Bi-Annual Market Newsletter

July-December 2021, Issue #28

Sustainable Investing

P.7

Contents

Credits

The TTSEC Market Newsletter is a bi-annual publication of the Trinidad and Tobago Securities and Exchange Commission.

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Message from the
Chief Executive Officer (Ag.)
Lystra Lucillio

Dear Valued Stakeholder,

Season's Greetings!

I am pleased to share with you the 28th Issue of our Market Newsletter. Innovation and adaptability have been the driving force behind our work this past year, as we sought new ways to press forward and overcome the challenges amidst the pervasive effects of the COVID 19 pandemic.

Advancing our technological capacity to enhance the way we do business has been the ideal for ensuring a more efficient and effective securities market. Every advancement, however, is not without its challenges, and we wish to thank you for your patience, support and cooperation in making the necessary adjustments toward a new way of doing business that will result in a more resilient market.

We will continue to work with you as we remain resolute in our commitment to developing a fair, and orderly securities market.

Among the highlights in this issue of our Market Newsletter:

- TTSEC Investor Protection App;
- Sustainable Investing;
- The Importance of Form 23;
- Mutual Funds and the Christmas Season and
- Securities Fraud: When it is too good to be true.

We hope that you find our Market Newsletter informative and instructive, and as always, we welcome your feedback via ccei@ttsec.org.tt.

We take this opportunity to wish you and your families, a joyous and peaceful Christmas and a safe and productive New Year, 2022.

Lystra Lucillio

Chief Executive Officer (Ag.)

Conflicts of Interest and The Importance of the Form 23

An important statutory mandate of the Commission is to foster a fair and efficient securities market and build confidence in the securities industry in Trinidad and Tobago. For there to be confidence in the industry, there must be trust which requires market intermediaries act with a high level of integrity and transparency in their dealings with clients.

The Commission works diligently to ensure integrity in the system is achieved in order to maintain the confidence necessary for a robust securities market. A major threat to this, however, exists in the form of conflicts of interest, which can potentially result in negative consequences to investors.

What is a Conflict of Interest?

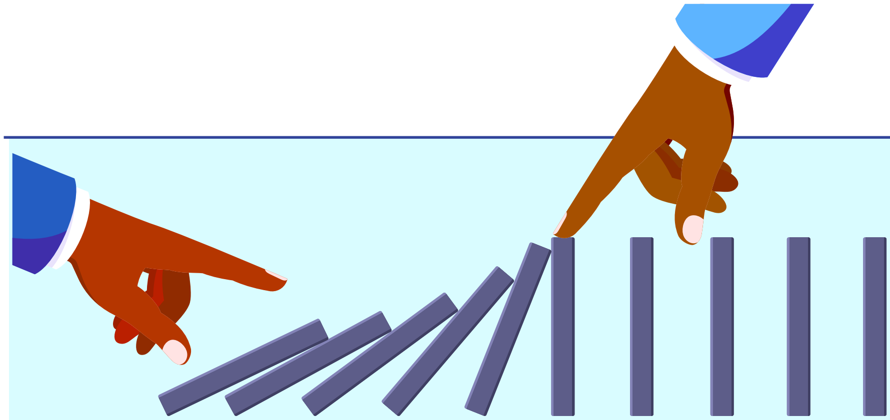
A conflict of interest, according to the Merriam-Webster dictionary, is ***"a conflict between the private interests and the official responsibilities of a person in a position of trust."***

Conflicts of interest are more common than one might initially perceive and can exist in virtually any profession. For example, a conflict of interest may exist when a supplier offers a grocer a higher profit margin, to sell impaired or contaminated goods to customers, or when a judge is related to one of the parties in a court matter. In such situations, an individual's personal interests may compromise his/her judgment, decisions or actions, in fulfilling their professional duties. These conflicting situations are often inescapable and, in many cases, originate with no malicious intent.

Conflicts of interest strongly test one's character and they need to be managed appropriately. If not, these conflicts, or even the perception of one, can tarnish the reputation of the person in the position of trust, regardless of whether the person's intentions were pure. This is especially true in the securities markets.

Applicability to the Securities Industry

Conflicts of interest exist in the securities markets in many ways – one common conflict arises when a market intermediary is a 'Related-Party' to a securities issuer. As it relates to By-Law 66(1) of the Securities (General) By-Laws, 2015 ("the By-Laws"), a 'Related Party' could be interpreted to mean:



Conflicts of interest pose a substantial threat to not only the market intermediary's reputation or the client's portfolio performance, but also the integrity of the overall securities industry

a. any entity which beneficially owns or controls an aggregate of more than 30% of the outstanding voting securities (or securities with the right to be converted to voting securities) of the market intermediary; or

b. any entity in which the market intermediary owns or controls an aggregate of more than 30% of the outstanding voting securities (or securities with the right to be converted to voting securities).

In both of the scenarios identified above, the market intermediary will have an underlying vested interest in the financial performance of the related party. The brokerage firm or investment adviser may therefore be predisposed to make certain investment recommendations/decisions with respect to the securities issued by these related parties, which may or may not be in-line with the clients' best interest. In the case of discretionary brokerage accounts, the market intermediary may even be allowed to execute these transactions without prior permission from the client.

This is one of the ways in which conflicts of interest pose a substantial threat to not only the market intermediary's reputation or the client's portfolio performance, but also the integrity of the overall securities industry.

The Form 23 – Conflict of Interest Rules Statement

One of the ways in which the Commission seeks to manage the threat associated with conflicts of interest is through the use of the Form 23 – Conflict of Interest Rules Statement (available via the following URL: https://www.ttsec.org.tt/wp-content/uploads/Form-23-Conflict-of-Interest-Rules-Statement-2020.pdf).

The Form 23 is a relatively brief form which simply requires the market intermediary to identify its related parties, and the manner in which they are related, as at a certain date. This form must be given to the intermediary's clients and submitted to the Commission:

a. at the time of filing an initial application for registration with the Commission;

b. at the time of filing its Audited Financial Statements with the Commission; and

c. in the event there is any material change to the information contained within its most recently filed Form 23.

Disclosure Requirements of the Form 23

Disclosure is one of the most powerful tools securities regulators use to mitigate the threats posed by conflicts of interest. The Form 23, despite being simple and brief in nature, imposes significant disclosure-based requirements with which registrants are legally required to comply.

According to By-Law 67(2) of the By-Laws, market intermediaries must provide their current version of the Form 23 free of charge to investors at the time of establishing a client relationship.

Additionally, By-Laws 68, 69 and 70 of the By-Laws speak to trading and providing investment advice involving securities of Related Parties. These By-Laws, inter alia, mandate that the market intermediary provide its current Conflict of Rules Statement to clients before executing trades in, or providing investment advice on, securities of Related Parties.

It must be stated though that these disclosure-based requirements are not intended to altogether eliminate conflicts of interest. They do, however, seek to level the playing field by ensuring the investor is, at minimum, aware of the relationship between the intermediary and the security issuer, which should allow the investor to make an informed investment decision.

Conflicts of interest will always exist, especially in the securities market in any given country. There may be many reputable broker-dealers whose securities are owned by publicly-listed entities, as well as those whose securities remain privately owned. There may even be situations where a specific security, albeit that of a Related Party, may be a suitable match for an investor's portfolio and it would be a disservice to the client if that security was altogether restricted from being purchased. Ultimately, it is the investor's right to at least be aware of the conflict of interest, and from there make the best possible informed decision.

TTSEC Investor Protection App

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) is now only the third securities regulator in the world, outside of France and India, to introduce a mobile application that targets the combatting of investments fraud/scams, as a specific area of focus.

On Wednesday August 4, 2021, the TTSEC launched its Investor Protection App (IPA), in 2021, aimed at creating an easier and more efficient way for investors to submit complaints and for individuals to report real time information and tips on scams. The launch took the form of a virtual event and was attended by securities regulators from among the Caribbean Group of Securities Regulators, local Financial Regulators and market participants.

The IPA was developed in response to the growing demand for organisations to adopt measures and systems to facilitate the delivery of contactless services in response to COVID-19; and to promote investor confidence, during this particularly challenging time. The IPA will also facilitate the expeditious dissemination of investor alerts and useful information to the public to help them make informed financial decisions.

As at September 2021, the IPA has been downloaded 485 times via Google and Apple Playstores with investor alerts being routinely disseminated via the App. The App has been downloaded by users in the United States, Canada, Europe, Asia and Antigua and Barbuda, with the bulk of the downloads taking place locally, as anticipated.

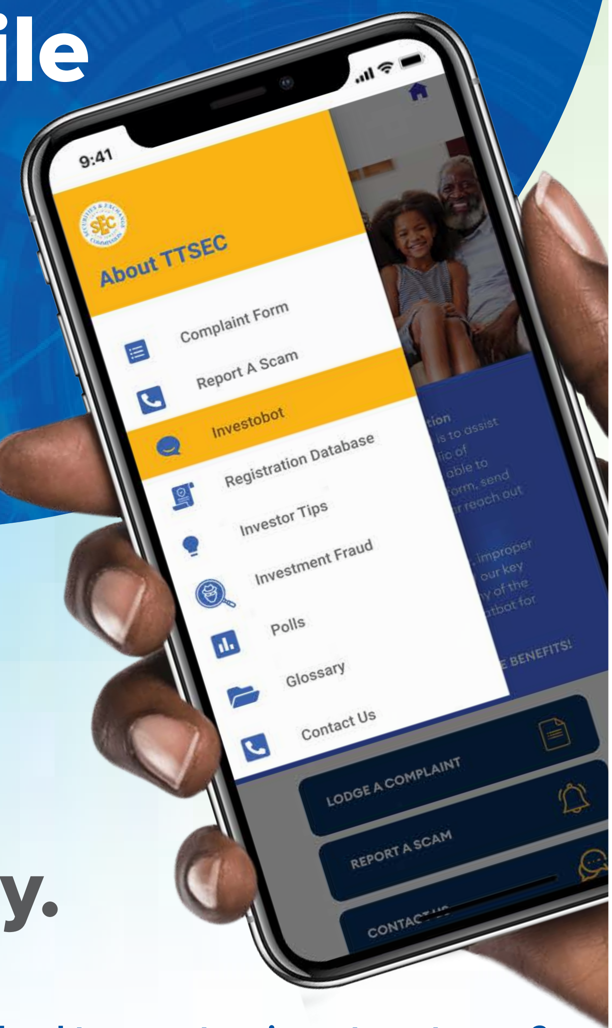
The most common types of complaints received by the TTSEC include:

- Complaints related to investment schemes (unregistered business/securities);
- Complaints related to Broker/Dealer trading activities
- Complaints related to unauthorised transactions on client accounts and;
- Complaints related to cryptocurrency and forex trading.

The IPA is now available for Android and Apple devices and you can download it for free via the **Google Playstore and Apple Store**.

TTSEC Investor Protection Mobile Application

SCAN TO DOWNLOAD



Helping to protect you and your hard-earned money.

- **Investors, need to submit a complaint?**
  Submit a complaint about your investment, the investment adviser, broker-dealer or the company holding your investment.

  We will inquire into your complaint.

- **Need to report an investment scam?**
  Anonymously submit a Tip to the TTSEC – You can upload images, videos, documents, and audio recordings.

  The TTSEC will conduct its inquiries.

TTSEC's Investor Protection Mobile Application
Reaching You wherever You are.

You Invest. We Protect. Everyone Benefits!

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SUSTAINABLE INVESTING

The concept of Sustainable Investing is a relatively new one which involves investing to create financial returns and impacts. The main idea of Sustainable Investing is that it is driven by investors and governments wanting to ensure a "greener" future. Sustainable investing balances traditional investing with environmental, social, and governance-related (ESG) insights to improve long-term outcomes. In many ways, sustainable investing can be seen as part of the evolution of investing. There is a growing recognition among industry participants that some ESG factors can have long-term economic implications, and it is, therefore, important to incorporate material ESG factors in investment decisions. **Figure 1** shows how investors may evaluate investments using ESG factors.

Source: *Toronto Centre for Financial Supervision*

There are three critical elements of sustainable investing:

- Sustainable investing is an additive to asset management theory and does not mean a rejection of its foundational concepts.
- Sustainable investing develops deeper insights about how value will be created going forward using ESG considerations.
- Sustainable investing considers diverse stakeholders, consistent with how companies are developing.

It is also inextricably linked to the United Nations' Sustainable Development Goals (SDGs) (see **Figure 2**). Ten (10) out of the 17 SDGs have a climate-change impact.

So why should Securities Regulators like the TTSEC care about Climate Change? Regulators should care about climate change risks and other sustainability issues as they have implications for the achievement of their objectives, i.e. the protection of investors and ensuring a fair and efficient securities market. The many risks that can come from Climate Change include:

- **Physical Risk:** This includes the potential for property damage, business disruption, rising expenditures and the threat of legal liability resulting from the failure to mitigate or adapt.
- **Transition Risk:** This involves the likelihood of increased fines and lawsuits for environmental infractions, the possibility of reduced revenues and having to divest. The likely consequence of such divestment exercises would be the presence of "Stranded assets" as a result of having to abandon projects that became economically unfeasible.

Figure 1 – ESG Investment Evaluation Methodology

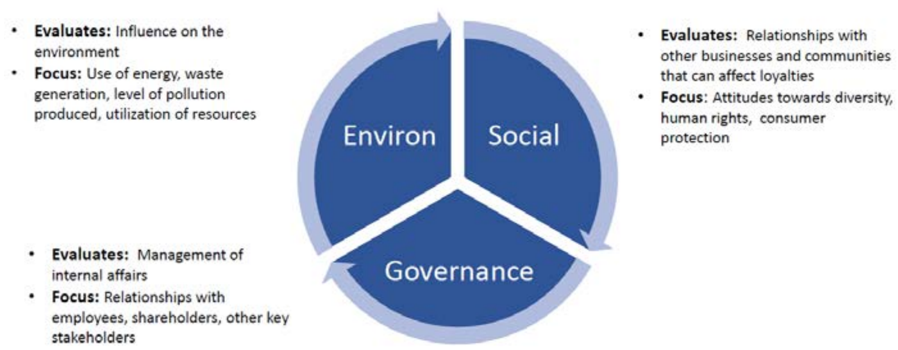

Figure 2 – United Nations' Sustainable Development Goals

- **Investment Risk:** This increases as affected companies experience defaults in their debt as well as steep equity price drops, which will weaken investor confidence in the long-term prospects of the affected companies.
- **Financial Market** and Institution Risk: The cumulative knock-on effects of the three aforementioned risks will be increased investment losses, a reduction in assets under management, increased insurance claims and losses and higher prevalence of household defaults. This would ultimately lead to job losses, economic recession and an uptick in criminal activities.

A 2018 report from the Sustainable Stock Exchanges Initiative ("SSE") identifies five action areas **(see Figure 3)** where securities regulators can contribute to a more stable and resilient financial system that better supports the SDGs. These are:

1. Facilitate investment to support the delivery of the SDGs: Securities regulators can implement programmes that aid investment flows towards achieving the SDGs via financial products.
2. Strengthen corporate sustainability-related disclosures: Securities regulators can improve the quality and quantity of disclosure on environmental and social data provided by its registrants.
3. Clarify investor duties on sustainability: Securities regulators can guide investors on the integration of sustainability into their investment decisions.
4. Strengthen corporate governance to support sustainability: Securities regulators can introduce regulations that outline board responsibilities related to environmental and social factors.
5. Build market capacity and expertise on sustainability: Securities regulators can facilitate the training of market participants on sustainability topics.

The report also identified five supporting actions that securities regulators could consider as part of its action plan:

1. Analysis: The securities regulator can analyse the factors that influence the ability of market actors to support the SDGs.
2. Roadmaps: The securities regulator can then produce or support the development of national or regional plans for sustainable finance.
3. Sharing: Securities regulators can exchange experiences with each other, and learn from their experiences and practices.
4. Standards: The securities regulator can work with relevant international or regional bodies to implement standardized guidelines or frameworks.
5. Collaboration: The securities regulator can work with other relevant organisations to align efforts in support of the SDGs.

Figure 3 – How securities regulators can support the SDGs: an action plan

Source: *SSE Initiative (https://www.sseinitiative.org/wp-content/uploads/2018/10/SSE-Regulator-Report-compressed.pdf)*

Mutual Funds and the Christmas Season

Christmas is almost upon us and while we continue to ensure that we are safeguarded from the COVID-19 pandemic, it is also expected that many will continue with their traditional preparations for the season. During this time of year, most persons review their options for financing activities related to the season. Funds tend to be derived from savings, investments and loans. The Trinidad and Tobago Securities and Exchange Commission ("TTSEC") assessed investors' withdrawals from Mutual Funds based on data from 2010 to present and the analysis suggests that the months of August and December have the lowest net subscription (or deposit) rates as seen in **Figure 1**.

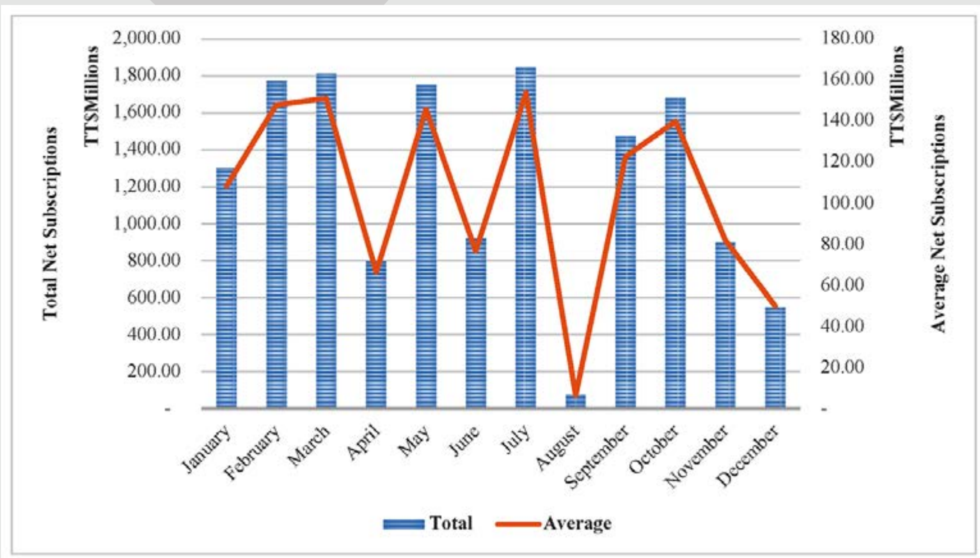

Figure 1 – Trends in Net Subscriptions/Redemptions 2010 to Present

This suggests that while local mutual fund investors are saving more than they are withdrawing during these months, August and December continue to have the highest incidence of redemptions or withdrawals. This is in line with observed seasonal spending patterns here in Trinidad and Tobago.

What is a Mutual Fund? A mutual fund is a type of investment that is made up of a pool of money collected from many investors to invest in securities or investment products such as stocks, bonds, money market instruments, and other assets. Mutual funds are operated by investment professionals registered with the TTSEC, who manages the pool of funds/assets and attempt to produce capital gains or income for the fund's investors.

What is a Subscription and Redemption? Subscriptions occur when investors deposit money into their Mutual Fund account. Redemptions occur when investors withdraw money from their Mutual Fund accounts. Net subscriptions occur when total monies deposited into the mutual fund exceed those withdrawn.

The revelation from our analysis in **Figure 1** is not surprising, since redemptions during the month of August can possibly be attributed to withdrawals for family vacations or for the upcoming school term, while redemptions in December may relate to increased spending for celebrating Christmas activities.

As at October 31st 2021, total Mutual Fund Assets Under Management ("AUM") was approximately **TT$63 Billion**, this represents approximately **44%** of Gross Domestic Product ("GDP").

Figure 2 displays the growth of Mutual Fund AUM over the past 11 years in the Trinidad and Tobago Securities Market. Over the period, the Mutual Fund sector has grown by approximately **53%**, this suggests that investors have a significant appetite for mutual fund investment products. The industry has rebounded significantly **(16%)** from March 2020 when the COVID-19 pandemic lockdown measures were implemented in Trinidad and Tobago.

There are 70 Mutual Funds registered by the TTSEC to operate in Trinidad and Tobago. These Mutual Funds can be categorised as either Fixed Net Asset Value ("NAV") or Floating NAV.

What is a Net Asset Value? The NAV represents the value of the mutual fund and takes into consideration the subscriptions and redemptions. It is normally calculated every business day and must be computed in accordance with the methodology communicated to investors.

What is a Fixed NAV? A Fixed NAV means the value of a mutual fund unit is managed in such a way to ensure the price of a unit is the same for both subscriptions and redemptions.

What is a Floating NAV? A Floating NAV means the value of a mutual fund unit changes based on the performance of the pool of assets. This means the value of subscriptions and redemptions can be different.

Currently, Fixed NAV Mutual Funds accounted for approximately **60%** of Mutual Funds' AUM while Floating NAV Mutual Funds accounted for approximately **40%** of AUM. This suggests that investors in Trinidad and Tobago may be more risk adverse, since most invest in the constant NAV funds. Fixed NAV Mutual Funds, however, offer a lower rate of return when compared to Floating NAV Mutual Funds.

As the 2021 Christmas season approaches, the TTSEC recommends that investors conduct proper research and budgeting techniques to ensure investments are not depleted

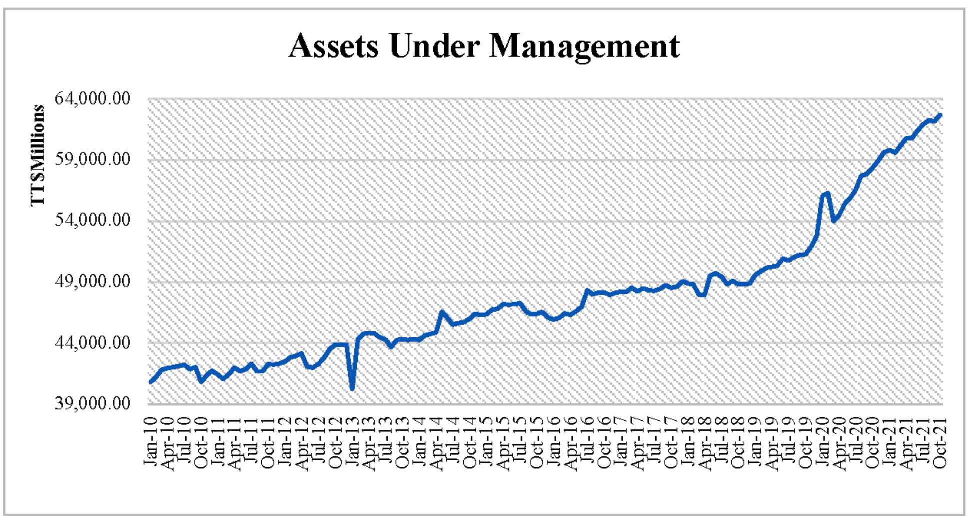

Figure 2 - Mutual Fund AUM growth 2010 to Present

while taking part in the festive season. We also suggest that investors consult with professionals registered with the TTSEC to ensure that any potential investment in the securities market are with entities registered with the TTSEC. Be wary of a potential investment **SCAM** (**S**mart-man **C**onniving **A**way your **M**oney) and know your **ABC's** – **A**sk questions; **B**eware of investment fraud; and **C**heck the TTSEC first!

For more information, please visit our corporate website, www.ttsec.org.tt.. You may also visit our Investor Education website at www.investucatett.com

Published Article – Business Express Newspaper December 15th, 2021

Securities Fraud- When it is too good to be true

Bernie Madoff, Martha Stewart and Allen Stanford are just some of the more famous people who were charged and convicted of securities fraud. Since then, there have been many more cases as securities markets have grown and evolved.

Whether famous or not, whether the case garnered public attention or not, one thing is certain - fraudsters disrupt the orderly functioning of securities markets, causing a great deal of havoc and even possibly impacting the general economy of a country. As such, it is imperative that investors maintain a high sense of alertness when participating in an investment opportunity. As a general rule - **if it sounds too good to be true, it is**.

Notwithstanding the risk of securities fraud, securities markets play an important role in the development of the financial sector and the wider economy by channelling funds between "savers/investors" (individuals, companies, and governments) who have money to invest, and "spenders" (governments, companies, small and micro enterprises) who need money to finance businesses and projects. Spenders include companies who wish to utilise capital to facilitate the expansion of their businesses or governments for infrastructural development. This is done through investment instruments such as bonds and stocks.

Securities fraud involves the deliberate deception of investors and the manipulation of securities markets for unfair profits and can be perpetrated in many different ways by various players in the market. Anyone is susceptible to securities fraud, but a basic understanding can prove valuable in mitigating the risk of becoming a victim.

While there is an inexhaustive number of ways in which securities fraud can occur, the following are just some of the more common forms encountered in securities markets across the globe:

1. Insider trading – This entails the illegal trading of securities by company insiders, such as directors, managers and service providers (attorneys, consultants, printing firms), who have gained knowledge of material information that is not available to the general public, by virtue of their position or relationship with the organization. Information is considered material when it could significantly impact an investor's decision to buy or sell a security. An example of this type of behaviour would be the sale of a company's stock by a director prior to the public disclosure of losses incurred by the company.

2. Accounting fraud – This is the deliberate misrepresentation of a company's financial performance by manipulating the financial statements to inaccurately reflect a financially healthy company with high earnings potential. A company can falsify its financial statements in several ways, such as overstating its revenue, understating expenses, and misstating assets and liabilities. Financial statements are used by investors when assessing a potential investment opportunity. Enron and WorldCom were companies well known for accounting fraud. The positive financial performance reflected by their financial statements contributed to a high demand for the companies' shares and pushed the stock price upwards. When the accounting fraud was uncovered, the demand and price of these shares plummeted and many investors lost their investment.

3. Misrepresentations - This involves the presentation of misleading material information to an investor or to the investing public by a professional market actor such as an issuer, broker/dealer or investment advisor. Misrepresentations can be wide ranging so investors need to be alert and perform thorough due diligence in respect of investment opportunities presented to them.

4. Advance fee fraud – Here investors are asked to pay an upfront fee in order to secure a lucrative investment opportunity. The advance payment may be described as a processing fee, tax, commission or incidental expense, which the fraudster may or may not represent as repayable at a later date. The objective of this fraud is to steal the advance fees procured from the investor. Regardless of the service or product promised, the objective is for the investor to pay an "entrance" fee for something that he/she is supposed to receive later, but which never arrives. The fee paid is the scam artist's profit. Fraudsters often direct investors to wire advance fees to lawyers in order to make investors feel comfortable as well as to give an impression of legitimacy to the scheme.

5. Pump-and-dump scheme – This type of fraud uses the "pump-and-dump" strategy whereby fraudsters use the internet to spread false or fraudulent information concerning thinly traded stocks with low intrinsic value. The intention is to force a price increase in those stocks—the pump, and then once the price reaches a certain level, they sell them off—the dump. Pump-and-dumps traditionally were carried out by cold callers or through fax or online newsletters. Now, the most common vehicles are spam emails, chat rooms and text messages.

The common themes inherent in the above fraudulent practices (and many others for that matter) are information asymmetry and the dissemination of false information. In addition to self-awareness regarding the various types of securities fraud, investors can protect themselves by researching both the investment and the seller via independent outside sources and requesting relevant documents regarding the investment and issuer such as the prospectus or annual report. General internet searches as well as the securities regulator's website can be the source of useful information. The Trinidad and Tobago Securities and Exchange Commission's (TTSEC) website contains a list of all persons and entities authorized to engage in the various aspects of securities business in Trinidad and Tobago.

Securities fraud involves the deliberate deception of investors and the manipulation of securities markets for unfair profits

In conducting research, red flags may surface such as:

1. Offers that are too good to be true, such as low risk/ high return investments or high guaranteed returns;
2. Unregistered investment companies and professionals;
3. High-pressure sales tactics to invest immediately; or
4. Investors being asked to pay for investments by credit card, gift card or wiring money abroad or to a personal account.

In the event that an investor becomes aware of an investment that raises a red flag or is a victim of securities fraud, a complaint can be lodged with the Trinidad and Tobago Securities and Exchange Commission (TTSEC). The TTSEC is the regulatory body mandated to protect the integrity of the securities market against abuses arising from market manipulation practices, insider trading, conflicts of interest, and other unfair and improper practices. Among the avenues available to make complaints are via the TTSEC's website, the Investor Protection Mobile Application (IPA), email or walk in. It is important that the complainant provide as much information as possible, and provide all applicable documentation. A guide to the complaint procedure is also available on our website at ***https://www.ttsec.org.tt/investor-protection/investor-complaints***. **You may also access the complaint and reporting mechanisms easily by downloading the IPA available on Google and Apple Play Stores**.

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