

**THE INAUGURATION OF THE SECURITIES DEALERS
ASSOCIATION OF TRINIDAD AND TOBAGO**



ADDRESS BY-

OSBORNE NURSE, CHAIRMAN

TRINIDAD AND TOBAGO SECURITIES & EXCHANGE COMMISSION

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16 FLOOR OF THE CENTRAL BANK OF TRINIDAD & TOBAGO

Good Morning Ladies and Gentlemen

It is a special pleasure for me to address you this morning as you prepare to formally launch your Association and appoint its first Directors and Officers, and I thank you for your invitation to do so.

I am told that I have been invited to make this address on account of the fact that I may have been part of the motivation for the formation of this Association. I would like to hope that that motivation was truly a positive one and not just a reaction that there was a need for you to combine to deal with this Regulator.

I believe that the formation of an Association such as this has been long overdue, after more than twenty-five years of the existence of a formal securities market in the form of the Trinidad and Tobago Stock Exchange, and ten years of the existence of the Trinidad and Tobago Securities Commission. The formation of your Association has come at a time when one was beginning to wonder why the cooperation that this development represents, did not take place before and whether it could ever happen. That we have reached this juncture of development at this time is a tribute to you all and again I commend your efforts in coming to this point.

I am also informed that the mutual fund issuers and representatives of foreign funds are also contemplating the formation of a similar association of members. I welcome this development as well, equally wholeheartedly.

Further, you are all aware that efforts are being led by the Central Bank to initiate an active market in bonds and ultimately in other fixed income securities utilizing the facilities of the Exchange. I would hope that members of that market – the fixed income brokers and traders – would be welcome as members of this Association as well.

Now that the die has been cast, I will take advantage of the further opportunity that you have today afforded me to indicate what I expect to result from the formation of this Association.

I would imagine that the Association would set itself two broad objectives. These are that it would act as an advocacy and trade association for its members and that secondly it would act, ultimately, as a self-regulatory organization registered as such by the Securities and Exchange Commission.

As a trade and advocacy association, you will no doubt focus your attention on negotiating with, or cajoling the government, the regulators and other authorities in the capital market to achieve conditions and a market environment that are conducive to the growth and development of your industry. Your Charter sets out a number of objectives that clearly meet this criterion. In my view, however you need to add certain additional dimensions to such an objective.

Firstly, our market has over the years shown little tendency to grow either in breadth or in depth. I believe that it is very much in the interests of yourselves and of the country that you use your influence and knowledge of the market to encourage the desired growth in the size and quality of the market. This includes advocating with the business sector to make more use of the capital markets – both equity and fixed income – to finance their future growth and development. I exhort you to set specific goals for doing so with the listed companies, unlisted private sector companies, state enterprises and indeed foreign corporations resident in the country. With the levels of liquidity available in the market at the present time, this should be a supremely achievable if challenging task.

Secondly in your advocacy, I urge to you pay attention to the interests and needs of the general public and in particular the investing public. They are ultimately the source of your sustenance and the sustenance of the market. Make your voices heard in advocating for their protection and for greater opportunities to serve them well.

Contribute to their education by way of your own resources and by supporting the efforts of the Commission and of the Central Bank and others to increase the level of financial literacy in the country.

Thirdly, as a trade and advocacy organization, I believe that it would be appropriate for you to devote considerable resources towards ensuring the development and improvement of your membership. Set high standards of technical skill requirements and of ethical behaviour for your members and ensure that you enforce compliance with them by your members. Institute appropriate programmes of continuing education for your members and require them to keep themselves up-to-date in order to maintain membership of the Association. Again your Charter speaks eloquently to the skills training and development objectives of your association. However, it does not deal with ethics and principles in the same direct manner as you have addressed the matters of training and skills development. It is extremely important that you do so in light of the relatively low levels of public confidence in how our markets are managed and operated.

In these ways you would be setting an excellent platform for your operation as an SRO, which given what I understand as the genesis of the formation of this Association, appears to be its ultimate objective.

As you will recall, the Commission sought to introduce additional capital requirements for underwriters in order to establish a basis for prudence for investors and fair operation of the market. During the process of consultation to introduce these capital requirements, a number of views were exchanged between the Commission and yourselves, resulting in my exhortation to consider forming yourselves into an SRO and undertaking self regulation of your business. This gathering this morning is part of the culmination of your positive response to my exhortation. The regulation of our capital markets has a number of dimensions and combines both the direct action of the Regulator - the Commission – and self regulation by market participants. Three critical

areas of the regulatory process come to mind. Firstly, there is the certification of the fitness and properness and qualification of market participants. This is conducted primarily by the Commission and, secondly by the Trinidad and Tobago Stock Exchange.

The second level of regulation is that of regulating the conduct of admitted members in respect of the manner in which they conduct their business, maintain records, deal with customers and satisfy the rules of the Exchange. The primary source of this level of regulation is the Exchange acting in its capacity as an SRO.

The third level is that of monitoring actual trading activity and behaviour which is conducted by the Exchange and increasingly by the Commission itself. Where malfeasance may be apparent, the Exchange has powers to discipline its members and the Commission also has powers and the duty to enforce against contraventions of the Act.

The formation of this Association appears to speak to the desire of the Exchange's Members to regulate their qualifications, behaviour and conduct themselves and to enforce whatever standards have been set for so doing.

Remember that all of this regulation, whether conducted by the Commission or by SROs, is conducted under the aegis of the Securities Industry Act which empowers the Commission to intervene at any stage of the regulatory process and to seek enforcement of the law and the rules of the SRO's.

If your approach is successful, then the Exchange is likely to be freed of much of its regulatory responsibilities and this would permit it to focus more exclusively on the operation of the securities markets. In such a scenario, it may be possible for the Exchange to devote more of its resources to market development than now appears to

be the case, and may better open the way to the demutualisation of the Exchange.

As an SRO, you would have certain well defined responsibilities and you would need to be very clear about who constitute your important stakeholders.

Allow me to borrow some words of guidance from my colleague Susan Wolburgh-Jenah former Vice Chair of the Ontario Securities Commission and current CEO of the Investment Dealers Association – the Association that may well be a model for this one - which is preparing to merge with Regulatory Services Limited. Regulatory Services is a corporation formed jointly by the Toronto Stock Exchange and the IDA when the Exchange was demutualised and which is responsible for regulating the actual conduct of market trades in Ontario and other Canadian markets.

I trust that Susan's guidance will be helpful to you as you develop your plans to become a full-fledged SRO.

Susan reminds that “self-regulation cannot be taken for granted. From an industry perspective, the value of self-regulation must be continuously demonstrated through fair, balanced and practical regulation delivered in a consultative and cost-effective manner. From an investor perspective, **the right to self-regulate must be continuously earned by ensuring that the public interest always takes precedence over the private interests of the industry.** From the statutory regulators' perspective, formal recognition as an SRO carries with it the responsibility to conduct market and member oversight with commitment and rigour so as to promote investor protection, market confidence and integrity”.

She continues “SROs are “front-line regulators” that, by definition, operate in close proximity to the industry they are charged with overseeing. Statutory regulators effectively delegate to SROs responsibility for setting and enforcing standards of practice and business conduct of their members and the industry bears the cost. Those with knowledge and expertise develop policies and rules in close consultation with the

industry that will be governed by those rules. This input helps to ensure that rules and policies are balanced and practical, will work in the real world, keep pace with complex, innovative and rapidly changing markets and achieve the desired regulatory outcome without undermining efficiency and competitiveness. Industry buy-in and therefore compliance is enhanced through efforts to engage members in the regulatory process and seek their input on approaches that are more likely to achieve desired outcomes in an effective and cost-efficient manner”.

To this should be added the words of USSEC Chairman William Douglas in 1938 – also quoted by Susan:

“In 1938, USSEC Chairman William Douglas commented on the limits of government regulation and the “unquestioned advantages of self-regulation” as follows: “By and large, government can operate satisfactorily only by proscription. That leaves untouched, large areas of conduct and activity; some of it susceptible of government regulation but in fact too minute for satisfactory control, **some of it lying beyond the periphery of the law, in the realm of ethics and morality.** Into these huge areas, self-government and self-government alone, can effectively reach.”

As an SRO your acceptability to the Commission and to the market as a front-line regulator would be defined in terms similar to those expressed by Chairman Douglas and Ms. Wolburgh-Jenah.

I would like to end with a few words on governance and enforcement. I believe that these two issues effectively will define how well this Association succeeds and is accepted as a force for improving the quality of this market generating and its further growth. These two issues will also strongly influence the potential success of the Government’s effort to establish Trinidad and Tobago as an International Financial Centre and as the market of choice in the Caribbean as well as the wider world.. Once again we must note the Government is the prime mover in the effort to further develop the market, while the private sector plays catch up. Remember, it was the Government that established the Exchange, the Unit Trust and Mutual Fund Markets and the Home

Mortgage Bank. I would urge you to use your advocacy powers to speed up the processes that may have been started by the Government and to generate similar development processes of your own.

There has continued to exist in this market serious public concerns about how our markets operate as reflected in oft-repeated views that there is daily market manipulation and insider trading in the Stock Market, and that such manipulation is facilitated by the rule that trade of a single share can move market prices by as much as ten percent a day the upper limit of daily changes.

Despite these comments, there is little evidence that complaints were made to the front-line regulator – the Exchange or of how such complaints were handled. Nor is there much evidence in the Exchange's Annual Reports of what regulatory or disciplinary matters may have been pursued and how they may have been determined.

Some may argue that the Exchange perhaps is slow to identify and report on such contraventions as may perhaps have taken place because of its governance structure in which members and issuers have the greatest weight and the small size of the market and the society. Whatever is the truth – maybe all the comments are indeed figments of people's imaginations – the end result is that the level of confidence in the Exchange and the market is far below that which is required to have a robust and growing market.

Your Association can make a significant impact and contribution to investor confidence and to the buoyancy and vibrancy of the market by ensuring that it addresses the governance issue frontally and squarely and that it establishes a judicious balance between members' interests and the interests of the investing public bearing in mind, Ms. Wolburgh-Jenah's advice that the public interest must always take precedence over the private interests of the industry. One way of doing so would be to include strong independent membership of the Board of your Association and to invest such members with the authority to enforce the rules of the Association, the Exchange and

the Securities Industry Act.

Once again I congratulate you on bringing the Association to life and I look forward to seeing its positive impact on the market as it develops and grows.

I thank you.

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