**THE SECURITIES INDUSTRY ACT, CHAP. 83:02**

**Proposed by-laws recommended to the Minister of Finance under section 131(1) of the Securities Industry Act**

**THE SECURITIES INDUSTRY (DEPOSITARY RECEIPTS) BY-LAWS, 2008**

## Substance and Purpose of the Proposed Securities Industry (Depositary Receipts) By-Laws, 2008

As part of Trinidad and Tobago's (T&T's) efforts to deepen the development of its financial markets and establish an International Financial Center (IFC), the government has decided to introduce Depositary Receipts (TTDRs) as a new security. In addition to contributing to the development of T&T as an IFC, the introduction of TTDRs will have three principal benefits.

First, it will introduce new securities into a marketplace where new listings have been rare and participants have indicated a strong interest in new products. This has the potential to contribute to the vibrancy and growth of the local stock market. The rapid growth of mutual funds and unit trusts since their introduction is one indication of this latent demand for new product. With the introduction of a larger diversity of new products mutual fund holdings have grown to nearly the same size as bank deposits. Market consultations in March and April 2008 with brokers and institutional investors have confirmed continuing interest in new investment products.

Second, it will enable retail and institutional investors in Trinidad and Tobago to achieve greater diversification of their investment portfolios without having to leave the local capital market. This is particularly important in a relatively small country like Trinidad and Tobago, where the local market currently provides a limited number of equities for investment. Using TTDRs, investors should be able to achieve higher returns and lower risk through additional international and sector diversification.

Third, the introduction of TTDRs into the market will have an immediate beneficial impact on the macro-economic environment. Trinidad and Tobago is currently experiencing inflation as a result of excess liquidity in the market. To the extent that investors choose to hold TTDRs, there will be some absorption of this excess liquidity and a resulting reduction of inflationary pressure.

The policy decision to introduce TTDRs into the Trinidad and Tobago market has been taken at this time partly to encourage greater participation by the general public in the energy and energy-related sector. While the growth of the energy and energy-related sector has contributed to the strong growth of the Trinidad and Tobago economy, none of this growth has been reflected in the local stock market. The domestic, state-owned and foreign-owned enterprises that operate in this sector have not been listed on the local stock exchange.

Foreign owned energy companies typically source their capital and other forms of financing in the major metropolitan markets. The ease and benefits of that approach have obviated the need to secure a listing in the local stock exchange. Moreover, the idea of a local listing has not been attractive to these entities given the small size of the T&T market.

The acquisition of RBTT has sharpened local concern about domestic participation in significant enterprises operating in the country because this acquisition will lead to the removal of one of the largest companies from the Trinidad and Tobago Stock Exchange (TTSE). The 60/40 stock/cash structure of the transaction will also result in pumping significant new liquidity into the economy at a time when inflationary pressures are already high.

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) believes that a comprehensive regime governing the introduction and operation of depositary receipts should be put in place as quickly as possible to achieve these benefits for the Trinidad and Tobago investing public.

Trinidad and Tobago investors are increasingly interested in global portfolio diversification. However, obstacles such as undependable settlements, costly currency conversions, unreliable custody services, poor information flow, unfamiliar market practices, confusing tax conventions and internal investment policy may discourage retail and institutional investors from venturing outside T&T markets. TTDRs offer a simple, convenient alternative for investing internationally. Benefits to investors include:

- Portfolio diversification into international markets,
- TTDRs are denominated in and pay dividends in T&T dollars, eliminating the need for currency conversions by TTDR holders,
- International brokerage, international transaction and custodial costs are eliminated since TTDRs would be traded locally,
- TTDRs allow institutions with foreign investment restrictions to diversify its investments,
- TTDRs will be as liquid as the underlying Foreign Share because the convertibility feature exists,
- T&T nationals would be allowed to maintain some ownership of local factors of production if TTDRs of multinational companies, operating locally, are part of TTDR programmes. Therefore, TTDR holders would be able to share in the profits when these companies issue dividends or through capital gains.

The objective of the By-Law is to design a TTDR programme for Trinidad and Tobago that can be implemented successfully, as soon as possible. The programme is intended to provide a framework within which depositary receipts may be introduced, allowing Trinidad and Tobago investors to participate in a broader choice of locally traded securities.

While a TTDR programme might initially contain only one TTDR (for RBC shares, for example), to be deemed successful over a medium-term perspective of two or three years, it should have:

- Grown to include at least 10-20 TTDR programmes

- Resulted in the creation of TTDRs, held by retail and institutional investors, that would account for a significant portion (greater than 10%) of the market capitalization of the local market
- Achieved reasonable levels of trading and liquidity
- Contributed to the general development of T&T as an IFC by increasing local trading and trading-related financial services.

**Charles de Silva**

**Deputy General Manager**