



Regulatory Compliance Costs

In last week's article we discussed the differences between equity and debt financing for Small and Medium Enterprises (SMEs). A major factor to consider when considering debt or equity financing is the overall cost of regulatory compliance. This refers to all the expenses a Registrant incurs to adhere to industry regulations. In the securities industry of Trinidad and Tobago, these regulations take the form of legislation and rules. This week's article will discuss some of the requirements which may incur costs for regulatory compliance.

Companies listed on the Trinidad and Tobago Stock Exchange (Stock Exchange) must comply with various reporting and legislative requirements. These companies will be registered with the Stock Exchange as a listed company and with the Trinidad and Tobago Securities and Exchange Commission (TTSEC) as a Reporting Issuer (RI). Some of the legislation and rules with which listed companies are required to comply are displayed in the Table 1 below.

Table 1 - Legislation and rules that govern listed companies

Name	Description
Securities Act 2012 (SA 2012)	An Act to provide protection to investors from unfair, improper or fraudulent practices; foster fair and efficient securities markets and confidence in the securities industry in Trinidad and Tobago; and to reduce systemic risk.
Securities (General) By-Laws 2015	By-Laws and rules that are to be used in conjunction with the SA 2012.
The Stock Exchange Rules	Rules that govern the Stock Exchange.
The Trinidad and Tobago Central Depository (TTCD) Limited Service Rules	The Rules adopted by TTCD by which each participant has agreed to be bound pursuant to the Participant Agreement.
Securities Trading Policy and Procedure Guidelines	Strongly recommended guidelines to ensure compliance with the Stock Exchange's rules as part of the disclosures provided by listed companies so as to maintain integrity and confidence in the stock market.

Some areas of regulatory compliance for listed companies include the TTSEC's Disclosure Obligations of RI and the Stock Exchange's Listed Company Disclosure Regime.

TTSEC's Disclosure Obligations of Reporting Issuers (RI)

- **Annual reports** – Section 63 of the SA 2012 introduces the requirements associated with the submission of annual reports. A RI must submit to the TTSEC a copy of its annual report within the prescribed period, after the end of its financial year, containing the prescribed information. The annual report must be sent to each holder of its securities.
- **Timely disclosure of material changes** - Section 64 of the SA 2012 raises the requirements associated with the timely disclosure of material changes. Where a material change occurs in the affairs of a RI, within three (3) days of the occurrence of the material change, the RI must file with the TTSEC the required report disclosing the nature and substance of the material change, the contents of which shall be certified by a senior officer. Also, within seven (7) days of the occurrence of the material change, a notice must be published in such form as the TTSEC may require in two (2) daily newspapers of general circulation in Trinidad and Tobago or as otherwise determined by the TTSEC.
- **Annual financial statements** – Section 65 of the SA 2012 provides the requirements associated with Annual Financial Statements. Every RI shall, within the prescribed time, prepare and file with the TTSEC Annually Comparative Financial Statements. The annual financial statements must be accompanied by a report from the auditor. The Board of Directors of a RI must have an audit committee composed of not less than three directors of the RI, a majority of whom shall not be employees of the RI or any of its affiliates.
- **Interim financial statements** - Section 66 of the SA 2012 lists the requirements associated with Interim Financial Statements. Every RI shall prepare and file with the TTSEC Interim Financial Statements within sixty days of the end of the interim period within their financial year or within such other period as may be prescribed

The Stock Exchange Listed Company Disclosure Regime - Rules

- **Quarterly Financial Statements – Rule 600 requires** every listed company to submit to the Stock Exchange two (2) hard copies and one electronic copy of their Quarterly Financial statements for the first three (3) quarters of the financial year within 45 days of the end of the period to which the statements relate. The financial statements are to be prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The company will also publish the results in one of the leading daily newspapers at the time of submission. It should also be noted that the Stock Exchange also requires the submission of the Annual Report and Audited Financial Statements (Similar to the requirements of the TTSEC) as per Rule 601 and 602.
- **Communication of Information – Rule 603 requires** every listed company to notify the Stock Exchange, no later than five (5) days following the Board meeting at which the decision was taken, of all dividend payments, profit announcements, rights or bonus issues, acquisition or sale of assets, significant changes in share ownership or control and any other information necessary to enable share/stockholders to appraise the position of the company. The information regarding the listed company shall be communicated to the general public within five working days of the Board meeting via one of the leading daily newspapers.

- **Reports on Trading by Directors and Senior Officers – Rule 604** requires every listed company, through its Company Secretary or other relevant company official, to notify the Stock Exchange of all trades done by directors, senior officers and connected persons, within five (5) business days of the transaction.

Each of the aforementioned requirements carry a certain amount of financial costs to ensure compliance. These costs can include recruitment of staff and or auditors, printing and costs associated with media publications. It should also be noted that these are only a few of the requirements associated with regulatory compliance. There are costs associated with anti-money laundering compliance, risk management and corporate governance. Although the regulatory compliance costs associated with a listed company can be very high, equity financing can be an excellent source of funding for SMEs and may increase credibility and opportunities for economic growth.

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