

**FEATURE ADDRESS OF THE LAUNCH OF  
THE COLLECTIVE INVESTMENT SCHEME  
BASELINE STUDY**



*April 25<sup>th</sup> 2005*

Good Morning Ladies and Gentlemen

I am indeed pleased to welcome you to this morning's discussion and launch of the joint Mutual Funds Study sponsored by the Trinidad and Tobago Securities and Exchange Commission and the Central Bank of Trinidad and Tobago.

As you are well aware, the mutual funds industry has grown by leaps and bounds over the last several years. Our best estimates are that there currently exist some 55 locally sponsored and promoted mutual funds in Trinidad and Tobago which are managing approximately \$24 billion. We also estimate that there are over 134 individual mutual funds, including families of funds and sub-funds, being sold. The Commission has also estimated that funds under management have grown by over 500% between 1997 and 2003, and by the latter date represented 87% of the total value of bank deposits as compared to only 23% of commercial bank deposits in 1997.

Unfortunately, you will note that we use terms such as "believe" and "estimate" when making reference to the details about this industry in Trinidad and Tobago. Despite its significance and growing importance in the market there are a number of things that are still unclear including:

1. the variety and variations in funds structures;
2. the value of funds under management by jurisdiction of origin and by fund type;
3. the fund management strategies employed, with special emphasis on fund nomenclature, net asset value calculations, fee structures and performance presentations;
4. the impact of the industry on the growth and development of the stock exchange and the securities market as a whole; and
5. Fund governance structures.

In part, our lack of precise information and comprehensive knowledge about the industry derives from a regulatory structure that is murky at best and that in the past has not provided for any significant prudential and performance oversight. Thus, once a fund has been registered with the Commission, the requirements for further regulatory oversight become unclear, not only with regard to jurisdiction sharing with the Central Bank, but also in regard to continuous reporting requirements and the monitoring of performance and behaviour.

The Commission is clear that the operation of so significant a segment of the securities market and of the country's savings – the growth in funds under management accounted for almost 20% of the issue of new securities of all kinds in Trinidad and Tobago between 1997 and 2003 – cannot continue to operate outside of an effective regulatory framework, and the Central Bank concurs with this view.

As you are all aware, the Commission contracted consultants to review all of our securities legislation, and included in the draft legislation that has been recommended to us are proposals for a comprehensive regulatory regime for all collective investment schemes, including investment contracts, mutual funds of all kinds and other collective schemes. On reference to the Final Report of the consultants – The Stikeman and Elliott Report that you will find on our website, and that was the subject to comprehensive market consultation during its preparation – you will find these proposals contained in a Collective Investment Scheme By Law under which the mutual fund industry will in due course be regulated.

In the interim, the Commission has been using some of the standards and principles included in the draft By Law to improve the quality of disclosure that is being required at the stage of registration of the funds.

While the Commission is very alert to the fact that the industry must be properly regulated and that the standards proposed in the draft By Law are no more than minimum best practice standards, it is also aware that the introduction of new legislation into an ongoing, unregulated market, could produce unintended consequences if the regulators do not precisely understand what is on the ground at the time of introduction of the new regulatory regime.

This is the point that prompted us to undertake this comprehensive study of the industry at this time.

As you will hear in greater detail, the objective of the study is to provide as exhaustive a benchmark as possible on the industry in its current operation. Consequently the study will seek to probe the very depths of fund operations, management and governance. We sincerely hope that your cooperation in this exercise will be comprehensive and forthcoming.

But while we ask your cooperation in a venture that clearly has benefits for us as regulators it is also important for you to reflect on the value that will accrue to yourselves from such cooperation. Let me identify three significant benefits that you can all expect to derive from your full participation in this exercise.

1. The study will benchmark fund performance and give you a comprehensive basis for understanding your market and your competitive position, including such issues of market shares for your individual and families of funds, within it;
2. The study will provide you with a comprehensive understanding of the management, governance and regulatory issues that the industry faces, and will provide you with the information that you all may use to tailor your strategic responses to current and future demands;
3. The study will provide the regulators with a framework within which to finalise and implement new legislation with minimum impact on current fund operations.

As valuable as these benefits may be, they all, in a sense, relate to a specific point of time and will soon become dated. But there is a fourth benefit that the Commission and the Bank believe that will be of continuing value to all current and future participants in the market.

One of the key continuing outputs that we expect to derive from the study project is the production of a current and up to date market watch monitoring system for mutual funds. This market watch monitor, when fully developed, will contain current public information on all registered funds and on certain aspects of the operation of foreign funds marketed in

Trinidad and Tobago through registered representatives. It will facilitate peer comparisons among funds and fund managers and it will give up to date data on fund operations and will facilitate a number of statistical analyse on different aspects of such fund operations and performance.

We have not of course finalised the modalities of precisely how we propose to provide you with the benefit that the fund monitor will generate, but there seem to be certain characteristics that will definitely have to be applied in order to maintain the integrity and value of the instrument. These include:

- Continuous reporting of fund operations by fund managers;
- A basis for managing access to the monitoring system to ensure that confidentiality is preserved; and
- Procedures for maintaining the monitor and watch.

As we complete the processes for development of the monitor during the course of the study project, we shall maintain the faith with you on this element and consult with you on our specific proposals for developing and making this tool available to you all.

Ladies and gentlemen I do deeply appreciate your turning out here this morning which I interpret as demonstration of your commitment to supporting the goals and objectives of this study and to cooperating fully in its conduct. I wish to assure you that we shall all benefit – regulators and market actors alike – from this collaborative effort.

I commend and thank you again, and look forward to a highly successful project.

I thank you.