

## **SECURITIES INDUSTRY DECEMBER 2018 QUARTERLY SUMMARY**

### **Overview**

This section is divided into three (3) sub-sections namely Market Intermediaries, Collective Investment Schemes and Exempt Distributions and provides information on the securities industry for the quarter ended December 2018.

### **Market Intermediaries**

As at December 31, 2018, there were forty-one (41) securities dealer companies, three (3) individual dealers, two (2) investment adviser companies and two (2) individual investment advisers registered by the Financial Services Commission (FSC) to operate in Jamaica. Of these forty-eight (48) licensed intermediaries, the analysis will focus on thirty-one (31) securities dealer companies whose core business is dealing in securities.

The total balance sheet assets of the securities industry stood at approximately J\$561.0 billion, reflecting an increase of J\$3.7 billion or 0.7 per cent over the corresponding period in 2017. The capital base of the securities industry decreased by 5.3 per cent from J\$83.6 as at December 31, 2017 to J\$79.2 per cent by end December 2018. Despite the decrease in capital, the capital to risk weighted assets ratio (CAR) increased from 18.6 per cent as at end December 2017, to 20.8 per cent as at end December 2018, representing a 2.2 percentage point increase (see table 2).

Total Funds under Management (FUM) of the securities industry stood at approximately J\$1.229 trillion as at December 31, 2018, representing an increase of 3.6 per cent over the similar period in 2017. Notably, these core dealers include Collective Investment Schemes (CIS) fund managers which have seen an increase in the size of their CIS portfolios under management in recent times. The general trend suggests these securities dealers are strategically managing more of their clients' investments off their balance sheets.

Total revenue (comprising of interest income and other income) of approximately J\$13.3 billion was recorded for the period ended December 31, 2018, representing an 9.5 percent growth over the corresponding period of 2017. Of note, interest income accounted for approximately 47.37 per cent of total revenue recorded for the December 2018 period. This is an indication of a reduction of interest income as the main source of revenue for core dealers (see table 1).

Despite the implementation of key reforms in the industry, namely the Retail Repo Reform and an operational risk capital charge, the sector remained adequately capitalised and robust.

**Table 1: Statistical information of the Securities Firms, December 2017 to December 2018**

As at	Dec 17 \$'B	Mar 18 \$'B	Jun 18 \$'B	Sep 18 \$'B	Dec 18 \$'B	%age Change between Dec '17 & Dec'18	%age Change between Sept '18 & Dec '18
<b>Balance Sheet</b>							
Total Assets	557.3	576.4	608.3	599.8	561.0	0.7	-6.5
Total Liabilities	473.7	493.4	526.6	515.0	481.8	1.7	-6.4
Total Capital	83.6	83.0	81.7	84.9	79.2	-5.3	-6.7
Total Repo Liabilities( including COPs)	382.5	389.6	422.9	410.3	373.8	-2.3	-8.9
<b>Funds Under Management</b>							
Funds Under Management	1,186.5	1,207.5	1,255.8	1,266.8	1,229.8	3.6	-2.9
<b>Profit and loss</b>							
	Dec 17 \$'B	Mar 18 \$'B	Jun 18 \$'B	Sept 18 \$'B	Dec 18 \$'B	%age Change between Dec '17 & Dec'18	%age Change between Sept '18 & Dec '18
Total Revenue	12.1	11.6	11.7	14.5	13.3	9.5	-8.3
Total Expense	7.7	7.1	7.5	9.1	9.6	24.7	5.5
Total Interest Income	7.1	5.8	6.0	6.2	6.3	-11.3	1.6
Total Interest Expense	3.7	3.5	3.5	3.5	3.3	-10.8	-5.7
Net Interest Income	3.4	2.1	2.5	2.7	3.0	-11.8	11.1
<b>Net Profit</b>	2.2	2.3	2.3	4.7	2.6	18.2	-44.7

**Table 2: Selected Prudential Ratio for Securities Firms**

Ratio	Dec 17	Mar 18	Jun 18	Sept 18	Dec 18	FSC Benchmark
Capital/Risk Weighted Asset	18.6%	19.8%	18.4%	21.2%	20.8%	≥ 14%
Capital/Total Assets	15.0%	14.4%	13.4%	14.1%	14.1%	≥ 6%

## **Collective Investment Schemes (CIS)**

As at December 31, 2018, there were eighteen (18) local unit trusts, one (1) local mutual fund and ten (10) overseas mutual funds registered by the FSC for sale in Jamaica by eleven (11) licensed investment managers. Of the eighteen (18) approved local unit trusts, seventeen (17) have commenced operations. Stocks and Securities Limited Unit Trust Scheme, which was registered in January 2018, has not commenced operations.

Total funds under management (FUM) for CIS attributable to Jamaicans amounted to J\$312.4 billion, with the assets managed for the local unit trusts accounting for 88.4 per cent of the total CIS FUM.

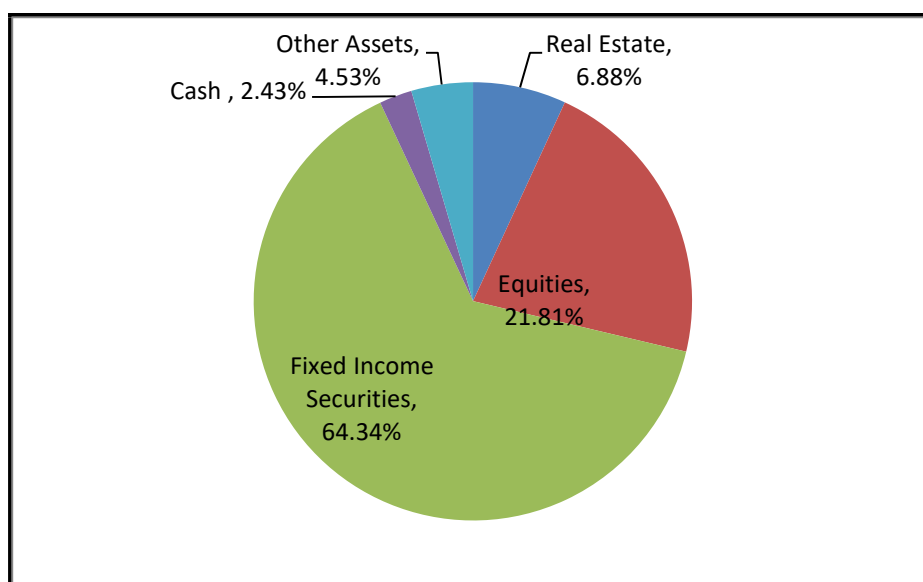
### **Local CIS**

As at end December 31, 2018, the combined FUM for the local CISs totalled J\$276.2<sup>1</sup> billion, which was a year over year increase of J\$35.0 billion or 14.5 per cent. The FUM of J\$276.2 billion also represented a quarterly positive change of \$9.3 billion or an increase of 3.5 per cent.

During the December 2018 quarter, combined purchases totalled J\$17.8 (September 2018: J\$27.2 billion) while combined redemptions totalled J\$13.8 billion (September 2018: J\$33.2 billion) resulting in net purchases of J\$3.9 billion (September 2018: net redemption of J\$6.2 billion) which suggests that fund managers have been actively transitioning investors from other product offerings. There was however an overall quarterly capital appreciation of J\$9.3 billion in net asset values as at December 31, 2018.

The funds for the local CIS were invested in three (3) main asset classes as at December 31, 2018 with fixed income securities accounting for 63.4 per cent of the total assets (see Chart 1).

**Chart 1: Local CIS Asset Class Summary**



<sup>1</sup> This amount is included in total FUM reported for market intermediaries in Part A above.

## Overseas CIS

As at December 31, 2018, the total investments attributable to Jamaican investors were US\$ 285.7 million which was held by 10,135 investors and reflected an overall increase of US\$10.2 million or 3.7 per cent when compared to the prior quarter (see Table 3).

**Table 3: Overseas CIS sold to Jamaicans**

FUM Dec 2018 US\$ 'million	FUM Sep 2018 US\$ 'million	FUM Dec 2017 US\$ 'million	Quarterly Change in FUM	Annual Change in FUM	# of Jamaican Investors Dec 2018
285.7	275.5	262.7	3.70%	8.76%	10,135

## Securities registered via Exempt Distribution Regime

As at December 31, 2018, there were 233 outstanding securities registered under the Exempt Distribution Guidelines by 99 Issuers. This represents an increase of 18 new securities issuances over the previous quarter, and 44 new issuances over the previous year ended December 2017. A total of five (5) new issuers entered the market since the last quarter; however that figure increased to 9 issuers when this quarter is compared to the same quarter last year (see Table 4). Of the total securities issuances, over 90 per cent represented debt securities.

With regards to the issuers, non-financial institutions continue to dominate the exempt distribution market. Notably, the value of securities issued by securities dealers and banks that remained outstanding contributed to 35 per cent and 27 per cent of the JMD and USD issues respectively as at December 31, 2018<sup>2</sup>.

A total of fourteen (14) securities dealers acted as arrangers for the issuance of these securities. Of the 14 arrangers, there were 13 dealers that arranged securities on behalf of associated and/or related party companies. The total value of securities registered via exempt distribution that remained outstanding as at December 31, 2018 amounted to J\$353 billion, with Jamaican dollar-denominated securities accounting for 70.5 per cent of the total value.

**Table 4: Summary of Exempt Distributions**

Outstanding Issues	As at Dec 2018	As at Sept 2018	As at Dec 2017
Total number of Issues	233	215	189
Debt	214	196	171

<sup>2</sup> The value of securities issued by financial institutions have increased quarter over quarter due to the addition of micro finance companies to that group, now comprising of banks; securities dealers; and micro finance companies.

Ordinary/Preference Shares	19	19	18
<b>Total number of Issuers</b>	<b>99</b>	<b>94</b>	<b>90</b>
Securities Dealers and Banks	12	11	11
Non-Financial Institutions	87	83	79
<b>Total number of securities dealers acting as arrangers</b>	<b>14</b>	<b>15</b>	<b>15</b>
<b>JMD Securities Outstanding</b>	<b>J\$'M</b>	<b>J\$'M</b>	<b>J\$'M</b>
Issued (J\$)	252,358	210,762	159,741
Amount Paid Down	1,617	1,646	1812
<b>Outstanding (J\$)</b>	<b>249,237</b>	<b>209,115</b>	<b>157,929</b>
<b>USD Securities Outstanding</b>	<b>US\$'M</b>	<b>US\$'M</b>	<b>US\$'M</b>
Issued	833	917	1062
Amount Paid Down	16	21	39
<b>Outstanding (US\$)</b>	<b>817</b>	<b>897</b>	<b>831</b>