THE TRINIDAD AND TOBAGO INTERNATIONAL FINANCIAL CENTRE
AN ENVIRONMENT FOR GLOBAL AND REGIONAL INVESTMENT

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While our subject today is technical, many of the requirements for our success lie in the heart and soul of our people. I believe that important criteria for a financial centre such as the one that Trinidad and Tobago is seeking to become are the creativity and commitment to develop, produce and service new investment products and services. Trinidad and Tobago has shown a significant capacity to do so in a number of ways.

The records of the Trinidad and Tobago Securities and Exchange Commission reflect the production of a number of forms of derivative securities such as participations, strips, asset-backed securities and structured products. In the last 2 years alone, despite the significant downturn in the equity market, the Commission has registered some 53 fixed-income securities with a value of US$2.4 billion. In addition, a market for repurchase agreements (repos) valued at US$ 1.5 billion has also been created.

On the one hand, we have the requisite competencies and on the other, the perfect market conditions.

In the last ten years or so, there has been considerable capital market activity involving institutions in the wider Caribbean, and some of Trinidad and Tobago's institutions have featured very prominently in these. Over ninety (90) merger and acquisition transactions have taken place in the last ten years, involving Caribbean institutions, the most recent being the merger (by amalgamation as they insist) of RBC and RBTT by which the Canadian institution has now been cleared by RBTT's shareholders to acquire the entire RBTT business. This is the latest of 22 such transactions in the region, that is, transactions involving the acquisition of Caribbean institutions by Non-Caribbean institutions. In addition:

- 41 of the 90 odd transactions have involved the acquisition of Caribbean institutions by other Caribbean institutions;
- 29 have involved the acquisition of Non-Caribbean institutions by Caribbean institutions;

The most acquisitive Caribbean institutions have been RBTT, the Bank of Butterfield, and Republic Bank. In Central America, by contrast, there have been only 30 acquisitions/mergers since 2000.

This volume of activity suggests that there exists a rich vein of capital market activity residing in the region that passes directly through Trinidad and Tobago and that provides striking evidence to support the view that such activity can effectively be handled through Trinidad and Tobago as a centre. The expertise and skill at market innovation that are demonstrably resident in Trinidad and Tobago provide an important foundation that can spell the success of the International Financial Centre.

This context is only one dimension of the capacity of this country to become a financial centre of power, influence and value, but there are several other such dimensions to be considered. In my view, considerable potential exists for the development of the International Financial Centre in the following areas:

- ✓ The development of new tradable equity and other securities products and their listing on the stock exchange;

- ✓ The development of sophisticated trading systems on the local exchange that will facilitate viable and liquid trading in the listed securities; and
- ✓ The development of a robust regulatory environment within which securities product development and trading will be conducted.

As we are all very aware, the shareholders of RBTT Holdings voted in favour of the proposal to amalgamate that institution with the Royal Bank of Canada's Caribbean operations in a transaction that has an estimated market value of US$2.2 billion.

Some 40% of that consideration or approximately US$880 million will be paid to RBTT shareholders in the form of RBC shares, the other 60% being paid in cash. The regulators in Trinidad and Tobago, led by the Trinidad and Tobago Securities and Exchange Commission have convinced RBC that the launch by them of a sponsored depositary receipt programme will achieve several significant goals.

This innovation will allow the former RBTT shareholders to hold interests in the Royal Bank of Canada – by way of an instrument – a depositary receipt - that is offered here in Trinidad and Tobago, traded on our own stock exchange and monitored by the TTSEC.

Here are some of the benefits.

A depositary receipt is a certificate issued as a form of derivative of an underlying share. Typically, the underlying share has been issued in a foreign jurisdiction and the issue of the depositary receipt is a means by which a foreign company's securities may be listed on a local market.

The issue of depositary receipts may be sponsored by the original share issuer or may be unsponsored. In the unsponsored version, the original share issuer may not at all be involved, but an intermediary will secure access to the underlying shares in a reputable securities market and issue receipts against them.

In both the sponsored and the unsponsored programmes, the DR holder usually gets the benefits of the underlying share including access to voting rights and to dividends payable on the underlying share. However the DR holder faces only his local market environment for trading and exchanging the receipt, and may have rights to convert his receipts back to the underlying share.

The benefits of the introduction of a depositary receipt programme in association with the RBC/RBTT transaction are many and significant. But the broader benefits are so clear, that the Commission is designing a regime that will enable a larger number of DR programmes to be instituted within the same time frame as the RBC/RBTT merger transaction. In this way, benefits are expected to multiply. DRs offer a win-win opportunity for everyone:

- ✓ They allow the Stock Exchange to replace the market capitalisation and trading volume (which represented some 13% of the market and 25% of the banking and financial segment of the market) that would have been lost from the effective privatisation of RBTT:

- ✓ The Stock Exchange also benefits from the development of new capacities and new trading systems that could facilitate more effective trading in a wider range of securities as well as in local equities;

- ✓ An added benefit for the TTSE will be the substantially increased trading volumes and liquidity on the local stock exchange;

- ✓ One of the anticipated by-products of the TTIFC is the expansion and enhancement of domestic financial services for investors. DRs meet this criterion as they give individual and institutional investors long sought-after options.

- ✓ **The less sophisticated investor**– whether a former RBTT shareholder or not – has the opportunity to more effectively manage his or her interest in the RBC shares, by making them effectively tradable locally;

- ✓ **All investors in Trinidad and Tobago**, and ultimately in the Region (through the integration and ultimate unification of the regional exchanges), have choice! new investment opportunities in a new product;

- ✓ **DRs also allow Trinidad and Tobago investors** to participate more directly in the benefits generated by foreign companies that operate in and that earn considerable shares of their global incomes from Trinidad and Tobago;

- ✓ **The brokerage community** gets the opportunity to develop and improve their skills as market makers, and to introduce such mechanisms as margin trading and securities lending and borrowing that can encourage larger trading volumes in listed securities;

- ✓ Institutional investors get the opportunity to effectively hold interests in foreign entities through a local security and without violating current restrictions on holding such securities; and

- ✓ The country benefits as DRs provide avenues for the effective absorption of the considerable liquidity that will result from the execution of the RBC/RBTT transaction.

RBC has in fact accepted this view and has committed to implementing a sponsored DR programme immediately after the execution of the merger transaction. The opportunity is also available to a significant number of foreign companies that have local operations in Trinidad and Tobago.

An immediate possibility is that the long outstanding obligation by Arcelor/Mittal (ISPAT) to issue some 40% of its value to its staff and on the local exchange could be accomplished through this route in a relatively simple manner.

Similarly, while the local energy sector produces more than 40% of GDP annually, most of this production is led by a number of international companies in which the average local investor has no financial or equity interest. The use of depositary receipts will provide opportunities for local investors to share in the returns of the international energy companies that operate locally and so participate more directly in the most vibrant segment of the economy.

It has been argued that the ideal situation would be for such energy companies to list their Trinidad and Tobago operations as companies on the local stock exchange. This of course would be great, but the gestation may continue to be very long. The use of depositary receipts will allow for a relatively short incubation period for the achievement of similar objectives.

As you can see, there are many benefits that can be derived from a depositary receipt programme. That is why the Commission has committed to ensuring the development of this instrument, and its availability to local investors in a similar timeframe as envisaged for the completion of the RBC/RBTT transaction.

We will however provide greater detail about the introduction programme for Trinidad and Tobago Depositary Receipts, denominated in Trinidad and Tobago dollars, in a week or two when the Commission expects to begin rolling out the programme.

The DR regime that is being developed by the TTSEC for Trinidad and Tobago will provide for both sponsored and unsponsored depositary receipts. By utilising the mechanism of the unsponsored receipts the Commission will shorten the time required to allow local investors to invest in entities such as BP, BG, BHP Billiton and other similar energy-based institutions.

My colleagues at the Ministry of Finance, the Central Bank the Stock Exchange and at the Commission, all see the development of such a regime as being an important part of the International Financial Centre because it helps to bring the international securities market within the purview of the average investor. In this regard it represents an approach to the IFC that makes it more than an enclave in the economy but that allows a greater degree of integration of the domestic and the international markets.

I have focused on depositary receipts because they represent an International Financial Centre initiative that is at hand. The Commission expects to launch the DR regime within the next two weeks with a public consultation on the framework and the guidelines for regulating the facility. Subsequently we expect the first depositary receipt programmes to come into effect within the May/June timeframe that has been established for the RBC/RBTT transaction. In fact we are challenging

RBC/RBTT to issue their sponsored DR programme within 30 days of the completion of the execution of the amalgamation transaction.

We are also recommending to the Minister of Finance that a similar challenge be issued to Mittal to issue the second sponsored DR programme within a similar timeframe, in satisfaction of its long outstanding obligation to issue its securities locally. Finally we are encouraging financial institutions and securities firms to undertake unsponsored DR programmes, in the securities of entities with local operations such as BP, BG and similar institutions, within a similar timeframe. To help achieve these objectives we are in the process of arranging for interested DR issuers to attend a seminar on the mechanics of undertaking such a programme with the world leading institution in the issue and management of depositary receipts – the Bank of New York Mellon.

Other Trading Possibilities

I would like to raise here additional trading possibilities that have the potential to utilise skills and capacities that have been nurtured in Trinidad and Tobago over the past seven or eight decades. As a geographically small yet big energy powerhouse, Trinidad and Tobago holds leadership positions in the production and export of petroleum, gas and downstream products such as nitrogen, methanol and LNG. I endorse the view that the TTIFC should develop a strategy to provide a trading floor in such energy products given the fact that we occupy such a dominant position in the production of some of these commodities.

There are also possibilities for developing a more robust fixed-income securities trading platform that builds on the fact that Trinidad and Tobago has become one of the premier regional locations for corporate as well as sovereign fixed-income securities. The TTIFC would be well positioned to create and manage the market for the trading of such securities and their derivatives throughout the region, including the Latin American region.

In this regard, the development of the very trading and market management skills that will be critical to the depositary receipt programme will generate significant externalities in new trading areas such as energy commodities and fixed-income securities. Such externalities will not only apply to these new markets, but will also apply to the recently launched market for government bonds, the trading of which has been as sluggish as trading in equities on the TTSE, in part because exactly the same trading rules apply, inhibiting wider trading possibilities and market liquidity.

Vibrant Stock Exchange

Let me now turn to the second major perspective on the TTIFC to which I have alluded. The success of the International Financial Centre will depend to a significant degree on the creation and management of robust, competitive and vibrant markets. I am of the view that the IFC should not be implemented in an enclave, but should be integrated to the fullest extent possible with the domestic economy. That is why I see our initiative on depositary receipts as part of the IFC as well as being integral to the development of the domestic markets.

Consequently, using the DR project, we have already begun to encourage the TTSE to begin making some of the trading system changes that we believe are necessary for the creation of vibrant markets. In this regard, the TTSE is currently considering the changes that may be necessary in its trading platforms and in its listing and trading rules and in its membership rules to facilitate the active trading of DRs. Included among the changes being addressed are provisions for the role of market makers, provisions for short selling, provisions for margin trading and for the active borrowing and lending of securities.

All of these skills will also contribute to making viable markets for fixed-income securities, for repurchase agreements – popularly referred to as repos – and for the commodities trading to which I have referred. The depositary receipt programme will allow the exchange to make these changes in a particular environment and to effectively apply the lessons learnt from this experience to the other areas of domestic and international trading. The perspective of the Exchange has to change to such a regional and global view.

To this end, the Exchange not only has to make the necessary changes in its operating rules but in addition it has to undertake the following:

1. The TTSE has to be demutualised, that is, it must make provision to make its own shares available for public issue and trading (on its own board). The widening of the interest in the Exchange in this manner would go a long way towards creating an environment of transparency in the operation of the Exchange, improving its governance and thereby improving confidence. Unfortunately at present the Exchange is still seen as a closed and limited club that is slow to make changes that might appear to limit the power, influence or interests of its members even if so doing would bring greater vitality, interest, value and confidence to the market;

2. The Exchange must do all in its power to complete the initial integration of the Barbados, Jamaica and Trinidad and Tobago exchanges within the timeframes that it has set and within the frames for the depositary receipt

programme. The latest target was April 2008. I sincerely hope that it is in fact implemented by the end of May, 2008. If this is achieved, then the issue of depositary receipts in Trinidad and Tobago will allow this country to become a hub of access to this security by the Barbados and Jamaican markets as well. The Exchange must also go further and lead the charge to more fully integrate all the other regional exchanges and ultimately to create the expressed ideal of a single order book for the entire region. The creation of such a larger scope and scale that could encompass a region of up some 60 million people and estimated GDP of over US$300 billion could be critical in establishing the viability of the IFC;

3. Building on the DR programme, the exchange must move rapidly to develop additional trading systems and list other kinds of securities for active trading in the regional or wider market that will emerge from the integration efforts.

I believe that the TTSE has become more alive to these possibilities and I exhort it to take advantage of the IFC initiative to facilitate the changes that are necessary and to do so in the immediate and not the distant future.

Regulatory Framework

As I have indicated earlier, the TTSEC sees the IFC as an integral part of the domestic economy and not simply as an enclave. Consequently, the Commission has been preparing both the regulatory environment and its internal resources to enable it to effectively regulate both the domestic market and the special areas that may be developed under the IFC in the securities area.

As you are aware, securities regulation is designed to manage and mitigate some of the greatest fears of any market or trading system. The major of these are:

- ✓ Informational gaps
- ✓ The abuse of customers;
- ✓ Market abuse; and
- ✓ Enforcement.

Securities Commissions attempt to secure the fairness, transparency and integrity of markets by managing these regulatory processes and educating investors in the risks and benefits of investments in securities and other financial products. Regulators are very mindful of the fact that a systemic failure in financial markets may have seriously damaging effects on economic performance and social and economic well being.

While the regulated industries usually are vocal in their calls for less official regulation and more self regulation, the recent sub prime crisis is both another example of the failure of regulated entities to effectively self regulate and of the serious global economic and social damage that such failure can cause. Such crises usually lead to a period of stronger official regulation – viz. the Sarbanes-Oxley Act in the US that followed the Enron abuse; And just on Monday we saw evidence of further regulatory tightening in the United States as a result of the current crisis.

The challenge for regulators therefore, is to achieve an appropriate balance between the need for regulation and the need to allow room for innovation and growth and for self regulation. In this regard, the Commission has submitted to the Ministry of Finance (and the Ministry has sent to the Cabinet), our proposals for the substantial revision of the Securities Industry Act. The Draft Securities Act

(SA) contains provisions that are set at the level of international best practice in the four broad areas identified above.

For example, the Act addresses the information gap by requiring public issuers to report on a quarterly basis on their financial performance and to make adequate and full disclosure in a timely manner of all material and substantial developments. It also requires such issuers to set out, at least annually a management discussion and analysis that sets out management's best view on how the business has operated in the past period and how it may be expected to perform in the coming period.

In the area of protection against customer abuse, the SA provides for a more rigorous system of monitoring of market actors, including provision for the on-site examination of broker/dealer and other market entities.

In the area of market abuse, the SA clarifies the crime of insider trading and the persons and conditions in which it may apply. In addition, it makes provision of the immediate public reporting of any trade in a security by insiders and connected persons in relation to such securities.

Finally, the SA makes provisions in the enforcement area for more severe penalties for contraventions of the Act including provisions for the disgorgement of ill-gotten gains and for the disqualification of persons from acting in certain capacities in the securities market. In addition the SA gives the Commission more authority to cooperate with any local or foreign regulatory body in any enforcement action taken against any contravention of the local or foreign securities and financial fraud laws. In particular, the Commission can enter into formal memoranda of understanding with any local or foreign regulatory body in furtherance of its purposes under the SA.

The Commission has therefore clearly positioned itself as **the primary regulator, not only of the domestic market, but also of the International Financial Centre.** And it is building its resource capacity to do so. It is also deeply engaged in demonstrating, through the depositary regime project, its willingness and capability to respond quickly to market developments.

Allow me a final word to indicate that the success of the International Financial Centre rests on a number of other critical areas as much as it does on the technical areas to which I have referred. These include the investment and fiscal incentives that may be necessary, the development of adequate, world class technological and human resource capacities and the maintenance of a stable and secure economy and society.

With all stakeholders working together towards the stated objective, Trinidad and Tobago will indeed become the International Financial Centre of the Region.

I thank you.