



TTSEC's role in the Development of the local Capital Market

Why are capital markets important?

Capital markets play a vital role in an economy, by matching borrowers with savers and their respective risk appetites for financial instruments, with an aim to produce a profitable investment opportunity for both parties. Essentially, these markets bring those who hold capital and those seeking capital together and provide a place where entities can exchange securities for capital. Capital markets are important because they finance the economy, support economic growth, aid in the promotion of financial stability and manage risk. This week's article focuses on the importance of capital markets, and the role of the regulator.



1. Capital markets foster capital formation

Capital formation is the “expansion of capital or capital goods through savings, which leads to economic growth”¹. It is an increase in the *capital stock* of an economy which includes an increase in equipment, buildings and intermediate goods. When these factors are combined with labour, there is a net addition to the existing stock of capital in the economy. Thus, savings facilitate capital formation by allowing the excess funds (savings) to be directed towards investment opportunities.

2. Capital markets provide investment avenues

Through capital markets, investors can direct their savings to productive investments and businesses can find funds to finance their activities. It is an efficient vehicle for allocating resources to productive activities in the long term, mobilising excess funds from individuals, organisations or government for various investments.

1 - NASDAQ.com, Capital Formation, <http://www.nasdaq.com/investing/glossary/c/capital-formation>

3. Capital markets speed up economic growth and development

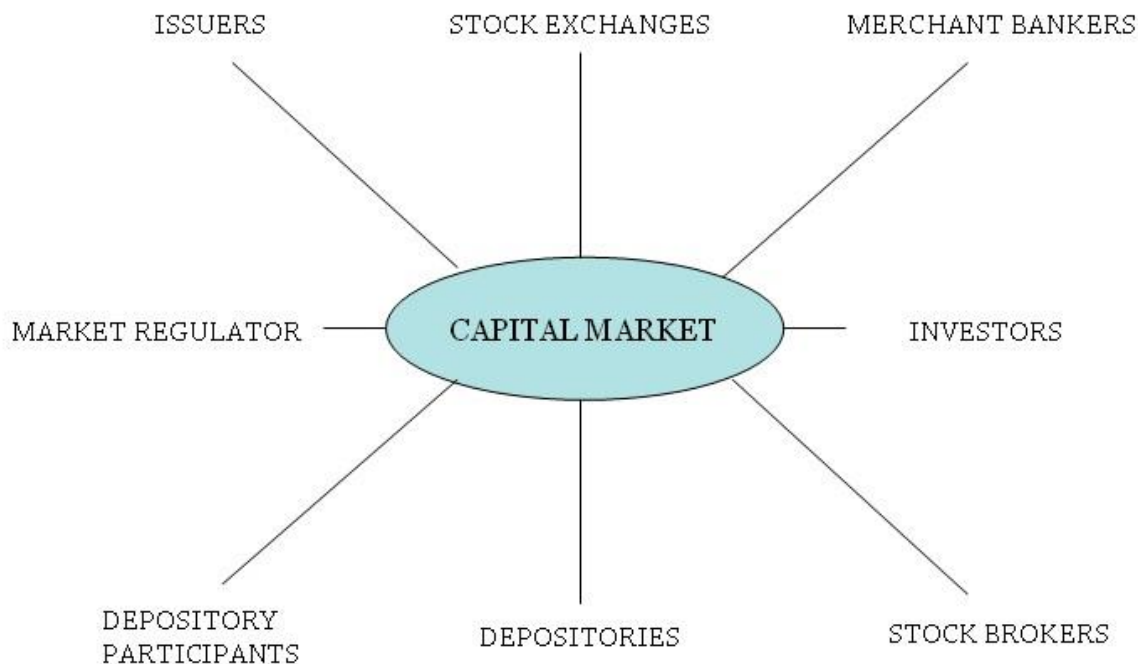
Essential to the economic growth and development of any country is the development of its capital market, since capital is a critical component for generating economic output. Capital is needed to support and finance new ideas and investment opportunities which, in turn, spurs growth and development. This economic growth can take the form of an increase in the productive capacity of the economy through improved infrastructure and an increased labour force.

In other words, it is the mobilisation of funds towards productive uses within the economy. When a country's capital assets increase, it results in the increase in labour productivity, increase in the rate of economic growth and an improvement in the standard of living of the population.

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Information asymmetry can often lead to abuses in the capital market. In that regard, regulators have a unique responsibility to oversee the proper functioning of the market to maintain order and confidence' .

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) is the regulator of the local capital market and, as the regulator, can take specific action in relation to the activities of market participants. The TTSEC is responsible for formulating and implementing principles that guide the securities market and allow for a level playing field for all market actors. The following are some of the functions of the TTSEC, which aid in the development of the capital market.



1. Develop and maintain a fair and transparent capital market

To address the availability of pertinent information, the TTSEC mandates certain continuous disclosure obligations of market participants. These disclosures are important for investors to assess the investment opportunity and provide a better understanding of the risks of the securities or financial instruments. Without effective disclosures, the capital market would be compromised and stakeholders would not receive the information they need to make informed investment decisions. Full disclosure includes the preparation of prospectuses¹ containing all the information required by investors, as well as the provision of accurate and timely reports on material developments, to existing and potential investors.

Additionally, the TTSEC monitors the market for unfair trading activities by persons who have access to material non-public information. This type of activity is called insider trading, whereby a security is bought or sold by someone, who has access to material information about a company or security that has not yet been disseminated to all market participants. If such activities are discovered, the TTSEC can initiate enforcement action. This type of monitoring and enforcement action increases the confidence of investors in the market and promotes the development of sustainable capital markets.

2. Investor education

The TTSEC often engages in various public investor education programmes aimed at ensuring that investors have the information needed to make informed decisions. The TTSEC conducts seminars and workshops and collaborates with stakeholders to disseminate information on relevant issues to market participants. In addition, there are various educational programmes, campaigns and publications produced by the TTSEC, for audiences on traditional and social media, aimed at explaining concepts and issues relating to the securities market. The TTSEC also manages several information portals which include: the TTSEC's corporate website, www.ttsec.org.tt ; its Investor Education website, www.investucatett.com; the TTSEC Investor Protection Mobile Application; its investing game, www.investorquest-TT.com; and via various social media platforms : LinkedIn, Facebook, Twitter, Instagram and YouTube.

3. The registration and supervision of registrants

Pursuant to Section 61(1) of the Securities Act, Chapter 83:02, (the SA) all persons who propose to make a distribution of securities (investment products) to the public must first be registered with the TTSEC, as a reporting issuer; and **must** file a registration statement. Further, pursuant to Section 51(1) of the SA, all persons who wish to conduct business or any course of action in relation to a broker-dealer, investment adviser or underwriter, **must** also be registered with the TTSEC.

4. Powers of the TTSEC/Enforcement Action

The TTSEC has the authority to enforce local securities laws and initiate enforcement action against wrongdoers and for non-compliance.

1 - NASDAQ.com, Capital Formation, <http://www.nasdaq.com/investing/glossary/c/capital-formation>

Where violations or suspected violations are detected, the TTSEC can intervene through various means such as the conduct of investigations and enforcement action against any person(s) failing to comply with the SA. In addition, the TTSEC develops guidance to the capital market, which are to be used in tandem with the SA, to assist with the interpretation of the legislation and to ensure that registrants are operating in the best interest of the market.

In conclusion, the TTSEC recognises the importance of the capital market in Trinidad and Tobago, which facilitates the flow of funds into productive investments. The TTSEC's mandate is to maintain, and continuously improve, confidence in the market through effective regulation, timely disclosures and investor education.

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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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ⁱ A prospectus is a formal document that is required by and filed with the Trinidad and Tobago Securities and Exchange Commission that provides details about an investment offering to the public. The document can help investors make more informed investment decisions because it contains a host of relevant information about the investment security.