



**TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION**

**IN THE MATTER OF**

**THE SECURITIES INDUSTRY ACT, 1995**

**AND**

**AMENDMENTS TO THE RULES OF THE TRINIDAD AND TOBAGO STOCK  
EXCHANGE LIMITED**

**NOTICE**

**TAKE NOTICE that** on the 15<sup>th</sup> day of January, 2010 the Trinidad and Tobago Stock Exchange Limited (“the Stock Exchange”) deemed to be duly registered as a Self-Regulatory Organization under section 34 of the Securities Industry Act, 1995 (“the SIA”) filed with the Trinidad and Tobago Securities and Exchange Commission (“the Commission”) a proposal of its new rules together with a concise statement of substance and purpose of the proposed rules for the approval of the Commission pursuant to section 40 of the SIA;

## **STATEMENT OF SUBSTANCE AND PURPOSE** **TTSE AND HORIZON RULES**

### **BACKGROUND**

The Government of Trinidad and Tobago (T&T) announced its intention to establish an International Financial Centre (IFC), and pay greater attention to the development of the local financial market, and has therefore decided to introduce Depositary Receipts (TTDRs) to the investing public as a new security to be listed and traded on the Trinidad and Tobago Stock Exchange (TTSE).

TTDRs will be traded in a similar manner to equity symbols in a TTDR Market, separate from the First Tier, Second Tier and Mutual Fund markets.

### **BENEFITS OF TTDRS**

- Introduce new securities into the marketplace and increase the number of new listings which could add depth and dynamism to the market.
- Enable retail and institutional investors in T&T to achieve greater diversification of their investment portfolios via participation in foreign securities and thus not be restricted to the local equities and bonds currently available on the TTSE.
- Establishing the TTDR Market presents the opportunity for the energy sector to be represented on the Stock Exchange. This can be achieved through the listing of TTDRs of the foreign companies in this sector.

### **EXISTING RULE**

There are currently no rules governing TTDRs because they are not currently traded on the TTSE.

## STATEMENT OF SUBSTANCE AND PURPOSE

The Exchange hereby seeks approval to:

- List and trade Trinidad and Tobago Depositary Receipts.
- Permit short-selling.
- Allow no restrictions on the price movement of TTDRs.
- Implement the uptick rule to manage the price at which short-selling takes place.
- Set the opening price of TTDRs
- Set the closing price of TTDRs
  
- **Short selling** – Short selling of TTDRs is required to encourage arbitrage by brokers that should result in the conversion of additional underlying Foreign Shares into TTDRs.
- **Price Band** - The TTSE currently imposes a ten percent (10%) limit on price movements of locally listed companies to ensure that erratic price changes do not occur during a single trading day. This type of restriction does not exist on most developed foreign stock markets. This limit would stymie the timely adjustment of prices for TTDRs in the event that the underlying foreign share on the international market experiences price movements greater than ten percent (10%). The removal of this restriction would ensure that pricing parity is properly maintained when the price of the foreign share changes by greater than ten percent (10%).
- **Opening Price** - At the beginning of each trading day, the local opening price will be set to equal the most recent closing price for the underlying share in the home market using the DR conversion ratio and the FX selling rate available from the Central Bank of Trinidad and Tobago by 4:00pm on each trading day. This will ensure that the opening price in the TTDR Market is in line with the price of the foreign share in its home market, even if there was no trading in the TTDR market on the previous trading day.
- **Uptick Rule** - The uptick rule would be used to manage the price at which short-selling takes place. The rule prevents short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines.

Implementation of the Uptick Rule is in keeping with standards adopted by the US SEC for securities firms operating in the United States. The rule was implemented in 1934, following the stock market crash of 1929 to prevent bearish investors taking down the price of shares. It was however, eliminated in July 2007, after studies showed that the rule wasn't having an impact on market volatility. Proposals and draft legislation are currently being considered by the US SEC to re-instate the Uptick Rule.

## **TTSE AND HORIZON RULES**

In order to implement this system, the rules outlined below need to be adopted or amended.

### **TTSE Rule 233 – Short Selling TTDRs (Adopted)**

- (1) A short sale order shall not be entered unless a Securities Loan Agreement Form submitted by a broker as evidence of an agreement to borrow TTDRs to cover the short sale has been approved by the Trinidad and Tobago Stock Exchange.

### **TTSE Rule 234 – Uptick Rule (Adopted)**

- (1) A short sale order can only be entered if its offer price is at least one tick above the best bid in the market.
- (2) If no opposing market exists a short sale order can be entered if its offer price is at least one tick above the day's last trade price.
- (3) If no opposing market exists and if no trades have taken place, a short sale order can be entered if its offer price is at least one tick above the last day's closing price.

### **Horizon Rule 9.14 – Uptick Rule (Adopted)**

- (1) A short sale order can only be entered if its offer price is at least one tick above the best bid in the market.
- (2) If no opposing market exists a short sale order can be entered if its offer price is at least one tick above the day's last trade price.

- (3) If no opposing market exists and if no trades have taken place, a short sale order can be entered if its offer price is at least one tick above the last day's closing price.

**TTSE Rule 232 – Opening Price in the TTDR Market (Adopted)**

- (1) At the beginning of each trading day, the opening price for securities listed in the TTDR Market will be set to the Trinidad and Tobago dollar equivalent of the most recent closing price for the underlying securities in the market of its primary listing, converted using the DR conversion ratio and the FX selling rate available from the Central Bank of Trinidad and Tobago by 4:00pm on each trading day. If the rate for the current day is not available at this time, the rate applicable for the previous trading day will be used.

**Horizon Rule OPC 13 - Opening Price in the TTDR Market (Adopted)**

At the beginning of each trading day, the opening price for securities listed in the TTDR Market will be set to the Trinidad and Tobago dollar equivalent of the most recent closing price for the underlying securities in the market of its primary listing, converted using the DR conversion ratio and the FX selling rate available from the Central Bank of Trinidad and Tobago by 4:00pm on each trading day. If the rate for the current day is not available at this time, the rate applicable for the previous trading day will be used.

**TTSE Rule 227– Closing of Market (Amended)**

- (1) The closing price of a share listed on the First Tier, Second Tier and Mutual Fund markets of the Exchange is determined by using the price of the last trade executed in the primary market for the share, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the last trade executed with a volume of 5,000 shares or more, would be used to set the closing price.

| Price Range (\$)  | Volume of Shares |
|-------------------|------------------|
| \$0 - \$4         | 5,000            |
| \$4.01 - \$10     | 3,000            |
| \$10.01 - \$20    | 2,000            |
| \$20.01 - \$50    | 1,000            |
| \$50.01 and above | 500              |

- (2) If a share listed on the markets referred to in (1) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.
- (3) The closing price of a share listed on the TTDR Market is determined using the price of the last trade executed in the primary market for the share.
- (4) If a share listed on the market referred to in (3) does not trade in any designated trading session, the closing price will be the same as the opening price of the current day.
- (5) The closing price of a bond listed on the Bond Market is determined using the price of the last trade executed in the primary market for the bond.
- (6) If a bond listed on the market referred to in (5) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

**Horizon Rule 10.2 - Market Close (CLS) (Amended)**

**CLS 1:**

The closing price of a share listed on the First Tier, Second Tier and Mutual Fund markets of the Exchange is determined by using the price of the last trade executed in the primary market for the share, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the last trade executed with a volume of 5,000 shares or more, would be used to set the closing price.

| Price Range (\$)  | Volume of Shares |
|-------------------|------------------|
| \$0 - \$4         | 5,000            |
| \$4.01 - \$10     | 3,000            |
| \$10.01 - \$20    | 2,000            |
| \$20.01 - \$50    | 1,000            |
| \$50.01 and above | 500              |

**CLS 2**

If a share listed on the markets referred to in (CLS1) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

**CLS 3**

The closing price of a share listed on the TTDR Market is determined using the price of the last trade executed in the primary market for the share.

**CLS 4**

If a share listed on the market referred to in (CLS3) does not trade in any designated trading session, the closing price will be the same as the opening price of the current day.

**CLS 5**

The closing price of a bond listed on the Bond Market is determined using the price of the last trade executed in the market for the bond.

**CLS 6**

If a bond listed on the market referred to in (CLS5) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

### **TTSE Rule 405 (5) – Price Stabilisation**

The provisions of Rule 405 (1) are not applicable to the TTDR market.

**AND FURTHER TAKE NOTICE** that the Commission is inviting any interested persons to submit written comments on the new rules no later than **February 23, 2010** to the General Manager of the Trinidad and Tobago Securities and Exchange Commission, Nos. 57-59 Dundonald Street, Port of Spain.

**Dated this 21<sup>st</sup> day of January, 2010**

**Charles de Silva**  
**General Manager (Ag)**  
**Trinidad and Tobago Securities and Exchange Commission**