



Trinidad & Tobago  
Stock Exchange  
*Creating Opportunities*

# STATEMENT OF SUBSTANCE AND PURPOSE

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## CHANGE IN THE APPLICATION OF THE CLOSING PRICE METHODOLOGY

December 17<sup>th</sup>, 2021

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## Background

The Trinidad and Tobago Stock Exchange Limited (TTSE) has noted an increasing occurrence of small trades over our Automated Trading System (ATS) marking the Closing Price of securities. These small volume trades have had an adverse material impact on the market capitalization of the companies listed on the TTSE and are accompanied by increased levels of market volatility. Concerns around these issues have also been raised by our market participants including Listed Companies and investors.

These concerns are considered to be urgent by the TTSE given its negative impact on market confidence, and, in accordance with our mandate to ensure an orderly and efficient market, the TTSE undertook a concise review of the Closing Price methodology.

Following this review, by meeting held on March 11<sup>th</sup>, 2021, the Board of Directors approved a change in the application of the Closing Price methodology to now restrict small trades with a volume less than one hundred (100) shares/units, from being included in the calculation of the Closing Price.

Therefore, the repeal and replacement of the existing Rule 227 [Closing Market] of the TTSE's Rule Book is therefore required in order to effect the proposed change to the calculation of the Closing Price.

It must be noted that the TTSE previously submitted applications to the Trinidad and Tobago Securities and Exchange Commission ("the Commission") in late 2019 and early 2020 proposing changes to Rules 200-229 – Trading and Settlement Rules, Rules 300-305 – Operations of Member Firms and Rules 400-408 – Listing Rules of the TTSE's Rules Book (collectively referred to as "the proposed Rules"). By letter dated August 27<sup>th</sup> 2020, the Commission responded setting out its findings and recommendation on the proposed Rules.

Despite the ongoing review of the Proposed Amended 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 Closing of Market Rule from the body of the Proposed TTSE's Rule Book and request that the Commission expeditiously approves the repeal and replacement of Rule 227 (Closing of Market) of the TTSE's Rule Book.

For comprehensive purposes, the TTSE has since reviewed the previously submitted proposed Closing of Market Rule of the Proposed TTSE Rule Book (which is intended to replace the existing Rule 227 of the TTSE's Rule Book) and has accordingly made further proposed changes to the same. For ease of reference we now enclose at **Appendix 1** the marked up version showing these said proposed changes.

**Note**

- **The existing TTSE Rule Book is currently being revised. As a result, the number for the rule regarding the Closing of Market may change.**

We now outline the following:

1. Existing Rule 227 [Closing of Market] of the TTSE's Rule Book – to be repealed and replaced.
2. Proposed Closing of Market Rule – to replace Rule 227 [Closing of Market] of the TTSE's Rule Book.

**Existing Rule**

**TTSE Rule 227 – Closing of Market**

- (1) The closing price of a share listed on the First Tier, Second Tier and Mutual Fund markets of the Exchange is the Volume Weighted Average Price, calculated as the total value of shares traded in the day divided by the total volume of shares traded in the same trading day.
- (2) If a share listed on the markets referred to in (1) does not trade in a trading day, the closing price will be the same as the closing price of the previous day.

**Proposed Rule**

**A. Previously submitted Closing of Market Rule of the Proposed TTSE's Rule Book**

**Closing of Market**

**(1) Closing Price of Equity Securities**

The closing price for equity Securities listed on the Exchange is the Volume Weighted Average Price, calculated as the total value of the equity Securities Traded during the Trading session divided by the total volume of equity Securities Traded in the same Trading session.

**(2) Price of Securities not Traded**

If an equity Security listed on the Exchange does not Trade in a Trading session, the closing price will be the same as the closing price of the previous day.

(3) **Closing Price of Bond Securities**

The closing price for debentures and bond Securities listed on the Exchange shall be the last Traded price of the Bond security. In the event a bond Security does not Trade during the Trading session, the closing price will be the same as the closing price of the previous day.

(4) **Closing Price of Funds**

The closing price for listed mutual funds shall be the Volume Weighted Average Price, calculated as the total value of the Securities Traded during the Trading session divided by the total volume of Securities Traded in the same Trading session. In the event a Mutual Fund Security does not Trade during the Trading session, the closing price will be the same as the closing price of the previous day.

**B. Most Recent Proposed Closing of Market Rule of the TTSE's Proposed Rule Book**

**Closing of Market**

**(1) Closing Price of Equity Securities**

- i. Subject to subsection ii of this Rule, the closing price for an equity security listed on the Exchange shall be the Volume Weighted Average Price, calculated as the trade value of the equity security during the Established Trading Session divided by the volume traded of the equity security during the Established Trading Session.
- ii. Trades in each equity security for that day, at the same price, with a cumulated volume less than one hundred (100) shares will not be included in this calculation.
- iii. If the equity security listed on the Exchange does not trade during the Established Trading Session, the closing price of the equity security will be the same as the closing price of the previous day.

**(2) Closing Price of Mutual Funds**

- i. Subject to subsection ii of this Rule, the closing price for a mutual fund listed on the Exchange shall be the Volume Weighted Average Price, calculated as the trade value of the mutual fund during the Established Trading Session divided by the volume traded of the mutual fund during the Established Trading session.
  - ii. Trades in each mutual fund for that day, at the same price, with a cumulated volume less than one hundred (100) shares will not be included in this calculation.
  - iii. If the mutual fund listed on the Exchange does not trade during the Established Trading Session, the closing price of the mutual fund will be the same as the closing price of the previous day.
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**(3) Closing Price of Bond Securities**

- i. The closing price for a debenture or bond security listed on the Exchange shall be the Last Traded Price.
- ii. If the debenture or bond security listed on the Exchange does not trade during the Established Trading Session, the closing price of the debenture or bond will be the same as the closing price of the previous day.

**Statement of Substance and Purpose**

The TTSE acknowledges that the VWAP method is transparent, equitable and reflects a fair security price based on traded volume. Despite the aforesaid, small trades that result in a loss of market capitalisation for listed securities is adversely impacting confidence in the market as evidenced by the above referenced Tables. Rule 227 (1) of the TTSE's Rule Book stipulates that the Volume Weighted Average Price (VWAP) is the average price of all the trades executed in a share for the day. However, this does not eliminate the undesirable negative effect on market confidence of a small trade causing a substantial change in price.

In this regard, we now outline examples of such occurrences over the review period January 2021 – February 2021, in circumstances where only one share traded for a particular security on that trading day.

**Table 1: AHL – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
26-Feb-21	1	14.60	Sell	14.60	14.95	14.73	14.60	-0.88%
22-Feb-21	1	14.96	Sell	14.96	15.02	15.02	14.96	-0.40%

Table 1 above displays the best bids and offers before the small volume trade occurred and the respective changes to the closing price.

**Table 2: GML – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
15-Jan-21	1	3.25	Buy	3.00	3.25	3.00	3.25	8.33%

Table 2 above displays the best bids and offers before the small volume trade occurred and the respective change to the closing price.

**Table 3: LJWB – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
28-Jan-21	1	1.40	Buy	1.40	1.50	1.45	1.40	-3.45%

Table 3 above displays the best bids and offers before the small volume trade occurred and the respective change to the closing price.

price.

**Table 4: PLD – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
10-Feb-21	1	3.15	Buy	3.02	3.15	3.01	3.15	4.65%

Table 4 above displays the best bids and offers before the small volume trade occurred and the respective change to the closing price.

**Table 5: TCL – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
19-Feb-21	1	3.75	Buy	2.90	3.75	3.41	3.75	9.97%

Table 5 above displays the best bids and offers before the small volume trade occurred and the respective change to the closing price.

**Table 6: UCL – Best bids and offers**

Date	Incoming Small Order			Best Bid and Offer Price before order entry		Price Information		
	Volume Traded	Trade Price (\$)	Action	Best Bid Price (\$)	Best Offer Price (\$)	Opening Price	Closing Price	Price Change
10-Feb-21	1	16.45	Buy	16.40	16.45	16.50	16.45	-0.30%

Table 6 above displays the best bids and offers before the small volume trade occurred and the respective change to the closing price.

The TTSE therefore believes the repeal and replacement of Rule 227 of the TTSE’s Rule Book will eliminate the undesirable negative effect on market confidence of smalls trade causing a substantial change in price.

Additionally, the TTSE believes that such change will assist to dispense with allegations of market manipulation by traders.

## APPENDIX 1

### Closing of Market

#### (1) Closing Price of Equity Securities

i. ~~Subject to subsection ii of this Rule, the closing price for an equity Ssecurityies listed on the Exchange is shall be the Volume Weighted Average Price, calculated as the total trade value of the equity Ssecurityies Traded during the Established Trading Ssession divided by the total volume traded of the equity Ssecurityies during the Traded in the same Established Trading sSession.~~

ii. ~~Trades in each equity security for that day, at the same price, with a cumulated volume less than an amount specified by the Exchange less than one hundred (100)-shares will not be included in this calculation.~~

iii. ~~If the equity security listed on the Exchange does not trade during the Established Trading Session, the closing price of the equity security will be the same as the closing price of the previous day.~~

#### (2) ~~Price of Securities not Traded~~

~~If an equity Security listed on the Exchange does not Trade in a Trading session, the closing price will be the same as the closing price of the previous day.~~

#### (2) Closing Price of Mutual Funds

i. ~~Subject to subsection ii of this Rule, the closing price for a mutual fund listed on the Exchange shall be the Volume Weighted Average Price, calculated as the trade value of the mutual fund during the Established Trading Session divided by the volume traded of the mutual fund during the Established Trading Session.~~

ii. ~~Trades in each mutual fund for that day, at the same price, with a cumulated volume less than one hundred (100) shares will not be included in this calculation.~~

iii. ~~If the mutual fund listed on the Exchange does not trade during the Established Trading Session, the closing price of the mutual fund will be the same as the closing price of the previous day.~~

#### (3) Closing Price of Bond Securities

i. ~~The closing price for a debentures and or bond Ssecurityies listed on the Exchange shall be the Last Traded Price of the Bond security.~~

ii. ~~If in the event a debenture or bond Ssecurityies listed on the Exchange does not Trade during the Established Trading sSession, the closing price of the debenture or bond will be the same as the closing price of the previous day.~~



(4) **Closing Price of Funds**

The closing price for listed mutual funds shall be the Volume Weighted Average Price, calculated as the total value of the Securities Traded during the Trading session divided by the total volume of Securities Traded in the same Trading session. In the event a Mutual Fund Security does not Trade during the Trading session, the closing price will be the same as the closing price of the previous day.