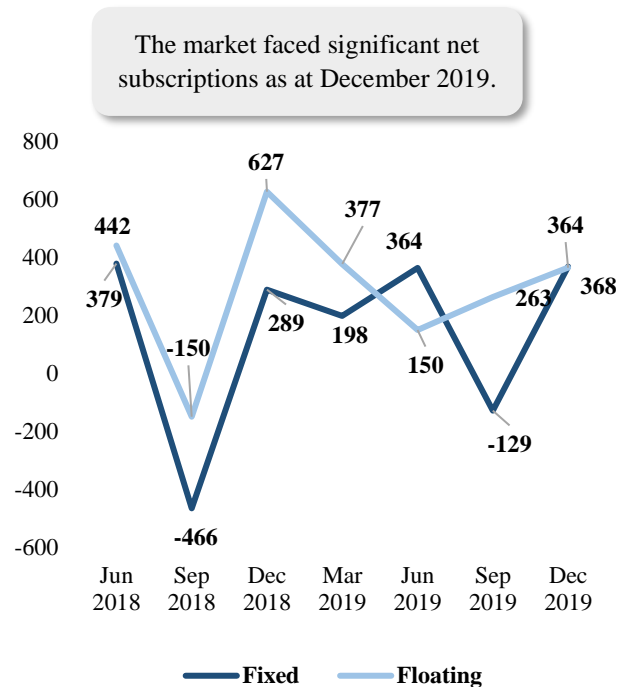
Table 1: Number of CISs

| Indicators | Dec 2019 | Dec 2018 |
|------------------------|----------|----------|
| 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)³ as at December 2019 was **TT\$55.96Bn**. This represents an increase of **2.50** percent in AUM (approximately **TT\$1.36Bn**) from September 2019 (**Figure 1**).

For the year 2019, the CIS market has recorded net sales of **TT\$1.95Bn** representing a **25 percent** increase from the same period in 2018 (**Figure 2**).

Figure 2: Net Encashment of Fixed vs. Floating NAVs CISs, (TT\$Million)

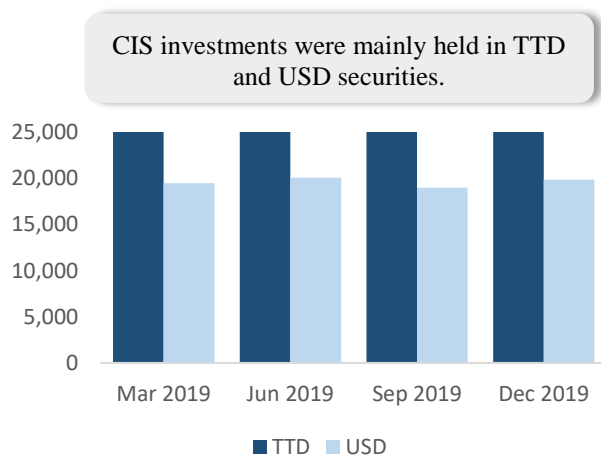


CIS investments were mainly denominated in TTD and USD currencies. **Figure 3** overleaf illustrates the currency composition of the market's investments. The Commission notes the market's exposure to fluctuations in USD denominated investments.

³ Assets under Management is defined as the total value of financial instruments held on the portfolio of a CIS and includes the gains from interest

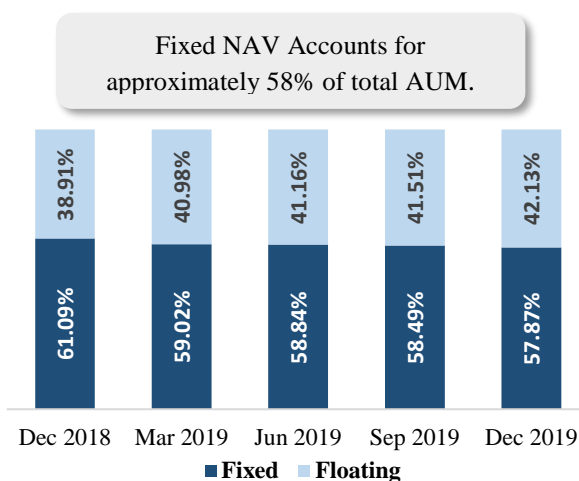
payments/dividends of these instruments as well as cash held by the CISs.

Figure 3: Denomination of investments held by CISs, (TT\$Million)



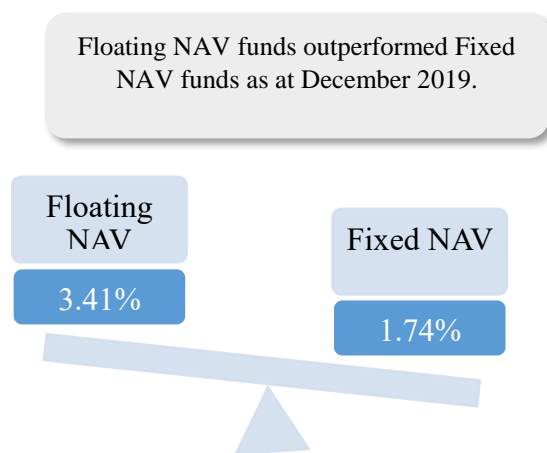
For the year, Fixed NAV⁴ CISs have reported overall net sales of approximately **TT\$801Mn**. Fourteen (14) of the 64 CISs are Fixed NAVs which accounted for approximately **58 percent** of the CIS market’s AUM as at December 2019 (Figure 4).

Figure 4: Total AUM (Fixed vs. Floating NAV)



The data indicated that Fixed NAV CISs outperformed Floating NAV CISs in the period ended September 2019, recording average yields of **1.50%** in Fixed NAV CISs and **0.65%** in Floating NAV CISs. In December, however, this trend changed where Floating NAV CISs outperformed Fixed NAV CISs even though the average yields of both fund types increased. By the end of 2019, the average yields for Fixed NAV CISs increased by approximately **16 percent** compared with **425.1 percent** for Floating NAV CISs (Figure 5).

Figure 5: Average yields of Fixed and Floating NAV CISs



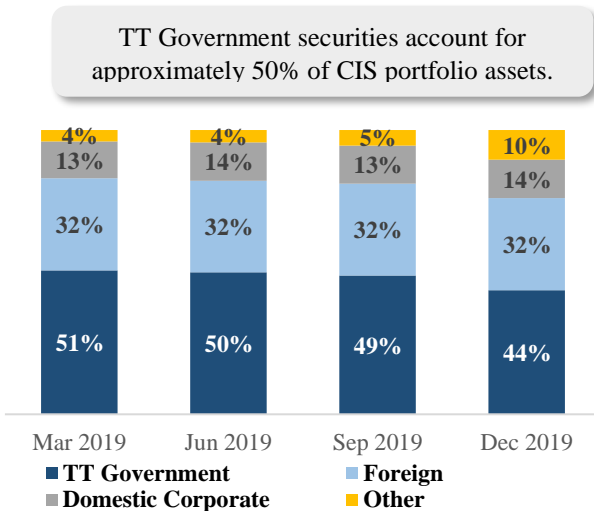
As at December 2019, the AUM of the Fixed NAV CISs increased marginally by approximately **TT\$452.63Mn, 1.4 percent** from end of September 2019. While, a year

⁴ The Net Asset Value (NAV) is the price per unit of a CIS. For a Fixed NAV CIS, this price remains constant.

on-year review revealed an increase in its AUM by **2.1 percent (TT\$656.58Mn)** from December 2018.

Nine (9) Fixed NAV CISs were denominated in TTD. These were estimated to account for

Figure 6: CIS Portfolio Composition by category of security



over **70.1 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 amounted to approximately **44 percent** of the CIS market’s portfolio composition (**Figure 6**). However at the end of 2019, the value of these investments declined by **9.2 percent** when compared to the previous year.

Foreign Securities

Investments in Foreign Securities held the second largest share of the CIS market’s portfolio, accounting for **32 percent** of the market as at December 2019. This category comprises of:

- Foreign Non-Government Securities;
- Foreign Equities;
- Foreign Government Securities; and
- Foreign CISs

When compared to December 2018, investments in Foreign CISs recorded the largest movement, increasing by **601.2 percent** over the period under review. Foreign Government Securities declined by

11.2 percent followed by Foreign Equities, which experienced a decrease of **4.9 percent**. On the other hand, investments in Foreign Non-Government Securities increased by approximately **1 percent** from December 2018.

Domestic Corporate Securities

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

- TT Equity
- TT Other Corporate Bonds
- TT CISs
- TT Bonds Financial Sector

There was a year-on-year increase of **7.8 percent** in Domestic Corporate Securities as at December 2019, which was mainly attributable to a **20.9 percent** increase in TT CISs.

In **Figure 6**, the category of “Other” includes investments in Repos, Mortgages, Promissory Notes and Other Assets. These investments were valued at approximately **10 percent** of the market’s portfolio.

CIS Investor Type

Analysis of investors in the CIS market shows that on average, TT Individuals account for over **72.4 percent** of investors, followed by TT Other Corporations (**16.2 percent**) and then by Foreign Investors (**6 percent**) for the periods ended September 2019 and December 2019 (**Table 3**). The TT Securities Intermediaries invested the least in CISs accounting for **0.1 percent** of total investments on average for the reviewed period.

Table 3: CIS Investor Breakdown

| Investor Category | Sep 2019 | Dec 2019 |
|--------------------------------|----------|----------|
| TT Individuals | 72.1% | 72.6% |
| TT Other Corporations | 16.3% | 16.1% |
| Foreign Investors | 6.1% | 6.0% |
| TT Credit Unions | 1.7% | 1.6% |
| TT Pensions | 1.3% | 1.5% |
| TT Insurance | 1.3% | 1.3% |
| TT Government Related Agencies | 0.6% | 0.4% |
| TT Banks | 0.5% | 0.4% |
| TT CIS | 0.1% | 0.1% |
| TT Securities Intermediaries | 0.0% | 0.1% |

CIS Asset/Securities Quality

The Commission monitors the quality of assets/securities managed by the CIS market. Securities are categorised as Level 1, Level 2 and Level 3. The following is a brief description of the categories:

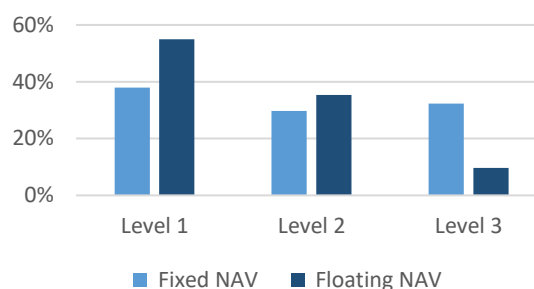
Level 1 - securities within the portfolio which are valued by quoted prices on an organised exchange.

Level 2 - securities whose fair value requires the use of valuation techniques using inputs that are directly observable in the market which are not included within Level 1. Examples of observable market inputs include: quoted prices for similar assets, interest rates, yield curves, credit spreads, etc.

Level 3 - securities within the portfolio which are valued using techniques that are based on unobservable market inputs and necessitates the use of internal information, assumptions and estimates to determine the fair value of a security.

In **Figure 7** it was observed that as at December 2019, based on the categorisation outlined above, Floating NAV CISs contained higher quality assets than Fixed NAV CISs. This can be attributable to the fact that Floating NAV CISs invest more heavily in local and foreign equities while Fixed NAV CISs predominantly invest more heavily in local fixed income securities.

Figure 7: CIS Asset Quality as at December 2019



Maturities of CIS Fixed Income Securities

The Commission monitors the weighted average maturities of local and foreign fixed income securities held by both Fixed and Floating NAV CISs. As at December 2019, (**Table 4**) local and foreign fixed income securities held by Fixed NAV CISs, had shorter maturity dates when compared to Floating NAV CISs. Therefore, Fixed NAV CISs on average held shorter term fixed income securities, which, by definition, would tend to be more liquid when compared to the longer term securities managed by Floating NAV CISs.

Table 4: Weighted Average Maturities as at December 2019

| Fixed Income Type | Fixed NAV CISs | Floating NAV CISs |
|--------------------------|-----------------------|--------------------------|
| Local | 3.31 years | 6.43 years |
| Foreign | 1.87 years | 2.61 years |

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, **12** participated in the Repo market at the end of both reviewed quarters (**Table 5**).

There was an average of **1,481** outstanding Repo transactions between the quarters ending September and December 2019 (**Table 5**). During the period there was a marginal decrease of **2.3 percent** in the number of outstanding Repo transactions.

When compared to December 2018, average Repo transactions increased by approximately **2.5 percent**.

The value of Repo Obligations decreased by **10.7 percent (TT\$515.21Mn)** from September to December 2019, while the value of Repo Assets showed a decrease of **8.7 percent (TT\$455.79Mn)** (**Table 5**).

Table 5: 2019 Repo Market Overview

| Indicators | Sep 2019 | Dec 2019 |
|-----------------------|----------|----------|
| Assets (TT\$Mn) | 5,218.62 | 4,762.83 |
| Liabilities (TT\$Mn) | 4,831.88 | 4,316.67 |
| No. of Repos | 1,498 | 1,463 |
| No. of Repo Dealers | 11 | 12 |
| Average Repo Maturity | 11 Mths | 12 Mths |
| Average Repo Return | 3.29% | 3.11% |

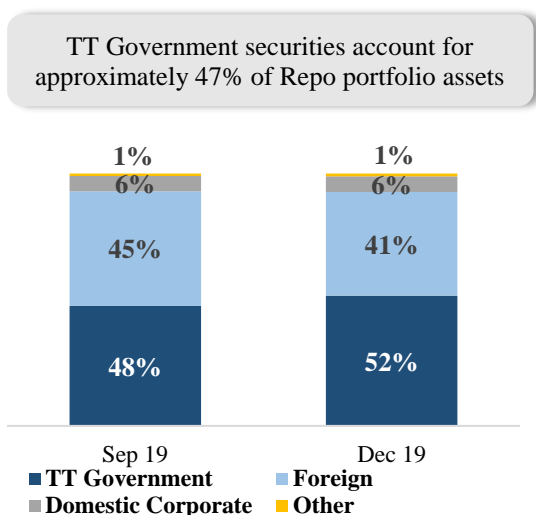
Based on quarterly repo transactions to December 2019 and September 2019, repo contracts had an average maturity date of **12 months** and **11 months** respectively. During these quarters repos also attracted an average return of **3.1 percent** (December 2019) and **3.3 percent** (September 2019).

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

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

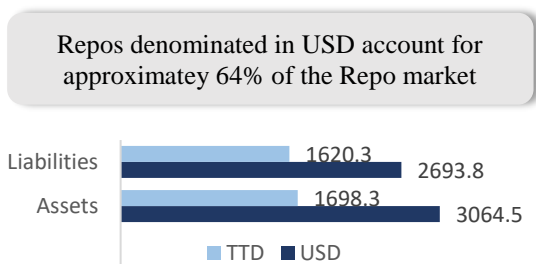
For the periods ending September and December 2019, TT Government Securities was, on average, **47 percent** of Repo Assets (**Figure 8**).

Figure 8: Repo Portfolio Asset Composition



As at December 2019, approximately **64.3 percent** of Repo Assets were denominated in USD. Notwithstanding this, **62.4 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 9**).

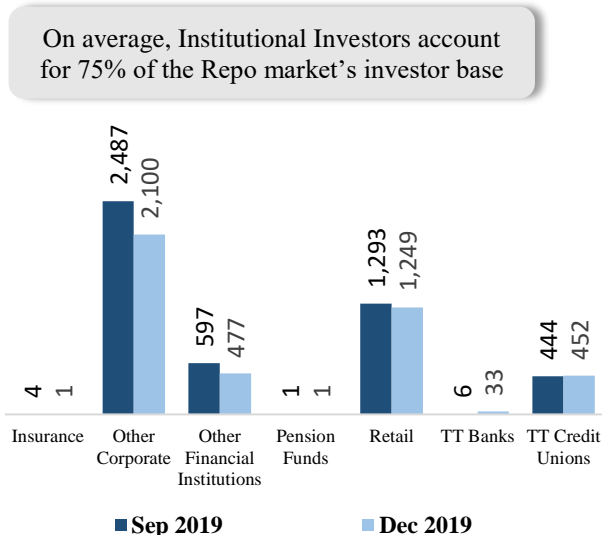
Figure 9: Total Repo Assets and Liabilities by Currency as at December 2019, (TT\$Million)



REPO Investor Type

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

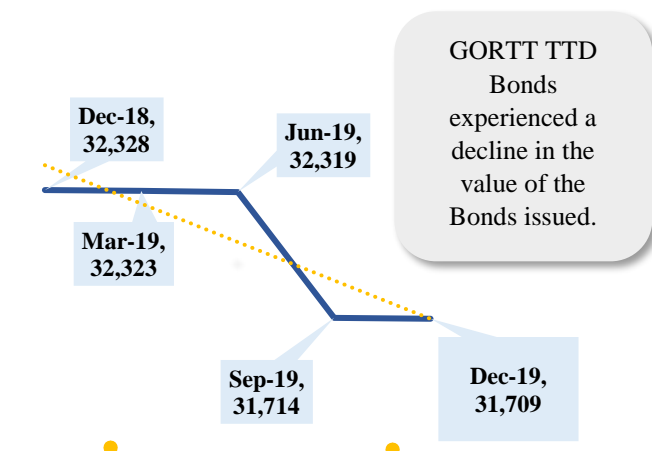


For the reporting period, on average, Institutional investors accounted for **72 percent** of the Repo market's investor base and Retail investors accounted for the remaining **28 percent**. Companies classified as "Other Corporate" accounted for approximately **50 percent** of all investors, the Pension Funds and Insurance Companies had the least investments in the Repo market.

Government Bond Market

Within the year 2019, no new Government TTD bonds were issued to the market. It is estimated that **20** GORTT TTD bonds will mature within 5 years with an average value of **TT\$605Mn**. As at December 2019, there were **41** TTD denominated Government bonds in issue with a nominal value of **TT\$31,709Mn** (Figure 11). For the twelve-month period, December 2018 to December 2019, the value of the bonds issued declined by **1.9 percent** (TT\$618.63Mn).

Figure 11: Value of GORTT Bond Issues, (TT\$Million)

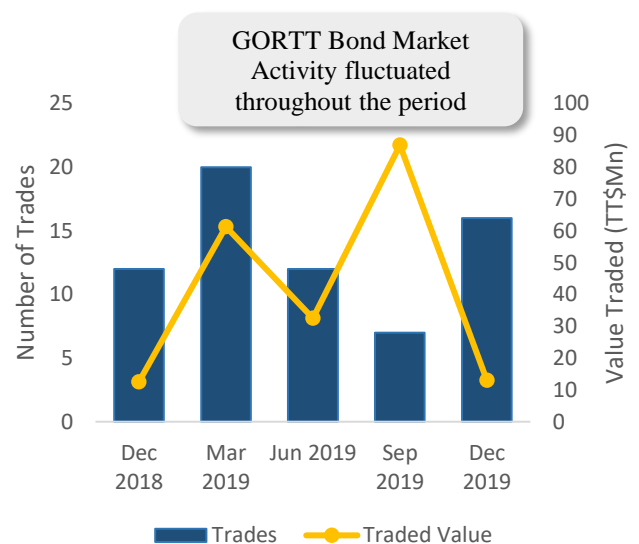


At the end of 2019, there were **19** Government Bonds listed on the Trinidad and Tobago Stock Exchange (“TTSE”). Although activity in the Government Bond Market fluctuated throughout the period. For the quarters ended September 2019 and December 2019, the number of trades

increased by **128.6 percent**; but the respective traded values decreased by **85.1 percent** (Figure 12).

In spite of these mixed results, there was an overall increase in activity in 2019. For the years ended December 2019 and December 2018, there were **16** and **12** trades in GORTT Bonds, respectively, reflecting a **33.3 percent** increase in the number of trades in 2019. The value traded increased marginally by **3.4 percent**, amounting to **TT\$12.53Mn** in December 2018 compared with **TT\$12.96Mn** in December 2019.

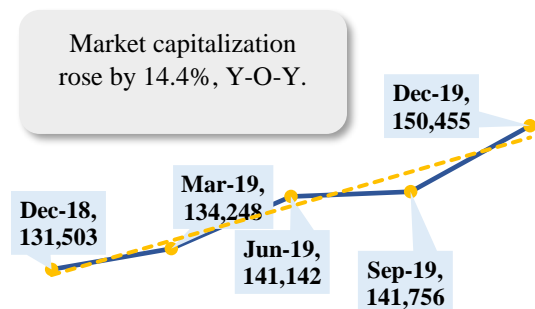
Figure 12: Trades and Value Traded of GORTT Bonds



Equity Market

There were **37** securities listed on the TTSE as at December 2019. The total value of these securities, as measured by market capitalisation, rose by approximately **6.1 percent (TT\$8,699.48Mn)** from the quarter ended September 30th 2019, **12.1 percent (TT\$16,207.26Mn)** from March 31 2019, and by **14.4 percent (TT\$18,952Mn)** for the twelve-month period December 2018 to December 2019 (**Figure 13**).

Figure 13: Market Capitalization of the TTSE Listed Equities, (TT\$Million)

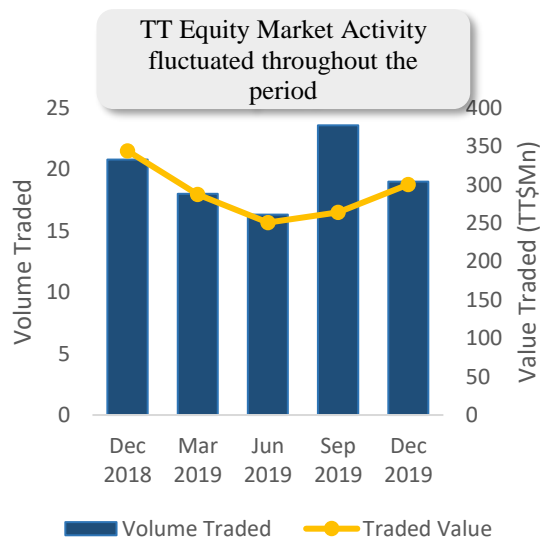


Of the total securities listed on the TTSE, **one (1)** is an USD equity security which was introduced to the market in the first quarter of 2019. As at the December 2019, its market capitalisation was **TT\$77.68Mn**.

Activity in the TT Equity Market decreased in the one-year period but showed quarterly

fluctuations (**Figure 14**). For the year ended December 2019, there were **2,947** trades with approximately **19Mn** in volume traded at a traded value of **TT\$300.27Mn**. When compared to the previous year, there was a decrease in activity in December 2019 and as a result there was a **8.9 percent** reduction in trades, and a decrease of **8.8 percent** and **12.8 percent** in traded volume and value, respectively. Even though there were decreases in the number and volume traded (**7.4 percent** and **19.4 percent**, respectively), the value traded increased by **13.7 percent** for the period September 2019 to December 2019.

Figure 14: Volume Traded and Value Traded of TT Equity Securities



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.

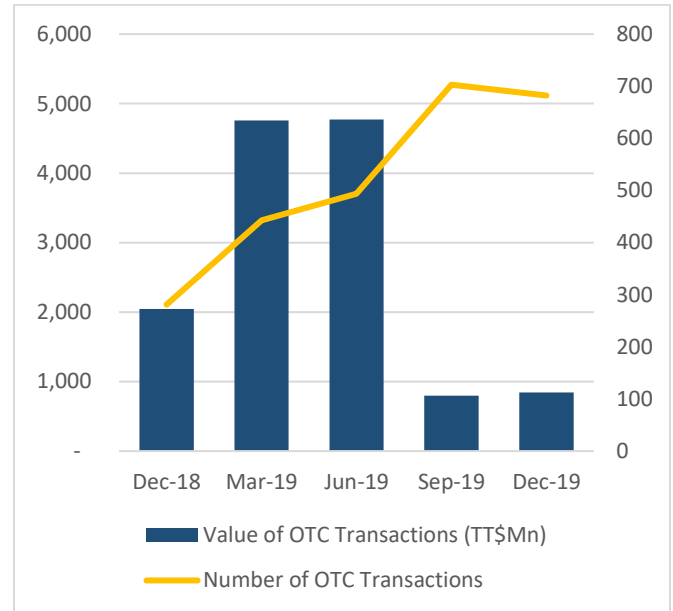
The low activity of the OTC market reflected a decrease in the value of transactions by **58.8 percent** over the twelve-month period, December 2018 to December 2019.

For the quarter ended December 2019, there were **682** transactions valued at **TT\$841.78Mn** which represented a decrease by an estimated **82 percent** from the quarter ending March 2019 (**Figure 15**).

Despite the decrease in the value of OTC transactions during March 2019 to December 2019, there was an increase in number of transactions in OTC market by **54 percent**. Similarly, the year-on-year increase in the market’s value occurred alongside an

increase in market’s usage by **142.7 percent** during the same period.

Figure 15: Value of OTC Transactions, (TT\$Million) and Number of OTC Transactions



The number OTC transactions grew in popularity over the 9-month period, March-December 2019.

The value of OTC transactions decreased by 82% over the 9-month period March – December 2019

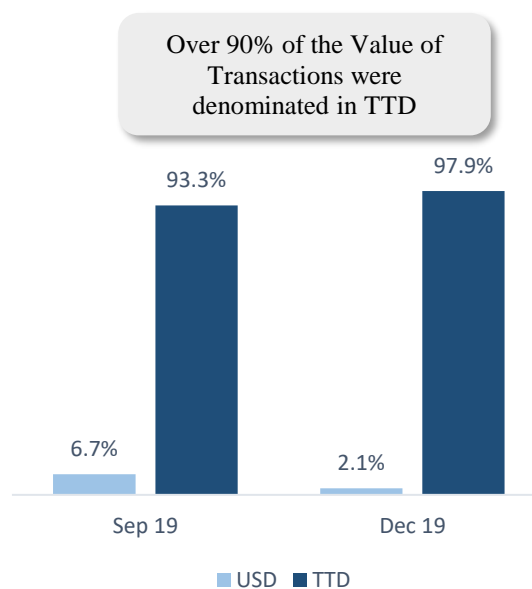
The data also shows that more Broker-Dealers are participating in the OTC Market. As at December 2019, **11** Broker-Dealers participated in the OTC Market. When compared to Broker-Dealer participation in December 2018 and September 2019, the number of Broker-Dealers at quarter ended December 2019 increased equally by **22.2 percent**. As at December 2019, of the total number of OTC transactions, the majority of the Broker-Dealers who participated in the

market, acted as Agents (arranging a trade between third party buyers and sellers). **Seventy-eight (78) percent** of Registrants acted as Agents in the transactions while the remaining **22 percent** acted as Principals (purchasing or selling for its proprietary book or clients).

Over **98 percent** of securities traded via the OTC market were in fixed income securities which can be attributed to investors' seeking liquidity through the selling of bonds before maturity.

The majority of OTC transactions were denominated in TTD, with **93.3 percent (TT\$745.9Mn)** denominated in TTD for quarter ended September 2019 and **97.9 percent (TT\$824.3Mn)** for quarter ended December 2019 (**Figure 16**).

Figure 16: OTC Transactions by Currency Composition



Securities Market Interconnections

Interconnections refer to relationships and/or dependencies among market participants to facilitate financial transactions. Due to the infamous global financial crisis, regulators within financial markets across the globe have placed greater emphasis on identifying and monitoring interconnections in order to mitigate systemic risk. While interconnections have many benefits, there are also several vulnerabilities. It is through understanding these relationships and dependencies among participants that the Commission will understand how risks to the financial market are transmitted and how to mitigate any potential threats to the market's stability.

As the securities market evolves in terms of products and services, complex interconnections between market participants develop. In the Trinidad and Tobago market, for the year ended December 2019, approximately, **65 percent** of registrants were either associated with or dependent on Financial or Banking entities.

The Equity market is the largest segment of the securities market. The data showed that

securities listed by the Banking Sector comprises a major chunk of this segment and that only five (**5**) out of the thirty-seven (**37**) securities listed on the TTSE accounted for **54.8 percent** of market capitalisation as at December 2019.

Eleven (**11**) of the twelve (**12**) Repo Dealers were associated with Financial and Banking Groups as at December 2019. One Repo Dealer associated with a Banking Group accounted for approximately **50 percent** of Repo Liabilities. Nine (**9**) out of eleven (**11**) companies which participated in the OTC market were part of a Financial or Banking Group.

Of the total reporting entities, **25.6 percent** manage CISs. The CIS market was the second largest segment and within this segment the AUM of three (**3**) companies accounted for **74.7 percent** of the total market AUM as at December 2019. Of these companies, two (**2**) were associated with Banking Groups and one (**1**) to a Financial Group.

Fixed NAV CISs continue to dominate the market, accounting for an average of **59 percent** of the AUM for the year ended December 2019. The Commission is aware of

the inherent risks of Fixed NAV CISs and will be working with other regulatory authorities and the market to mitigate the associated risks.

The patterns of investments in these CISs also result in various interconnections among various segments in the market. Investments in Government securities comprise a substantial portion of CIS portfolios (**44 percent**). Investments in Local Equity accounted for **6 percent** of CIS investments and local Repos accounted for **0.5 percent** of CIS investments. While it is important to focus on local interconnections, it should be noted that **32.5 percent** of CIS investments were in Foreign securities.

Notwithstanding the risk to specific investments, the Commission continues to monitor the risk exposures to each segment of the securities market. Noting that the majority of these market participants who operate in each segment are associated with Banking and Financial Groups, it is important to assess, measure and monitor the vulnerabilities of these entities to mitigate systemic risks.

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.