



Corporate Governance and the Securities Market

Registrants of the Trinidad and Tobago Securities and Exchange Commission (TTSEC) play an important role in the development and stability of the securities market of Trinidad and Tobago. Registrants refer to all issuers of securities, as well as market intermediaries such as: Broker-Dealers, Investment Advisers, and Underwriters. These registrants are responsible for a number of investment related activities, which include mutual fund management, individual wealth management, investment advisory services, and conducting transactions on behalf of their clients.

A non-exhaustive list of activities can be seen in **Diagram 1**.

Diagram 1



Investors in Trinidad and Tobago rely heavily on the expertise of these registrants to ensure their investment portfolios are managed appropriately. This type of dependence underscores the importance of strong corporate governance practices within organisations operating in our local securities market.

What is corporate governance? It is the system by which companies are directed and controlled. Boards of directors are responsible for the overall governance of their companies. The main purpose of corporate governance is to help create an environment of trust, transparency and accountability, which is necessary for fostering long-term investment,

financial stability and business integrity, thereby supporting stronger growth and societies that are more inclusive.

Why is corporate governance important? Corporate governance policies are important to achieving a country's broader economic objectives with respect to building investor confidence as well as capital formation and allocation. The quality of corporate governance affects the cost of capital, as rules and practices provide a framework to bridge the gap between investors/savers and borrowers/capital seekers. Good corporate governance practices will reassure investors/shareholders and other stakeholders that their rights are protected, and give organisations the opportunity to decrease the cost of capital while facilitating economic activity.

The International Organization of Securities Commissions (IOSCO) recommends the use of the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance for Emerging Markets. However, there is no single model of good corporate governance. Guidance will normally be provided to organisations on the elements that underlie good corporate governance practices. While some corporate governance practices may be more appropriate for larger organisations, the TTSEC must ensure that all of its registrants are aware of and practise good corporate governance, that would be appropriate and in line with their particular business activities.

Reasons for Corporate Failures:

Over the past 20 years, many international corporate failures have been linked to poor corporate governance practices. Diagram 2 highlights some internationally known companies whose economic failures negatively affected the lives of many.

Diagram 2



Some of the major reasons for these corporate failures were as follows:

- 1) Ineffective and insufficiently independent Boards.
- 2) Weak risk management -This is characterised by a Board's failure to appropriately assess, measure, mitigate and monitor important risks, such operational and reputational risks.

- 3) Poor leadership and culture – When the Board sets an inappropriate “tone at the top”, this filters through the organisation and ultimately negatively impacts the organisation.

Expectations of the TTSEC

The following are a number of corporate governance practices that registrants of the TTSEC are expected to follow. These are based on current best practices that the industry should be quite familiar with.

Composition of the Board

- The Board of an organisation should comprise a balanced mix of appropriately qualified executive and independent directors.
- The Chairman of the Board and the Chief Executive Officer or Managing Director of the organisation should be separate individuals.
- The Board must have a charter that details the purpose and objectives, responsibilities, frequency of and attendance at meetings, qualification for membership, appointment and removal procedures, structure and operations.
- The Board should comprise persons who meet the fit and proper criteria.
- The registrant should ensure that the Commission is advised of prospective Board members that are serving on Boards of other organisations prior to appointment.

Board Committees

- Board committees should be established to undertake specific functions.
- Board committees should include an audit committee, a finance committee, a human resource committee and a risk/AML/CFT committee, among other committees.
- Similar to the Board, each committee must have a charter that details the purpose and objectives, responsibilities, frequency of and attendance at meetings, qualification for membership, appointment and removal procedures, structure and operations, and reporting to the Board.

Roles of the Board in Risk Management

- The Board should be entrusted with oversight responsibilities for risk management.
- Each registrant should have a risk management policy, and processes that appropriately manage and mitigate the risks inherent in the types of business conducted, given the size and complexity of its operations.
- The Board should be responsible for reviewing and approving the overall risk philosophy and risk limits of the organisation.
- The Board should be responsible for oversight of the senior management’s activities in managing risk which include credit, market, liquidity, operational, legal, and other risks of the organisation.
- The Board’s Risk Committee should keep the Board informed of risk exposures and risk management activities through the submission of periodic reports prepared by senior management.

Board Meetings

- The full Board must meet at least as frequently as stipulated in the company's articles or by-laws.
- Members of the Board are expected to attend and actively participate in all meetings of the full Board, as well as meetings of committees and sub-committees of the Board.
- All relevant information such as, but not limited to, the agenda, Board minutes and papers, should be forwarded to all directors prior to the meeting and in sufficient time to allow the documents to be adequately reviewed.
- Minutes should be taken at each meeting of the Board. The Board should ensure that the minutes accurately and adequately reflect the decisions and actions taken.

Policies and Procedures

The Board must ensure that appropriate organisational policies and procedures are documented and implemented by management. The following is a non-exhaustive list of policies and procedures:

- ✓ Portfolio Management
- ✓ Risk Management
- ✓ Business Continuity Plans
- ✓ Trading and Brokerage
- ✓ Code of Conduct and Ethics
- ✓ Personal trading for employees
- ✓ Assessing the suitability of investments for clients
- ✓ Anti-Money Laundering
- ✓ Customer complaints

The TTSEC will continue to work with all registrants to ensure that sound corporate governance practices are implemented and adhered to.

For more information, please visit our corporate website, www.ttsec.org.tt.

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

connect with us via any of our social media handles:



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