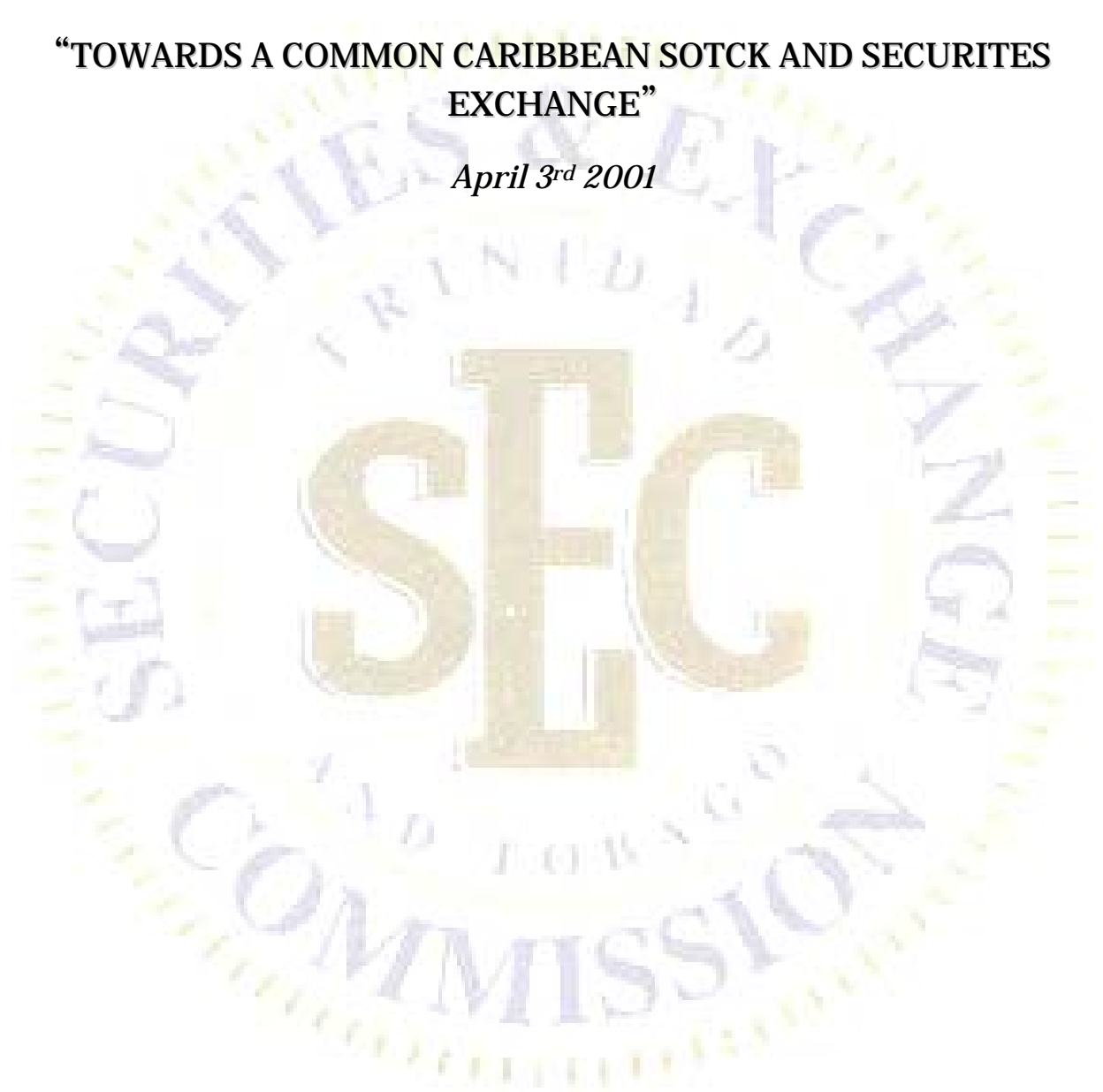


**THE CARIBBEAN ASSOCIATION OF INDUSTRY AND
COMMERCE/ ERNEST & YOUNG**

CARIBBEAN SYMPOSIUM ENTITLED

**“TOWARDS A COMMON CARIBBEAN STOCK AND SECURITIES
EXCHANGE”**

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ADDRESS BY-

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TRINIDAD & TOBAGO SECURITIES & EXCHANGE COMMISSION

Ladies and Gentlemen, it is indeed an honour to have been asked to take part in this panel discussion on a Common Caribbean Stock Exchange. The Trinidad and Tobago Securities and Exchange Commission was requested to address the following questions/ issues:

1. Do we support the harmonization of stock exchanges in the region?
2. The regulatory challenges that could arise from harmonisation.

Accordingly, we will attempt to confine our discussions to these areas.

In considering the first question, it might be useful for us to revisit the principles of securities market regulation as outlined by the International Organisation of Securities Commission (IOSCO) in its Statement of Core Principles and Objectives. These are:

- a. The protection of investors;
- b. Ensuring that markets are fair, efficient and transparent;
- c. The reduction of systemic risk.

Several regulators within our region namely the Bahamas, Barbados, Jamaica and Trinidad and Tobago, by virtue of their membership in this organization aspire towards these objectives within their individual jurisdictions.

At the regional level we also enjoy common membership in the Council of Securities Regulators of the Americas (COSRA) in which regulatory authorities of North, Central and South America and the Caribbean have stated their intention “to co-operate to enhance their mutual efforts to develop and foster the growth of securities markets that are open and fair to all investors.”

In seeking to attain these objectives, two major approaches to market regulation have been adopted:

- a. Companies offering securities to the public are required to provide or disclose certain information about their entities, the securities they are offering for sale and the risks of investing in those securities.
- b. Persons who sell and trade in the market place must treat their investors fairly or equitably. This means that the interest of the investor must be given primacy.

Enshrined within these approaches is the principle of self-regulation, whereby market actors establish rules and sanctions to regulate their conduct. The regulatory framework is informed by these two approaches and supported by enforcement provisions that impose a range of penalties for breaches of the law. To date, the Trinidad and Tobago Securities and Exchange Commission has registered two self-regulatory organisations.

The main reasons advanced in support of the harmonisation of securities markets, at least in the context of the Caribbean region area as follows:

1. To add more depth to the market
2. To achieve greater stock trading liquidity
3. To reduce trading costs and achieve better execution of trades
4. To improve the efficiency in cross-border transactions
5. To increase the competitiveness of domestic stock exchanges

The Trinidad and Tobago Securities and Exchange Commission supports these reasons and the move towards the creation of a common Caribbean Stock Exchange. However, it is necessary to ensure that in the face of these developments effective regulatory oversight must be maintained, if markets are to exude confidence and continue to attract investors. It is my view that any move towards the merger or harmonisation of securities markets within the Caribbean must be bolstered by an effective regulatory framework designed to ensure that the safeguards afforded the investor are in no way compromised.

However, if we examine the regional landscape as it pertains to the regulation of the securities markets today, we will observe the following:

1. Diverse securities laws and company legislation;
2. Considerable differences in financial sector legislation; and
3. Wide variances with compliance and enforcement issues

Already, some of these differences have come into sharp focus in the face of the coming into force of Protocol II of the CARICOM Treaty. That Protocol provides for the removal of restrictions on CARICOM nationals with respect to the free movement of services and capital and the right to establish a place of business in any CARICOM country.

I believe, however, that considerable benefits may be derived from the harmonization of our regulatory structures. These benefits may be summarized as follows:

- More efficient use of resources including databases and technology
- Easier exchange of information within various jurisdictions
- Standardisation of requirements for licensing, registration or educational qualifications
- Wider reach of investor education programmes
- Larger pool from which professionals can be drawn.

Indeed these benefits suggest that it might be in our best interest to consider the establishment of a single regulator for securities markets in the Caribbean. I recommend therefore that we seriously explore the feasibility of creating such a body.

Let us now consider the challenges that lie ahead as we move towards harmonization of regional securities markets. One of the fundamental requirements for an efficient securities market is that there must be transparency in market transactions. This involves the wide dissemination to the public of information on quotations, volumes and prices regarding securities trades. A prerequisite for harmonization would therefore be an efficient information network that facilitates the dissemination of relevant information.

Traditionally, our markets have seen a large number of sophisticated investors who have at their disposal the tools needed to make informed investment decisions. However, within recent years we have witnessed large numbers of unsophisticated investors entering the market. This is a trend that is likely to continue as the policies aimed at stimulating the supply of and demand for investments begin to bear fruit.

Consequently, in order to ensure adequate transparency in our markets, regional regulators will be required to put effective market surveillance systems in place by ensuring that proposals for linking markets by means of electronic networks are extended to include the regulatory authorities. This would allow for easy exchange of information between themselves and also with international regulatory agencies.

An area of concern relates to the recent developments in Internet trading whereby many investors are effecting securities transactions without the use of intermediaries that are usually responsible for communicating information on such transactions to the markets. The failure of the market mechanism to monitor and take into account such transactions may undermine

market efficiency. Regulators will therefore have to devise methods of obtaining and feeding such information to the market.

Another challenge is the issue of disclosure standards. Without adequate disclosure, markets will neither be fair nor equitable. However, the standards of full and fair disclosure must apply across markets if investor confidence is to be maintained. Simply put we will have to agree on the following:

- A clear description of what must be disclosed
- When disclosures should be made
- What method should be utilized for providing disclosure

In Trinidad and Tobago the Securities Industry Act 1995 and the Securities Industry By-Laws 1997 provide for the disclosure of financial and other material information in prospectuses and supplementary prospectuses or information memoranda, annual filings, pre- or post-event filings and advertisements. However, our experience to date is that the issue of disclosure will be one of the most challenging areas for the regulator. There appears to be some resistance on the part of many corporate persons to compliance with the requirements for disclosure associated with public offerings of securities. This is made more difficult by an entrenched business culture within the private sector that has grown quite accustomed to “shouting about the benefits” but “whispering about the risks” of certain investments.

Regulators cannot afford to yield to lobbies for less stringent disclosure standards and this is undoubtedly an area that will require much cooperation between regional regulators. Moreover, the full support of policy makers is needed if we are to ensure that investors have access to the information needed to make informed investment decisions. At the same time however, we must be cognizant of the fact that meeting disclosure standards can be a formidable prescription for small entities desirous of going public and may tend to scare them away from coming to the market.

We must devise effective ways of allowing these companies to step-up to the standards required without destroying the integrity of the market. My understanding is that the model of a second-tier market that obtains in Trinidad and Tobago was designed to meet this objective. However, to date it has attracted only one company and clearly must be re-evaluated.

It is evident that as financial data is an important medium through which transparency is inculcated into the market, accounting standards must of necessity be harmonized within the region. It is to be noted however that this process is largely influenced by the development of international accounting and auditing standards. To the extent that practitioners continue to work assiduously towards the attainment of international standards, we will ensure that our markets can withstand the scrutiny of international investors.

In this regard, we support the efforts of the Council of Securities Regulators of the Americas (COSRA) at the regional level aimed at encouraging the application of auditing standards consistent with “ a comprehensive body of high quality auditing standards”.

Another challenge relates to the issues of corporate governance, whereby the rights of investors, especially the minority shareholders, are afforded adequate protection. In this regard the Trinidad and Tobago Securities and Exchange Commission supports the COSRA initiative aimed at formulating standardized principles of corporate governance for the guidance of regulators within the region. A Draft Report on Corporate Governance is currently being reviewed by the COSRA membership. This report focuses, inter alia, on the following:

- The Rights of shareholders
- The Equitable Treatment of Shareholders
- The role of Shareholders
- Disclosure and Transparency Issues
- The Responsibilities of the Board

Given the varying corporate structures that obtain within the individual jurisdictions, the application of such principles may prove to be a most challenging issue since it is often difficult to get corporate issuers to change their established practices or even accept the need for change.

It must be noted also that programmes for the enforcement of securities laws must be stringent and equitably administered across boundaries. Failure to do so will result in regulatory arbitrage, as intermediaries will simply move their operations to the least regulated jurisdictions and target investors from those locations. However, this is a mandate that rests largely outside the control of the regulatory authorities themselves, as several of them have to rely heavily on the criminal court process to effect enforcement proceedings. Unfortunately, many of our courts are plagued

with long delays in carrying out criminal proceedings, which can undermine the effectiveness of the sanctions and penalties prescribed in law.

It is clear from the foregoing discourse that in considering the move towards harmonization we ascribe a high degree of importance to the role of the development of common standards in the areas of disclosure, accounting, corporate governance, and standards of enforcement. These safeguards are designed to weave a web of protection around the investor, particularly the unsophisticated individual investor. However, I am of the view that a complementary but perhaps more effective mechanism for ensuring investor protection is the existence of an educated investor who has at his/ her disposal the tools needed to make informed investment decisions.

Investor education, however, is a costly exercise for the individual regulator especially in light of the small number of investors in any one jurisdiction. For this reason, a regional approach to investor education is seen as being desirable as it will allow markets to benefit from the programmes and materials being developed within the jurisdiction and eliminate duplication effort thus allowing for cost efficiencies. This is probably one of the areas where a regional approach can result in immediate and substantial benefits.

Our markets will continue to be targeted by financial service providers offering a bewildering array of services and products, some of which contain hybrid features which present considerable difficulties for the regulators. Alert and informed investors can play a major role in reducing the incidence of investor fraud and deception.

In conclusion, I wish to state that harmonization of the regional exchanges is desirable as long as it will serve to improve the functioning of the markets in the region. But harmonization by itself does not guarantee that markets will operate with a greater degree of efficiency. It must be supported by an adequate regulatory framework that allows for effective supervision by an independent authority which has the power to enforce the law. The objective of such regulation should be to provide prudential regulation and supervision, enhanced transparency and corporate governance, the provision of safety nets and the supervision of legal and accounting systems.

These objectives once attained either by regulators in individual jurisdictions or ideally by a single regulator for the Caribbean region, will ensure that markets have the level of integrity and

confidence required to attract investors. This is necessary if capital markets are to play the very important resource allocation role carved out for them in the context of regional development. The Trinidad and Tobago Securities and Exchange Commission is committed and stands ready to be involved in the harmonization process.

Ladies and Gentlemen, I thank you.

