



The Importance of Ethics in the Securities Industry Pt.2 - The Role of Registrants

In last week's article, we briefly discussed various types of unethical practices in the financial sector and the advantages businesses gain from not engaging in such activities. This week we continue the discussion by outlining some of the ways in which Registrants can institute an ethical culture within their organisations and in so doing preserve the integrity and viability in capital markets.

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) is a member of the International Organization of Securities Commissions (IOSCO), which is the global standard setting body of the securities regulators. IOSCO established 30 principles based on the following three (3) objectives: **the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk.** The TTSEC has similar objectives for the orderly growth and development of the local securities market. The TTSEC regulates the market through the **Enforcement** of provisions of the **Securities Act 2012** (SA 2012) in areas such as **Registration and Disclosure; Monitoring and Surveillance; Inspections and Investor Education.**

As the securities market continues to expand, recording an approximate increase of 35% in entities registered with the TTSEC from December 2019 to December 2020 (see **Table 1**), with the largest increase being in the number of registered representatives, this adds to the urgency of the full understanding of the importance of ethical standards.

Table 1: Entities Registered with the TTSEC

Category	Number of entities registered with the TTSEC	
	December 31, 2019	December 30, 2020
Reporting Issuers	89	90
Broker-Dealers	35	40
Investment Advisers	15	12
Underwriters	1	1
Registered Representatives	291	439
Sponsored Broker-Dealers	5	6
Sponsored Investment Advisers	1	2
Self-Regulatory Organisations	2	2
Total	439	592

IOSCO's Objectives and Principles of Securities Regulation outlines requirements of market participants to assist the regulator in security regulation.

As it relates to the conduct of businesses to act in the best interest of their clients, Principle 23 of the IOSCO's Principles for Securities Regulation specifically states that:

“market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.”

Principle 23 places the responsibility on the management of market intermediaries to establish, maintain and ensure adherence to standards of conduct within their internal processes to protect their clients' best interests. As such, Registrants should not solely rely on the law to be ethical, but establish internal guidelines and procedures that ensures, promotes and supports ethical conduct.

Acting ethically goes beyond acting within the legal framework. The moral conduct of employees is important to the success of a business.

While the regulator plays an active role in providing a legislative framework to deter misconduct by nurturing a fair, transparent and efficient securities market, the primary role

remains with management of market intermediaries to instil proper practices. There are many ways in which a Registrant can encourage ethical practices in business. These include, but are not limited to:

- **The development, implementation and review of a code of ethics** – It is important that a company has a code of ethics to guide employees who are faced with ethical dilemmas. A code of ethics is a guide of principles designed to help professionals conduct business honestly and with integrity. A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organisation's core values, and the standards to which the professional is held. This code of ethics will help employees to determine what is right and what is wrong based on set standards.

It should be noted however, that new ethical dilemmas may arise or the business model may change hence , as such, Registrants should periodically review their codes of ethics to ensure that they effectively guide employees with their daily ethical decisions.

- **The provision of education and training for employees** – By-law 42 of the Securities (General) By-laws, 2015 (“the By-laws”) states that, “registrants shall ensure that its employees, senior officers and other agents, have such education and training as are reasonably necessary to ensure that its business as a registrant is conducted ethically and in accordance with industry practice.” Ethical behaviour can be taught and learnt.
- **The Registrant’s handling of misconduct** – Registrants should implement systems which will deter improper practices. Such systems should allow clients to report legislative breaches or misconduct by employees.

By-law 65(d) of the By-laws states, that a Registrant shall establish a complaints’ handling system to ensure that reasonable efforts are undertaken for the effective and fair resolution of each complaint. Where investors believe they have been wrongfully treated, the TTSEC is mandated to investigate complaints relating to the securities industry. As such, persons or entities who are victims of or have knowledge relating to securities fraud, market misconduct or any other type of unscrupulous behaviour within the securities industry, can lodge a complaint with the TTSEC via our corporate website www.ttsec.org.tt.

- **The disclosure of conflict of interests** – Registrants should be transparent in their business practices by providing complete information regarding the clients’ investments. Notwithstanding this, Registrants should also disclose to their clients all conflicts of interest. A conflict of interest occurs when an individual’s personal interest

conflicts with his or her professional interest. Such conflicts may infringe on clients' interests. Professionals are responsible for holding investors' interests above their own personal interests. Section 97 of the SA 2012 states that the TTSEC may prescribe standards for the conduct of a Registrant in relation to a client or investor to prevent a conflict of interest; or any other conduct that would enable a Registrant to treat a client or investor unfairly. In accordance with By-Law 67 of the By-laws, Registrants are required to annually file with the TTSEC a conflict of interest statement, concurrently with its audited financial statements.

The TTSEC invites you to read an article on, '**Ethics and Regulation**' which was published in the 23rd issue of our Market Newsletter and is accessible via our corporate website: www.ttsec.org.tt, for greater detail.

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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.investucattt.com or connect with us via any of our social media handles:



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