Trinidad & Tobago Stock Exchange
Creating Opportunities

STATEMENT OF SUBSTANCE AND PURPOSE

Amendment to Rule 212 – Dealing and account periods

February 2022

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BACKGROUND

The Trinidad and Tobago Stock Exchange Limited (TTSE) acknowledges the importance of trading liquidity to safeguarding the orderly and efficient trading of securities. In this regard, the TTSE undertook a concise review of the current Dealing and account periods Rule (Rule 212) of the TTSE Rule Book with the aim of improving certain trade and post trade challenges that may exist.

Pursuant to Section 40 (2) of the Act, the TTSE hereby proposes to amend the current Dealing and account period from a three (3) day settlement period (T+3) to a two (2) day settlement period (T+2) for its Equity and Mutual Fund Securities. Therefore, the amendment of the existing Rule 212 [Dealing and account periods] of the TTSE's Rule Book is required in order to effect the aforementioned proposed amendment.

It must be noted that the TTSE submitted applications to the Trinidad and Tobago Securities and Exchange Commission ("the Commission") in late 2019 and early 2020 proposing changes to Rules 100-114 [General Rules], Rules 200-229 – [Trading and Settlement Rules], Rules 300-305 [Operations of Member Firms], Rules 400-408 – [Listing Rules] and Rules 600-610 [Listed Companies' Disclosure Regime] of the TTSE's Rules Book. By several correspondences, the Commission responded setting out its findings and recommendations on the proposed said Rules.

Despite the ongoing review of the Proposed Rules 200's of the TTSE's Rule Book, the TTSE has now deemed it imperative for the reasons set out in this Statement of Substance and Purpose, to extract the previously submitted proposed Trading and Settlement Period Rule from the body of the Proposed TTSE's Rule Book and request that the Commission expeditiously approves the amendment of the current Rule 212 (Dealing and account periods) of the TTSE's Rule Book. For clarification purposes, the amended Rule 212 will be titled, *Trading and Settlement Period* in lieu of *Dealing and account periods*.

For ease of reference we now enclose at **"Appendix 1"** the marked up version showing the said proposed changes.

Note

The existing TTSE Rules are currently being revised. As a result, the number for the proposed Trading and Settlement Rule is subject to change

We now outline the following:

1. Existing Rule 212 – Dealing and account periods– to be amended and replaced.
2. Proposed amended Rule 212.

EXISTING RULE 212

The existing rule of the TTSE Rule Book which outlines the dealing and account periods is presented below. An application is hereby submitted to have the existing rule amended.

Rule – 212 - Dealing and account periods

(1) The dealing period shall be defined as the number of sequential business days in respect of which all bargains in such types of security as the Board shall specify, shall, in the absence of special bargain conditions related to settlement date, be settled, simultaneously on a defined day.

(2) The dealing period shall be one day.

(3) The settlement period shall be defined as the period from the first business day after the end of the dealing period until the account day for the normal settlement of bargains transacted in that dealing period.

(4) The settlement period shall be three (3) business days. In the event of either dealing or the settlement periods being altered, the Exchange shall give to member companies three (3) months' notice of their intention.

(5) Bargains in all securities shall be dealt for settlement on the account day following the end of the dealing period in which the bargain was dealt, provided that bargains may be dealt under the special conditions permitted by rule 201.

(6) The Exchange may, should exceptional circumstances so require, postpone an account day, either in respect of all bargains made in a specified dealing period, or in respect of bargains in a specified security or securities.

PROPOSED AMENDED RULE 212

The proposed amended Rule 212 is outlined below for review and approval.

Proposed Amended Rule 212- Trading and Settlement Periods

(1) Trading Period

(i) The Exchange shall be entitled from time to time, to establish a trading period ("Trading Period") which shall be the number of sequential Business Days that Securities of any type prescribed by the Board, shall Trade, pending settlement.

(ii) For the purposes of this Rule 212, and subject to any amendment thereto made by the Exchange, the Trading Period shall be one (1) day.

(2) Settlement Period

(i) The Exchange shall be entitled from time to time, to establish a settlement period ("Settlement Period") which shall begin on the first Business Day after the Trading Period and shall end on such date thereafter as the Exchange may from time to time determine.

(ii) For the purposes of this Rule 212, the Settlement Period for Equity Securities and Mutual Fund Securities listed on the Exchange shall be two (2) Business Days.

(iii) In the event that the Exchange intends to amend the Trading Period or the Settlement Period, any and all changes to the Trading Period or Settlement Period are to be submitted for the consideration and approval of the Commission.

(iv) On receiving the approval of the Commission, the Stock Exchange shall give Member Firms three (3) months' written notice of the new Trading Period or Settlement Period and the date on which the new Trading Period or Settlement Period shall commence.

(3) Specially Permitted Trades

(i) In the event that the Exchange changes or alters the Trading Period or the Settlement Period in respect of Specially Permitted Trades, any and all changes to the Trading Period or Settlement Period in respect of Specially Permitted Trades shall be subject to written notification being given to the Commission.

(ii) For the purposes of this Rule 212(3)(i), the prescribed time for written notification to be given to the Commission shall be one (1) business day from the date of the Exchange's approval to change or alter the Trading Period or the Settlement Period in respect of Specially Permitted Trades.

(iii) Written notification required by this Rule 212(3)(ii) shall contain at minimum the following information:

(a) All relevant details in respect of the Specially Permitted Trades, including the security, member firms and clients;

(b) The Exchange's rationale for the change or alteration; and

(c) The duration of the change or alteration.

(4) Postponement of Settlement Period

(i) The Exchange may in its discretion and should the circumstances in the opinion of the Exchange so require, postpone the Settlement Period, either in respect of all Trades made in a specified Trading Period, or in respect of Trades in a specified Security or Securities.

(ii) For the purposes of this Rule 212(4)(i), notice of the postponed Settlement Period approved by the Exchange and the Trading Period or Securities impacted, shall be made by firstly issuing written notification of the postponement to the Commission within one (1) business day of any decision by the Exchange to postpone the Settlement Period and immediately thereafter to its Member Firms via electronic mail, and placing a notice on its website and/or placing a notice in the Weekly Bulletin and reporting same on the Exchange's Official List.

(5) Notice

The Notice to the Commission mentioned in Rule 212(4)(ii) shall contain the Exchange's:

(i) rationale for the postponement;

(ii) intended duration of the postponement; and

(iii) security or securities impacted by the postponement of the settlement period.

SUMMARY OF CHANGES

The following is a summary of the material amendments made.

(1) Trading Period

Proposed Rule 212(1)(i) - This provision clarifies the meaning and scope of the TTSE's entitlement to establish a "trading period". The provision simplifies the definition of "trading period" by amending the original language of 212 (1).
Proposed Rule 212(1)(ii) – This provision recognizes the trading period as one (1) day.

(2) Settlement Period

Proposed Rule 212(2)(i) - This provision sets out the calculation of the "Settlement Period" and acknowledges that the TTSE has the discretion to determine from time to time the end of the said Trading Period.

Proposed Rule 212(2)(ii) - This provision reduces the Settlement Period for Equity Securities and Mutual Fund Securities to two (2) business days. This change as aforesaid to two (2) business days is now imperative due to the reasons set out in the Statement of Substance and Purpose.
Proposed Rule 212(2)(iii) – This provision solely permitted the TTSE to amend either the applicable Trading Period or the Settlement Period at its discretion by, inter alia, firstly giving written notice to member firms. In keeping with established precedence, any and all changes to the trading period and/or settlement period are to be submitted for the consideration and approval of the Commission.
Proposed Rule 212(2)(iv) – This provision requires that on obtaining the approval of the Commission, written notice will thereafter be given to member firms.

(3) Specially Permitted Trades

Proposed Rule 212(3)(i) -(iii)– This provision permits the TTSE to alter the Trading or Settlement Period regarding Specially Permitted Trades by firstly giving written notification to the Commission within one (1) business day from the date of the Exchange's approval to alter same. The Rule also sets out the information that such written notification to the Commission must contain including: (a) all relevant details in respect of the specially permitted trades, including the security, member firms and clients; (b) the Exchange's rationale for the change or alteration; and (c) the duration of the change or alteration.

(4) Postponement of Settlement Period

Proposed Rule 212(4)(i) -(ii) – This provision enables the TTSE to temporarily postpone the Settlement Period, by firstly giving notice to the Commission within one (1) business day of any decision by the Exchange to postpone the Settlement Period and immediately thereafter to the Member Firms by placing a notice on the Exchange's website and/or Weekly Bulletin and reporting same on the Exchange's Official List.

(5) Notice

Proposed Rule 212(5) – This provision requires that the Notice mentioned at Rule 212(4)(ii) should set out the Exchange's (i) rationale for the postponement; (ii) intended duration of the postponement; and (iii) security or securities impacted by the postponement of the settlement period.

STATEMENT OF SUBSTANCE AND PURPOSE

The TTSE is actively seeking ways to facilitate the rapid development of the TTSE and recognizes trading liquidity as a fundamental enabler of this development. In this regard, the TTSE finds it prudent to address certain trade and post trade inefficiencies that may exist.

The TTSE is now proposing to implement a reduction in the settlement period of equity and mutual fund securities from T+3 to T+2 with the purpose of protecting the financial markets by reducing liquidity risks to both the industry and the individual investor. The change to a T+2 settlement cycle will result in a reduction in the settlement period of equity and mutual fund securities changing from two (2) business days prior to the record date to one business day prior to the record date.

The TTSE is therefore requesting that the Commission take the following key points into consideration in respect of the approval of the proposed amendments to Rule 212:

- For most investors, more liquid markets are associated with the ability to move more easily in and out of assets.
- The proposed approach will assist to promulgate the increased interest and activity around cross-listing between the Jamaica Stock Exchange (JSE) and the TTSE where settlement with the JSE occurs within two (2) business days. Therefore, this change will align the settlement period of both markets.
- The change will also align the settlement periods of both markets and bring the markets in line with the settlement period for both the TTSE Government Bond Market and the TTSE Corporate Bond Market which are already set at T+2.
- The TTSE believes that a faster and more efficient T+2 settlement cycle, supported by capable technology, is expected to yield great benefits to the market and will have a positive impact on the market's liquidity.
- Having a T+2 settlement cycle in line with international standards enhances global settlement harmonization and better alignment with international best practices thereby allowing seamless transactions across the region and internationally.
- The TTSE notes that purchasing investors will need to fund their accounts sooner. However, most brokers/participants have instituted a policy of client pre-funding of all security purchases which implies a reduction in settlement risk. This will also open an opportunity for clients to utilize their access to short term funding and credit lines from brokers, if needed.
- A T+2 settlement cycle will streamline and increase flexibility in securities trading as well as subsequent transactions. With the shorter two-day settlement date, investors can more quickly turnover their capital as they realize faster returns. At the same time, the seller/payee will receive payment more quickly allowing for enhanced management of investment capital and the opportunity to make other investments in a timely fashion. T+2 also increases by one additional day the benefits of securities ownership for the investor.

In light of the aforementioned, the TTSE is humbly seeking the expedited approval of the proposed amendments to Rule 212 by the Commission.

APPENDIX I

Rule – 212 - ~~Dealing and account periods~~ Trading and Settlement Periods

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(1) Trading Period

(i) The Exchange shall be entitled from time to time, to establish a trading period ("Trading Period") which shall be ~~(1)The dealing period shall be defined as~~ the number of sequential Business Days that Securities of any type prescribed by the Board, shall Trade, pending settlement. ~~business days in respect of which all bargains in such types of security as the Board shall specify, shall, in the absence of special bargain conditions related to settlement date, be settled, simultaneously on a defined day.~~

(ii) For the purposes of this Rule 212, and subject to any amendment thereto made by the Exchange, the Trading Period ~~(2)The dealing period~~ shall be one (1) day.

(2) Settlement Period

(i)The Exchange shall be entitled from time to time, to establish a settlement period ("Settlement Period") which shall begin on ~~(3)The settlement period shall be defined as the period from~~ the first Business Day ~~business day~~ after the Trading Period and shall end on such date thereafter as the Exchange may from time to time determine. ~~end of the dealing period until the account day for the normal settlement of bargains transacted in that dealing period.~~

(ii) For the purpose of this Rule 212, the ~~(4)The~~ settlement period for Equity Securities and Mutual Fund Securities listed on the Exchange shall be two (2) ~~three (3)~~ business days. ~~In the event of either dealing or the settlement periods being altered, the Exchange shall give to member companies three (3) months' notice of their intention.~~

(iii) In the event that the Exchange intends to amend the Trading Period or the Settlement Period, any and all changes to the Trading Period or Settlement Period are to be submitted for the consideration and approval of the Commission.

(iv) On receiving the approval of the Commission, the Stock Exchange shall give Member Firms three (3) months' written notice of the new Trading Period or Settlement Period and the date on which the new Trading Period or Settlement Period shall commence.

~~(5)Bargains in all securities shall be dealt for settlement on the account day following the end of the dealing period in which the bargain was dealt, provided that bargains may be dealt under the special conditions permitted by rule 201.~~

~~(6)The Exchange may, should exceptional circumstances so require, postpone an account day, either in respect of all bargains made in a specified security or securities.~~

(3) Specially Permitted Trades

(i) In the event that the Exchange changes or alters the Trading Period or the Settlement Period in respect of Specially Permitted Trades, any and all changes to the Trading Period or Settlement Period in respect of Specially Permitted Trades shall be subject to written notification being given to the Commission.

(ii) For the purposes of this Rule 212(3)(i), the prescribed time for written notification to be given to the Commission shall be one (1) business day from the date of the Exchange's approval to change or alter the Trading Period or the Settlement Period in respect of Specially Permitted Trades.

(iii) Written notification required by this Rule 212(3)(ii) shall contain at minimum the following information:

(a) All relevant details in respect of the specially permitted trades, including the security, member firms and clients;

(b) The Exchange's rationale for the change or alteration; and

(c) The duration of the change or alteration.

(4) Postponement of Settlement Period

(i) The Exchange may in its discretion and should the circumstances in the opinion of the Exchange so require, postpone the Settlement Period, either in respect of all Trades made in a specified Trading Period, or in respect of Trades in a specified Security or Securities.

(ii) For the purposes of this Rule 214(4)(i) notice of the postponed Settlement Period approved by the Exchange and the Trading Period or Securities impacted, shall be made by firstly issuing written notification of the postponement to the Commission within one (1) business day of any decision by the Exchange to postpone the Settlement Period and immediately thereafter to its Member Firms via electronic mail, and placing a notice on its website and/or placing a notice in the Weekly Bulletin and reporting same on the Exchange's Official List.

(5) Notice

The Notice to the Commission mentioned in Rule 212(4)(ii) shall contain the Exchange's:

a. rationale for the postponement;

b. intended duration of the postponement; and

c. security or securities impacted by the postponement of the settlement period.

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