



TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION

PUBLIC NOTICE

**DECISION of the Hearing of the Commission Held on Thursday, December 4, 2008
at 10:45 AM in accordance with section 134 of the Securities Industry Act, 1995**

A. **BACKGROUND**

(1) Introduction

By letter dated October 14, 2008, the Trinidad and Tobago Stock Exchange Limited (“TTSE”) submitted to the Commission, a Statement of Substance and Purpose in accordance with section 40(1) of the Securities Industry Act, 1995 (“SIA”). The TTSE was seeking to amend the TTSE Rule 227 and the Horizon Trading Rule 10.2 with respect to the closing price of a security.

The intention of the rule change was to establish a minimum trading volume required to change the closing price of a security on the TTSE. The minimum volume would vary in accordance with established price intervals for traded securities.

The existing rules were as follows:

1. TTSE Rule 227: Closing of Market

- 1) The closing price of a security listed on the Exchange is determined by using the price of the last transaction executed in the primary market for the security.
- 2) If a security does not trade in any designated trading session, the closing price of that security will be the same as its last traded price in the primary market.

2. Horizon Trading Rule 10.2: Market Close (CLS)

At the close, the Exchange does not allow orders to be entered, processed or matched. Orders are not removed at market close. They are only removed when the trading system is brought down.

Closing price calculations

Market Close (CLS)

The closing price of a security is calculated using the following method:

CLS1: The last trade price. The close price is the last trade price in the symbol's primary market. Symbols that do not trade on a particular day use their last traded price from their primary market as their closing price.

The TTSE proposed that the said TTSE Rule 227 and the Horizon Trading Rule 10.2 would be amended as contained in the Statement of Substance and Purpose described below.

2(a) TTSEC's Statement of Substance and Purpose

THE TRINIDAD AND TOBAGO STOCK EXCHANGE LIMITED

STATEMENT OF SUBSTANCE AND PURPOSE

October 14, 2008

AIM: This proposal sets volume thresholds based on price intervals for a share price to change on the TTSE, in order to prevent very small trade volumes moving share prices, up or down materially, and in the process eroding confidence in the market.

Existing Rule 227 Closing of Market

- The closing price of a security listed on the Exchange is determined by using the price of the last transaction executed in the primary market for the security.
- If a security does not trade on any designated trading session, the closing price of that security will be the same as its last traded price in the primary market.

Existing Horizon Rule 10.2 (Market Close CLS)-CLS1

Closing price calculations

Market Close (CLS)

At the close, the Exchange does not allow orders to be entered, processed or matched. Orders are not removed at market close. They are only removed when the trading system is brought down.

The closing price of a listed security is calculated using the following method:

CLS1: **The last trade price.** The close price is the last trade price in the symbol's primary market. Symbols that do not trade on a particular day use their last traded price from their primary market as their closing price.

Proposed Amendment

The closing price of a security listed on the Exchange is determined by using the price of the last transaction executed in the primary market for the security, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the price at which the last transaction was executed with a volume of 5,000 shares or more, would be the closing price used.

<i>Price Range (\$)</i>	<i>Volume of Shares</i>
<i>\$0 - \$4.00</i>	<i>5,000 shares</i>
<i>\$4.01 - \$10.00</i>	<i>3,000 shares</i>
<i>\$10.01 - \$20.00</i>	<i>2,000 shares</i>
<i>\$20.01 - \$50.00</i>	<i>1,000 shares</i>
<i>\$50.01 and above</i>	<i>500 shares</i>

If a security does not trade in any designated trading session, the closing price of that security will be the same as the closing price of the previous day.

From time to time, it is necessary to make amendments to the Stock Exchange Rules, to facilitate the smooth and efficient operations of the trading system and preserve the integrity of the market. Outlined below is a recommendation for your approval of the change which is necessary to be made to the Stock Exchange Rules, arising out of observations regarding the trading patterns and more specifically the closing prices of securities.

Currently the closing price of a security is the last trade price in the security. The following patterns had been observed:

- There have been irrational movements in the price of shares based on small volumes.
- These price changes were being effected at times, seconds before the market closed, which gave other investors little or no time to respond.
- The reason for the sudden price changes could not be aligned with the performance of the company nor any information pertaining to the company being released to substantiate the volatile price movements.

Research was conducted on the different methodologies adopted by various Stock Exchanges to determine the closing price of the security, and we outline below an option that could be applied to the Trinidad and Tobago Stock Exchange, to avoid the price of securities fluctuating in a volatile manner on small trade volumes. This option has been selected on the basis that it is:

- Transparent, equitable and reflected a fair security price based on trading volumes;
- Technically possible with the current operating hardware and software programmes;
- Would build more confidence in the market and dispense with allegations of market manipulation by traders.

In order to implement this system, Stock Exchange Rule 227-Closing of the Market and Horizon Rule 10.2 (Market Close CLS)-CLS 1 will need to be amended as outlined.

New TTSE Rule 227: Closing of Market

- 1) The closing price of a security listed on the Exchange is determined by using the price of the last transaction executed in the primary market for the security, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the price at which the last transaction was executed with a volume of 5,000 shares or more would be the closing price used.*

Price Range (\$)	Volume of Shares
\$0 - \$4.00	5,000 shares
\$4.01 - \$10.00	3,000 shares
\$10.01 - \$20.00	2,000 shares
\$20.01 - \$50.00	1,000 shares
\$50.01 and above	500 shares

2) *If a security does not trade in any designated trading session, the closing price of that security will be the same as the closing price of the previous day.*

New Horizon Trading Rule 10.2 Market Close (CLS)

The closing price of a security listed on the Exchange is determined by using the price of the last transaction executed in the primary market for the security, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the price at which the last transaction was executed with a volume of 5,000 shares or more would be the closing price used.

Price Range (\$)	Volume of Shares
\$0 - \$4.00	5,000 shares
\$4.01 - \$10.00	3,000 shares
\$10.01 - \$20.00	2,000 shares
\$20.01 - \$50.00	1,000 shares
\$50.01 and above	500 shares

If a security does not trade in any designated trading session, the closing price of that security will be the same as the closing price of the previous day.

2 (b) Legal Framework for TTSE's application

The Commission is required to approve the amendments to the rules of the TTSE in accordance with section 40 of the SIA. Section 40 (1) of the SIA states that where a self regulatory organization (“SRO”) like the TTSE, proposes to amend its rules, a copy of the proposed amendment together with a concise statement of substance and purpose must be filed with the Commission. Section 40(2) of the SIA states that after receipt of a proposed amendment under subsection (1) the Commission shall publish in a daily newspaper a notice inviting any interested person to submit written comments on the amendment. The Commission has the authority based on the proposal and the statement of substance and purpose to:

- make an order approving the proposed amendment (section 40(3) of the SIA), subject to a hearing under section 134(1) or,
- refuse to grant the amendment to the rules on the grounds set out in section 40(4) of the SIA;
- make an order without a hearing under section 134(1) if the order would not create material substantive changes to the rules or other condition contained in section 40(5) of the SIA.

(3) Actions of the Commission

The staff of the Commission reviewed the TTSE's Statement of Substance and Purpose dated October 14, 2008 and noted the intent of the amendment and the urgency with which the TTSE wanted to implement the revised rules aforementioned. The staff was of the view that the events of the previous month reflected the need for the TTSE to implement a system in which small trades would not have as great an impact on the closing price of a listed security as observed on October 6, 2008 and in the past.

The staff was also of the view that before the Commission issued a final order authorizing the implementation of the rule change that the TTSE should provide:

- the methodology that was used in establishing the threshold trading volumes and,
- a detailed explanation of how intra day prices would be determined when “Odd Lots” or volumes lower than Board Lots were traded;

and noted that a public hearing on the matter would have to be held before a final order could be made under section 134(1) of the SIA.

For the reasons aforementioned, the staff recommended that the Commission exercise its authority and issue a temporary order under section 133 (1) of the SIA which provides that:

“The Commission may make an order on its own motion or on application by an interested person –

(c) respecting any other matter authorized by or required to carry out the purposes of this Act.

This authority under section 133 (1) (c) of the SIA is subject to section 134. Section 134 (1) of the SIA states that:

*The Commission shall before making a **final order**, provide a reasonable opportunity for a hearing to each person directly affected and shall give a reasonable notice to each such person and to any interested self regulatory organization...*

At a Board Meeting held on Thursday, October 15, 2008, the Commission:-

- Approved the issue of a temporary order approving the immediate implementation of the amendments to the TTSE Rule 227 and the Horizon Trading Rule 10.2 as proposed for a period not exceeding sixty days with effect from October 16, 2008;
- Determined that a notice be published advising of the temporary implementation of the said rule change and soliciting public comment to be submitted one month from the date of the notice;
- Agreed that a public hearing would be held on Thursday, December 4, 2008 at 10:30 AM in the Conference Room (First Floor) of the Commission to consider the making of a final order under section 134 of the SIA;
- Directed that the staff of the Commission obtain an explanation from the TTSE with respect to the following matters:
 - The trading patterns that led to the proposed revision of the said rules;
 - The methodology that was used in establishing the threshold trading volumes;
 - How intra day prices would be determined when volumes lower than the Board Lots are traded;
 - How these rules would affect the volatility rates.

How the New Rules were implemented by the TTSE?

The TTSE allows all trades to take place on the board during the course of a trading session in accordance with the basic rules for trading. This means that any trade for a volume of shares of any size, may be executed at any price within the standard circuit breakers – that is a maximum of 10% increase or 10% decrease on the day's opening price. At the end of the trading session, the TTSE would then manually review all trades in each security. If none of the individual trades was in a volume equal to or in excess of the board lot for that security's price, then, notwithstanding any changes in price at which trades may have been executed during the day, the TTSE would manually reset the closing price to the price from the preceding trading session.

B. Conduct of the Hearing pursuant to section 134 of the SIA

1. Preliminaries

(a) The Notices of the Temporary Order under section 133 of the SIA and the Hearing were published in the daily newspapers on the following dates:

Temporary Order as follows:

Express:- Friday 24th October and Wednesday 29th October (in the business section)

Guardian:- Sunday 26th October and Thursday 30th October (in the business section)

Newsday:- Saturday 25th October and Thursday 30th October (in the business section)

The Hearing as follows:

Express: - Friday 28th November 2008

Guardian: - Monday 1st December 2008

Newsday: - Thursday 27th November 2008

No written comments were received by the closing date.

(b) Composition of the Hearing Panel

The Hearing Panel consisted of the following:

- Osborne Nurse (Chairman)
- Francis Lewis
- Janice Clarence-Quamina
- Marsha King.

(c) Attendance at the Hearing

1. TTSE represented by Wainwright Iton, General Manager;
2. Several representatives of reporting issuers or institutional investors;
3. Representatives of Stock Brokers;
4. One member of the general public, Mr. Gookool Seemungal.

Twenty-five (25) attendees were present at the Hearing.

(d) Procedure

The following procedure was explained by the Chairman.

Following opening comments from the Chairman, Mr. Wainwright Iton, General Manager of the TTSE would be given the opportunity to present and defend the position with respect to the new rules, TTSE Rule 227 and Horizon Trading Rule 10.2 and would be invited to explain:

1. the substance and purpose of the rules;
2. what the TTSE hoped to achieve on its implementation; and
3. any such matters that he may wish to introduce.

Then the Commissioners would have the opportunity to pose any questions regarding same. Then the floor would be open for interested persons, reporting issuers, brokers and other market actors to be heard. The staff of the Commission might be invited to contribute to these proceedings before its closure.

2. Chairman's Opening Remarks

The Chairman opened the proceedings and among other things, he took the opportunity to discuss the immediate context and explained that prior to March 2005, a manual system for trades was in place in which the closing price of the stock was determined by bids and offers whether or not a trade had actually taken place.

Electronic trading was introduced in March 2005 utilizing the Horizon Trading Platform System ("Horizon System") under new rules in which the closing price would only be affected if there was an actual trade, with the legitimate trading volume being one share. Consequently, a trade of one share could change the closing price of the said share.

In the two or three years since the implementation of the new rules and electronic trading, there had been an outcry from the reporting issuers concerning the loss of value issuing from very small trades. The Commission and the TTSE met in 2006 to explore revising the rule on the closing price to mitigate volatility created by such small trades. At that time, the TTSE proposed a weighted average measure which the Commission felt was not appropriate and recommended that at all times the automated trading system should be used to set the closing price. The Commission then recommended that the Exchange may wish to consider a Board Lot/Odd Lot System to deal with the issue. In or about May 2007, the Commission reiterated this position to the TTSE leading ultimately to the current proposal.

The current proposal for the amendments to Rule 227 and the Horizon Trading Rule 10.2 by the TTSE derives from the events in the market on October 6, 2008 where Republic Bank Limited and others lost some \$3.2B in market capitalization due to small trades in each security.

3. The Submission by the TTSE- Mr. Wainwright Iton ("Mr. Iton")

Mr. Iton explained that the problem was small trades moving the market up and down. He advised that markets are information processors and the underlying process is confidence. He felt that the rule was not about preventing volatility but preserving confidence. He further felt that no rule would treat with volatility in the market place.

Although the issue took centre stage on October 6, 2008 when a number of small trades had a significant downward effect on the market, which lost about 3.4% of its value on that day; the TTSE did not act in haste, as discussions were already ongoing within the TTSE.

A Statement of Substance and Purpose dated October 14, 2008 was filed with the Commission to amend the closing price calculation for security prices. The changes to the TTSE Rule 227 and the Horizon Trading Rule 10.2 are intended to deal with effective price discovery and consummation of deals. With One Billion Issued Shares and thirty two (32) listed securities in the market, the TTSE was of the view that it was irresponsible to define the closing price of shares based on “thread bare volumes”.

The TTSE has therefore, introduced the concept of the Board Lot, which is a standard unit of trade based on stock price intervals. Mr. Iton explained that there is a measure of consistency in the Board Lot values.

Price Range (\$)	Volume of Shares
\$0 - \$4.00	5,000 shares
\$4.01 - \$10.00	3,000 shares
\$10.01 - \$20.00	2,000 shares
\$20.01 - \$50.00	1,000 shares
\$50.01 and above	500 shares

The figures used are born out of an empirical scan of the market and the knowledge and experience of the TTSE. It is not scientific or based on knowledge gleaned from other markets with respect to the methodology of the Board Lot Structure or the implementation of the said rules. Indeed the Board Lot structure seeks to create a market in which trades must have a value of approximately \$20,000.00 before they could affect stock prices and company and portfolio values.

Mr. Iton explained that the methodology adopted by the TTSE was not intended to affect the manner in which securities were traded on the Exchange. Consequently, trading was conducted during the day at whatever prices the market wished but at the end of the day an administrative procedure was adopted that checked for trading in lot sizes and then reset the closing prices based on whether or not the Board Lot quantities had been traded during the day.

Mr. Iton explained that given the liquidity of this market in which there may only be 50 or 55 trading transactions in a day, the TTSE was satisfied that price discovery was unaffected and the revised rules, TTSE 227 and Horizon Trading Rule 10.2 reflected the wishes of the market. He indicated that the integrity of the market has not been affected and that the objective of buyers and sellers was realized.

Mr. Iton further explained that the Barbados Stock Exchange has implemented Board Lots with a standard unit of 1000 shares across the board and with odd lots traded on a separate board. The Jamaican Stock Exchange uses broker agreements or protocols where they don't trade less than 100 shares. He was, however, of the view that the Jamaican Stock Exchange might be changing this position.

The Chairman then posed a number of questions to Mr. Iton seeking clarification on:

- a) the methodology for arriving at the closing price;
- b) the Exchange's response to the consideration at the time of the introduction of the electronic system that prices would be more transparently set;
- c) to advise on any precedents to which reference may be made to the specific methodology proposed.

- a. The methodology for arriving at the closing price

Mr. Iton explained that, at the end of the trading day, the Horizon System determines the closing price of a security and then there is an administrative intervention by the TTSE. The TTSE pulls all the trades of the day and places them on a spreadsheet to determine where the threshold is impacted. TTSE then compares the last sale on the spreadsheet with the last sale on the Horizon System before entering the closing price of the security. Mr. Iton further advised that he asked the supplier of the Horizon System to provide a solution or

workaround, by “dumping” the data, so that the administrative intervention for resetting the closing prices of the Odd Lots at the end of the trading day would not corrupt the database.

Mr. Iton further explained that the TTSE did not believe that it was economically feasible to ask the supplier to provide a solution to implement a rule for determining the closing price of the Odd Lots without the manual intervention. The TTSE has developed a programme to scan for the Odd Lot trades, but human intervention is required to reset the closing price.

b. Price Setting Transparency

Mr. Iton felt that price discovery under the current regime was transparent, since the highest and the lowest prices could be seen. He was of the view that in any event the market never sees every price for every transaction. Transparency is therefore, not impacted. The old rule was not effective in determining the closing price, but the new rules have achieved the purpose and addressed the concerns of the market that small trades should not impact the closing price of a security.

Mr. Iton felt that portfolio managers were the most comfortable with this kind of adjustment. It is his view that effective price discovery speaks to reasonable volumes affecting the share price and therefore, these managers do not want to see their inventory affected by a retail investor buying 200 shares. Consequently, the new rules address these concerns.

(c) Precedents on the Methodology Utilized

The Chairman then asked Mr. Iton to explain the methodology and advise on any appropriate precedent upon which the method was based.

Mr. Iton reiterated his position that there was no precedent. He felt that the method was contextual based on the size of the trades in the market, the local economy, the sum of the money that the investor would come to the market with, disposable incomes and familiarity with the market and the principle of Board Lots.

The Chairman suggested that if a portfolio manager tracking and receiving certain signals from the market, noting a decline in a particular stock, might then take a certain decision based on same. Mr. Iton agreed that effective markets respond to the signals, however, an experienced portfolio manager would consider the volumes before he made a decision.

Based on Mr. Iton's explanation, the Chairman wanted to know if Mr. Iton had a precedent not just for the Board Lot structure but the administrative intervention and subsequent adjustment to reset the closing price where Odd Lots were traded with respect to securities.

Mr. Iton felt that such a precedent was difficult to find with respect to the TTSE, particularly where the system is automated. He felt that you could not build a market in an environment where confidence was falling and that the implementation of the Board Lots in its current form was the best way to restore confidence. He felt that the TTSE had to build quality through process and that the rule change was part of this process.

The Chairman further suggested that the implementation of Board Lots was fairly standard, including automated exchanges and remained convinced that the Odd Lots should not be allowed to set the price during the day and then be reset at the end of the trading day using an administrative procedure. He also felt that the Odd Lot trades should not affect the price of the securities and that the two regimes should be separated in some manner so that the behaviour on the main board for the Board Lots would not be affected by Odd Lot behaviours in the market. In other words, the Odd Lot trader would be a "price taker" and not a "price maker" which is what the Odd Lot trader becomes under the new rules, but for the administrative interference by the TTSE at the end of the trading day.

Mr. Iton felt that this separation of boards would be shunting the retail investor into a market that does not have the required depth and that the said retail investor would not find himself at the top of the cue. He also believed that there was a provision in the law (SIA) that prohibited pooling. The Chairman sought to correct Mr. Iton's understanding by informing him that there was no such provision in the SIA; but a rule of the TTSE itself that established the prohibitions and limitations on the posting of trades.

4. Comments of the Public in Attendance

Mr. Gokool Seemungal (GS) explained that he represented the small investor. He felt that the implementation of the said rules represented a manipulation of the market and ran contrary to the promotion of open market operations. If the price of RBL dropped by \$9.00 then people should have put in orders, however, a drop in price did not bring demand. He felt that the Commission and the TTSE was not taking a holistic approach in attempting to engender confidence. He said that the confidence in the market was affected by the overnight closure of BWIA and the impact on its minority shareholders, which issue has not been resolved to date and also the five to six years that it took to complete the TCL Investigation.

Mr. Alvin Johnson from CS Brokers (AJ) wanted to know whether the rule would be temporary or a permanent. He was also concerned that if a share traded at 10% below its opening price of \$4.00 and a client offered 200,000 at \$3.60 a share and someone buys 1000 shares the price would remain at \$4.00. How therefore, would a portfolio manager value the portfolio.

The Chairman addressed AJ's first concern by advising that the revised rules were operating under a temporary order for a defined period and that the issue of the final order would be determined as a result of this Hearing.

Mr. Iton also responded to AJ's second concern by advising that, in the present context, the portfolio manager would have to use the price of \$4.00 to value the securities.

Mr. John Golding, registered investment adviser, wanted to know whether the TTSE has considered the conventional wisdom of other markets with respect to this matter and not re-invent the wheel.

Mr. Iton felt that TTSE had looked at other markets but felt that none of the models fit into this market because of its size and other matters already mentioned.

Ms. Giselle Busby (GB) from Republic Finance and Merchant Bank Limited was in full support of the revised rules and wondered whether \$25,000 at the upper end treated with the concerns of institutional investors.

At this stage, Commissioner Lewis requested the audience to informally indicate their approval or disapproval to the revised rules by a show of hands. The poll did suggest that most of the persons were in favour of the rules, but they did not appear to be concerned about the methodology. Mr. Gookool Seemungal was not in favour of the rule for the reasons mentioned above.

Mr. Alvin Johnson felt that the TTSE was only focused on the sell side and felt that they should consider the buying interest. If persons are interested in buying then orders should be aggressive. He noted that the rules were in force but the market was still. He felt the circuit breaker of 10% could be increased to encouraging the buying side of the market.

Mr. Kris Marcus (KM) from Sagicor Merchant Limited felt that investors were afraid to go into the market because of manipulation. He believed that the rules did represent a step in the right direction to achieving investor confidence without the fear of capital erosion. The threshold at the upper level should be higher to protect stock.

The Chairman asked Ms. Busby and Mr. Marcus whether the administrative mechanism that would reverse the impact that the small trades would have had during the day was acceptable.

Mr. Marcus felt that the approach was acceptable since the end result was the weighted average of what the share price should be.

The Chairman then asked Ms. Busby and Mr. Marcus whether a small trade should be at any price or the last prevailing price of the last Board Lot trade.

Ms. Busby was more concerned about the fact that the trading of 300 shares should not move the price of a security than the current mechanism under the revised rules, once the current mechanism did not restrict liquidity.

The Chairman again asked whether it was acceptable for Odd Lots to change the price during the day, but at the end of the day the price does not move.

Mr. Marcus did express concerns about closing trades near the end of the trading day which changed the price but felt that the new rules corrected this problem and was not concerned about the administrative intervention at the end of the day if the trade was less than a Board Lot.

Mr. Leslie Clarke from Sagicor Merchant Limited felt that one thousand trades at \$89 is substantive and should affect the price as opposed to one institutional investor or one small investor affecting the price of the security.

Mr. Gookool Seemungal felt that the important question was determining how a company should be valued. For example, if a company is valued at \$25 and a shareholder wants to sell his shares at \$20. What should be the threshold? He felt that the TTSE should let market forces control the price. He felt that the problem lies with the brokers since the average person could not just approach the TTSE to trade. All trades have to be done via a broker and therefore, the problems lies not with the market forces but the issues of market manipulation. He also felt that TTSE should encourage companies to list and develop the market.

Mr. Courtenay Braemar Williams of Messrs. Pollonais Blanc de la Bastide & Jacelon (CW) posed the question as to the corners of the intervention by the TTSE in the mechanism under review and of particular concern was the issue of the dumping of data as mentioned by Mr. Iton.

Mr. Iton explained that for every trade, the Board Lot structure is applied and if last trade is a Board Lot then this will determine the closing price. If not, the adjustments will be made by the TTSE to reset the closing price based on the price of the last Board Lot that was traded. The term “dumping” refers to the technical term which speaks to the historical information being kept so that the database would not be corrupted.

The Chairman then asked whether representatives of reporting issuers whose securities market were affected have any comments on these rules.

Ms. Janelle Bernard from Republic Bank Limited (JB) felt that this was a change in the right direction and endorsed Ms. Busby's comments about increasing the upper limits in the interest of institutional investors. She advised that issuers do get discouraged when they see their capital eroded by small trades. She wondered whether this hearing was the best forum for small investors.

The Chairman explained to the market actors and reporting issuers that the mandate of the Commission involved the protection of the small investor and therefore, small investors like Gookool Seemungal had the biggest voice. He also reminded the TTSE that as a Self Regulatory Organization or SRO, it has the responsibility to regulate the conduct of the market and its members. The regulatory burden does not rest entirely on the Commission. It could well be that the problem facing issuers is not a small trades problem.

Mr. Alvin Johnson (AJ) took the opportunity to explain the circumstances surrounding trades prior to the close of the market day in response to Mr. Marcus' concerns. He advised that in 1981 the rules permitted brokers by a show of hands to indicate whether they were interested in a particular stock and brokers would have ten seconds to respond before the bell rang ending the day of trade. Therefore, trades near the end of the day are permissible considering that the trade day runs from 9:30 AM to 12:00 PM. AJ further explained that the broker is an agent on behalf of the client and therefore, the client also gives instructions on these matters.

Mr. Iton was given the opportunity to have the last word on the matter. He felt that the larger issue was the development of the market. Confidence is key and the rule change is only one aspect of creating a transparent market.

The Chairman then closed the hearing by advising that the Commission will consider its own obligations under the SIA and will render its decision within a few days.

The hearing ended at 12:35 PM and the Commissioners retired to consider the matter.

5. The Findings of the Commission

The findings of the Commission are as follows:

- 1) The Commission is of the view that TTSE has failed to:
 - a. satisfy the concern of the Commission that there is a scientific or reasonable basis for determining the Board Lots;
 - b. provide any precedent from known jurisdictions for the implementation of the Board Lot system as proposed and to provide a valid reason for ignoring precedent and/or international best practice;
 - c. address the criticism that the implementation of the Board Lot separates value from the trading by allowing the Odd Lot to trade at intra day prices and then resetting the price manually at the end of the trade day by manual adjustments.
 - d. proffer convincing evidence that the TTSE made any attempt to review the current process and determine whether the rules could be implemented in a different manner without affecting the share price and without the manual reset of the closing price at the end of the trade day.
 - e. prove to the Commission the value and efficacy of the administrative interference in an automated system which lends itself to error and/or manipulation of data and to dissociation of values from trading activity and as to why the calculation of the relevant stock indices must also be undertaken manually rather than automatically through the Horizon System.
- 2) The Commission noted that the market actors were focused on the fact that small trades should not affect the price of the security, but were not concerned about the methodology of the TTSE with respect to same.
- 3) The Commission also noted that the market did not provide written comments since the Notices of the Order and the Hearing were published in the daily newspapers.
- 4) The Commission further noted that the approach taken by the TTSE reflected insufficient attention to details, including the full nature of the problem and perhaps an expectation that there was no need to attempt to convince the Commission of the benefits/issues involved.

Decision

In arriving at its decision, the Commission has taken cognizance of and noted all the comments made by attendees at the Hearing and has made reference to the research conducted by the staff of the Commission on the potential impact of the proposed changes.

The staff of the Commission conducted a review of nine regional and foreign exchanges with respect to the implementation of Board Lot systems and concluded that:

- a) A form of Board Lot system was operated in at least 7 of those exchanges, US NYSE, US NYSE Alternext, Bursa Malaysia, Toronto, Singapore, Mauritius and Barbados. Jamaica is in the process of changing a voluntary system and OECS has no Board Lot System, but the minimum trade size is twenty shares.
- b) In all markets, whose Board Lot Systems were in operation actively, the odd lots did not affect closing prices and therefore, valuation of the securities.
- c) Barbados which has the same Horizon System as the TTSE has established a separate Odd Lot Board which trades freely in respect of intra day pricing but does not affect the security values which are determined only on the main “Board Lot” Board. A Lot is One thousand Shares.
- d) None of the exchanges utilizing Board Lots used administrative interference to determine final closing prices.
- e) Most of the exchanges conducting electronic trading allowed the market indices to be determined automatically from the board and not through administrative intervention.
- f) The operation of the trading rule over the period October 24, 2008 to November 26, 2008 has only marginally affected closing values of 0.01% to 0.08%.

Taking into consideration the submissions of the TTSE, the comments of the attendees and the data researched by the Commission’s Staff, the Commission has decided as follows:

- 1) To further delay the issuance of a final order in respect of the revised TTSE Rule 227 and the Horizon Trading Rule 10.2 subject to the following:
 - a. The re-submission by the TTSE of a revised proposal for determining the closing price which ensures that:

- i. Odd lot sized transactions, however, conducted and managed do not influence or lead the valuations of the market;
 - ii. No administrative procedures are required or utilized to:
 1. determine closing prices;
 2. calculate market indices.
- 2) To extend the temporary order permitting the operation of the present proposal by the TTSE for the operation of the revised rules from its current deadline date of December 16, 2008 to the new date of December 31, 2008 at which time the temporary rule will expire and the existing TTSE Rule 227 and the Horizon Trading Rule 10.2 will once again be in effect;
- 3) To direct the staff of the Commission to further examine the trading that took place on October 6, 2008 and report to the Commission by December 22, 2008 on the operations and effects of that day's events.

Dated the 19th day of December 2008

By Order of the Commission

Osborne Nurse

Chairman

Francis Lewis

Commissioner

Janice Clarence-Quamina

Commissioner

Marsha King

Commissioner