

# SECURITIES INDUSTRY JUNE 2022 QUARTERLY SUMMARY

## MARKET INTERMEDIARIES

As at June 30, 2022, there were thirty-seven (37) companies licensed as securities dealers. Of these 37 companies, the analysis will concentrate on the thirty (30) companies whose primary activity is dealing in securities. <sup>1</sup>

The combined total balance sheet assets at the end of the June 2022 quarter stood at \$865.9 billion, a 1.1 per cent increase when compared to the previous quarter (January to March 2022) where assets amounted to \$856.6 billion. A year over year comparison showed an improvement of 11 per cent where total assets grew from \$780.3 billion as at June 30, 2021. Aggregate funds under management (FUM) were approximately \$1.6 trillion as at June 30, 2022, representing a \$6.85 billion or 0.4 per cent increase over the previous quarter. The year-over-year comparison saw a 15.1 per cent growth in FUM from the amount seen as at June 2021 arising from growth recorded primarily in balance sheet positions. See Table 1.

Selected Indicators	Jun 21 \$'B	Sep 21 \$'B	Dec 21 \$'B	Mar 22 \$'B	Jun 22 \$'B	%age Change between Mar '22 & Jun '22	%age Change between Jun '21 & Jun '22
Total Assets	780.3	817	837	856.6	865.9	1.1	11.0
Total Liabilities	648.4	668.1	691.8	715.2	729.6	2.0	12.5
Total Capital	131.9	148.9	145.2	141.4	136.3	-3.6	3.3
Total Repo Liabilities (including COP) <sup>2</sup>	550.5	559.2	560	511	605.2	18.4	9.9
FUM <sup>3</sup>	1,420.30	1,530.90	1,588.29	1,627.34	1,634.19	0.4	15.1

The aggregate balance sheet capital at the end of the reporting period was \$136.3 billion, a decline of 3.6 per cent from the \$141.4 billion reported for the March 2021 quarter. On a year-over-year (y-o-y) basis, there was a 3.3 per cent increase in the total balance sheet capital for securities dealers. See Table 1.

<sup>1</sup> These companies are also referred as core securities dealers or core securities firms

<sup>2</sup> COP: Certificate of Participation

<sup>3</sup> FUM: Funds under Management

The changes in average capital ratios for the securities dealers varied when compared to the previous quarter and the June quarter of last year. For example, the Capital to Risk-weighted asset ratio (CAR) increased by 110 basis points while the Capital to Total Assets ratio (C/TA) decreased by 280 basis points compared to the March 2022 quarter. When compared to the corresponding period of 2021, the CAR increased by 230 basis points while the C/TA fell by 320 basis points. See Table 3.

There was an approximate \$1.8 billion or 9.7 per cent year over year decrease in combined total revenues (comprising of interest income and other income) reported for the June 2022 quarter. This is due to the 18.6 per cent fall in non-interest income (other income) when compared to the corresponding period of 2021. Some of the main contributing factors to the contraction in the non-interest income included trading losses, foreign exchange losses and revaluation losses. The Jamaican dollar appreciated by 0.7 per cent against its US\$ counterpart in the second quarter of 2022. Additionally, due to higher yields on GOJ bonds, the prices of these bonds decreased.

The accumulated interest income and combined interest expense grew by 4.1 per cent and 34.9 per cent respectively for June 2022 when compared to the same period last year. This is in the context of the Bank of Jamaica's policy rate which was increased to 5.50 per cent within the reporting quarter against the backdrop of high inflation, driven by soaring energy and food prices, supply chain disruptions and the adverse effects of the ongoing Russia – Ukraine war. The elevated inflationary pressure has led the BOJ, like other central banks across the globe, to adopt a hawkish stance on its monetary policy.

Cumulative total expenses remained the same as last quarter, amounting to approximately 7.6 billion; whilst it increased by \$2 billion or 17.7 per cent when compared to the corresponding period of 2021. A net profit of \$3 billion was generated in the June 2022 quarter, reflecting a \$6 million increase quarter over quarter and a significant \$2.9 billion or 49.2 decline from June 2021 levels. See Table 2. The significant decline in the year over year net profit could be justified by the large fall in net profits realized by one of the securities industry's major contributors.

Table 2: Selected Profit & Loss Indicators of the Core Securities Firms, March 2021 to March 2022							
Selected Profit & Loss Indicators	Jun 21 \$'B	Sep 21 \$'B	Dec 21 \$'B	Mar 22 \$'B	Jun 22 \$'B	%age Change between Mar '22 & Jun '22	%age Change between Jun '21 & Jun '22
<b>Total Revenue</b>	<b>18.6</b>	<b>17.4</b>	<b>18.5</b>	<b>16.2</b>	<b>16.8</b>	<b>3.7</b>	<b>-9.7</b>
Of Which							
total Interest Income	7.3	7.6	7.6	7.6	7.6	0.0	4.1
total non-interest income	11.3	9.8	10.9	8.6	9.2	7.0	-18.6
<b>Total Expense</b>	<b>11.3</b>	<b>10.9</b>	<b>13.4</b>	<b>13.3</b>	<b>13.3</b>	<b>0.0</b>	<b>17.7</b>
Of Which							
total Interest Expense	4.3	4.9	5	4.9	5.8	18.4	34.9
total non-interest expense	7	6.0	8.5	8.4	7.5	-10.7	7.1
Net Interest Income	3	2.7	2.7	2.7	1.9	-29.6	-36.7
<b>Net Profit</b>	<b>5.9</b>	<b>-1.2</b>	<b>3.5</b>	<b>2.4</b>	<b>3</b>	<b>25</b>	<b>-49.2</b>

This resulted in a return on equity of 4.8 per cent for the quarter ended June 2022 compared to 4.5 per cent for the corresponding period last year and 1.6 per cent for the March 2022 quarter (see Table 3).

Table 3: Selected Prudential Ratios for the Core Securities Firms						
Ratio	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	FSC Benchmark
Capital/Risk Weighted Asset	22.3%	24.5%	25%	23.5%	24.6%	≥ 14%
Capital/Total Assets	16.9%	18.2%	17.4%	16.5%	13.7%	≥ 6%
Return on Equity	4.5%	-0.8%	2.33%	1.6%	4.8%	N/A

## LOCAL COLLECTIVE INVESTMENT SCHEMES

Currently in Jamaica, there are two (2) types of collective investment schemes (CIS); namely, unit trust and mutual funds. As at June 30, 2022, there were twelve (12) local CIS managers. Of these 12 managers, only ten (10) are operational. Of the 10 that are operational, nine (9) are unit trust managers while one

(1) is a mutual fund manager. These managers operate nineteen (19) funds with a combined total of 79 portfolios. Table 4 displays the aggregate FUM and the portfolio composition for the local CIS industry.

Asset Class	Jun	Sept	Dec	Mar	Jun	%age Change	%age Change
	2021	2021	2021	2022	2022	between	between
	J\$' B	J\$' B	J\$' B	J\$' B	J\$' B	Mar '22 & Jun '22	Jun '21 & Jun '22
(a) Real Estate	24.5	26.5	26.8	27.0	27.8	3.1	13.6
(b) Equities	96.1	82.4	80.8	81.8	79.0	-3.4	-17.8
(c) Fixed Inc. Securities	232.0	241.1	240.5	239.0	225.9	-5.5	-2.6
(d) Cash	8.3	9.3	9.9	10.0	11.7	17.0	41.0
(e) Other assets	-8.6	0.8	6.5	8.0	7.9	-1.3	191.9
<b>Total</b>	<b>352.2</b>	<b>360.1</b>	<b>364.5</b>	<b>365.8</b>	<b>352.3</b>	<b>-3.7</b>	<b>0.03</b>

## OVERSEAS MUTUAL FUNDS

As at June 30, 2022, three (3) overseas mutual funds were registered with the FSC, for sale in Jamaica. These overseas mutual fund investment portfolios comprised mainly of equities and fixed income securities. Table 5, below, displays the total amount invested in these funds by Jamaicans.

**Table 5: Total Amount Invested in Overseas Mutual Funds**

Selected Indicators	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Value of Units (US\$' M)	343.9	341.5	339.1	323.9	288.3

## EXEMPT DISTRIBUTIONS

The FSC's Guidelines for Exempt Distributions (XD Guidelines) facilitate, under certain conditions, the distribution of securities without the need to register a prospectus or an offering document with the FSC. Under the said XD Guidelines, issuers of securities are permitted to register both debt and equity securities with the FSC. Table 6 illustrates the total number and value (both J\$ and US\$) of instruments registered and issued for the quarters June 2021 to June 2022. As seen in Table 6, the demand for XD instruments

remained vibrant, despite the macroeconomic challenges precipitated by the COVID19 Pandemic and exacerbated by the Russia-Ukraine war.

**Table 6: Quarterly Registration & Issued Summary**

<b>Quarterly XD Registration Summary</b>	<b>Jun-21</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>
Number of XDs Registered for the Quarter	41	35	49	31	30
Number of Registered Issuers for the quarter	24	22	25	20	23
<b>Amount Registered by Currency "in Millions"</b>					
JMD	41,659	73,262	53,444	45,047	27,271
USD	20	223	367	30	141
<b>Quarterly XD Issued Summary</b>	<b>Jun-21</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>
Number of XDs Issued for the Quarter	21	39	24	38	20
Number of Issuers for the Quarter	17	22	18	23	14
<b>Amount Issued by Currency "in Millions"</b>					
JMD	31,337	53,321	10,891	25,991	8,920
USD	16	30	65	186	35

Table 7 provides information regarding the total number, and value (both J\$ and US\$) of securities outstanding in each quarter from June 2021 to June 2022. The majority of outstanding XD instruments are debt and denominated in local currency. As general interest rates rise, XD debt instruments typically become more attractive to investors as they seek to earn higher investment returns.

**Table 7: Summary of Outstanding Exempt Distributions**

<b>Description</b>	<b>Jun-21</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>
<b>Total number of Issues Outstanding</b>	327	339	349	368	373
Debt	285	294	304	325	331
Ordinary/Preference Shares	42	45	45	43	42
<b>Total number of Issuers</b>	147	146	154	155	155
<b>Total number of securities dealers acting as arrangers</b>	17	17	16	16	16
<b>JMD Securities Outstanding (J\$'M)</b>					
Issued	360,735	388,087	394,894	406,872	393,616
Amount Paid Down	3,251	5,760	6,994	7,474	9,725
Outstanding	357,484	382,326	387,959	399,398	283,891
<b>USD Securities Outstanding (US\$'M)</b>					
Issued	848	915	966	1,061	1,130
Amount Paid Down	5	5	5	3	9
Outstanding	843	910	961	1,057	1,121