

PROSPECTS FOR THE DEVELOPMENT OF THE CAPITALMARKET IN TRINIDAD AND TOBAGO

Mr. Thackeray Driver, CEO South Trinidad Chamber of Industry and Commerce, Distinguished members of the Chamber, members of the media, ladies and gentlemen.

I must first express my gratitude and appreciation to the Chamber for inviting me to address its members this morning. It is my first invitation to do so and I must admit that I readily accepted your kind invitation.

Members of this Chamber in my view represent one of the significant stakeholders whose interests the Commission is designed to protect and who I feel certain or at least I sincerely hope would be encouraged by my address this morning and by the imperatives that drive the Commission at this time.

Some of you may have noted that the initiative taken by the Government to develop an International Financial Centre, and that taken by the Commission to provide for the introduction of depositary receipts into the Trinidad and Tobago market have attracted recent, shall I say envious, comment from analysts in Jamaica. This response underlines the value of what is being done at the level of policy and framework development to facilitate the growth and dynamism of our financial and capital markets.

It is our hope that the developments that I shall now outline to you will generate the kind of demand from you as investors and entrepreneurs that will continue to contribute to the vibrancy and growth of the market.

Introduction

The month of April 2008 has seen significant improvements in the fortunes and prospects for the Trinidad and Tobago capital market. On April 1st, the Minister of Finance opened a two-day Symposium on the Trinidad and Tobago International Financial Centre, and over the following two days explored with participants from the financial and other sectors the

opportunities for Trinidad and Tobago's leadership in the financial and capital markets of the Region and beyond.

On the same day that the Minister opened the Symposium, the Trinidad and Tobago Stock Exchange opened up its trading floors for five-day-a-week trading after conducting business for only three days a week for a number of years. Partly in response to this, trading activity on the Exchange picked up significantly, with the market gaining over 6% in the first two weeks of April, compared to a meager gain of 1% for the year ending December 2007.

April also saw the publication by the Trinidad and Tobago Securities and Exchange Commission of Draft By Laws for the introduction of Depositary Receipts as an investment alternative and the announcement by the Commission that it would embark on a new round of public consultations on its comprehensive proposals for the revision of the Securities Industry Act.

All of this positive activity followed the culmination of the proposal by the Royal Bank of Canada to acquire all the outstanding shares of RBTT Financial Holdings Limited, the largest financial institution in the country, with the overwhelming shareholder vote on March 26 in favour of the acquisition proposal. Against the background that the 2 RBC/RBTT proposal also implied a significant loss of market capitalisation on the Exchange, the robust response of the market in April has been both unexpected and encouragingly welcome.

The real test is whether the market can maintain its April momentum. I believe that it can, but that in order to do so some critical changes have to take place in the regulatory environment and in the availability of investment options on the stock exchange.

I am therefore extremely pleased to have this opportunity to address the South Trinidad Chamber of Industry and Commerce this morning on a topic I have labelled "Prospects for the Capital Market"

In developing my theme this morning, I will first briefly review some recent developments in the market and outline some of the challenges that must be overcome to maintain and increase the momentum observed in April. I then outline how the proposed revisions of the Securities Industry Act and the introduction of depositary receipts contribute to the prospects for sustained growth and development of the Trinidad and Tobago capital market

and of the International Financial Centre.

Recent Trends in the Capital Market 2002–2008

Allow me to briefly review some of the key characteristics of the structure and activity of the capital market through the Stock Exchange in the period since 2002. It is possible to discern three significant periods during this time that I choose to call Exuberance, Stagnation and finally Recovery (with a question mark!).

Exuberance 2002–2004

In this period covering January 2002 to December 2004 market capitalisation on the Exchange more than doubled its value, increasing from approximately TT\$48 billion to over TT\$ 100 billion. This growth continued until May 2005, albeit at a slower pace in the final five month period. During this period of “exuberance” 30 of the 32 stocks on the first tier experienced increases in market capitalisation causing the composite index rally from 435.49 at the end of January 2002 to 1215.17 by May 2005 a 179% increase. The increase for the period January to May 2005 was 13.1%! Average daily trading volume for this period was 2.74 million shares, and by the end of 2004 market capitalisation was \$107 billion

The Commission’s own analysis of the size growth and structure of the market, as well as the IMF’s evaluation of the market, revealed that there were some important rigidities underlying the outstanding performances that were being observed that suggested that the rally could easily come to an end. Among these were the absence of any significant new equity issues even while the market was flying, low liquidity, significant interlocking directorates and unsustainable relationships between stock prices and earnings.

Stagnation 2005–2007

Then came June 2005 and the onset of a significant slowdown and decline in the stock market. The Composite index fell from 1074.63 at the end of December 2004 and 1215.17 at the end of May 2005 to

982.03 by the end of December 2007 – a decline of 8.62% between December 2004 and December 2007 and of 19% from the May 2005 value. Market capitalisation fell to TT\$ 98.13 billion while the average daily trading volume in 2007 was 773,000 shares – less than a third of the share volume observed in the 2002 – 2004 period.

The decision of the Inspector of Financial Institutions to insist on the observance of the prudential limits imposed by law on all pension and insurance funds has been blamed exclusively for this decline. But we must consider that other significant changes also took place, the most notable being the introduction of electronic trading on the Exchange in March 2005 thereby requiring the actual execution of a buy/sell transaction in order to move prices, and the natural tendency of the market to correct itself after an extended period of exuberance and growth. Absent any new issues of equities in the market, or active issues of government bonds the sluggishness of the market became endemic. Small rallies in RBTT shares in November 2006 and in other issues during the year failed to be sustained and to arrest the decline in the market.

This continued until March 2008.

Recovery? April 2008

Beginning April 1, 2008 however, there was a marked change in the fortunes of the market. In some 19 trading days up to April 25 the composite index gained 5.46%, rising from 999.72 to 1054.32. The All Trinidad Index, which excludes the cross-listed stocks increased by 6.5% over the same period. Over the month of April, daily trading volumes averaged at 854,730 shares and by the end of April market capitalisation stood at \$.106.43 billion

At least 12 of the listed securities experienced price increases in April in excess of the average rate of the indexes – 5.46% for the Composite and 6.59% for the All Trinidad Index. The following securities increased by more than these averages:

Security	April 1 – 25 Increase %
Readymix (RML)	36.25%
National Flour Mills (NFM)	21.05%
Sagicor (SFC)	20.46%
Neal & Massy (NML)	15.21%
Trinidad Cement (TCL)	15.13%

Prestige Holdings (PHL)	13.12%
National Enterprises (NEL)	11.89%
Ansa Mc AI (AMCL)	11.58%
PLIPDECO (PLD)	10.00%
Scotiabank (SBTT)	9.07%

While the above securities did better than the indexes, a few others made more modest gains, while the recovery has so far not touched at least seven of the listed stocks. This gives an indication of the breadth of the potential recovery but also points to the fact that not all of the securities have shared in the improvement in market fortunes in the last month or so.

The question that arises, of course, is that of sustainability of this rally. I am certainly not in a position to predict how long it is likely to last, but I am clear that for such improvements to be consistently sustained into the future, and for the market's cycle of rally and decline to be shorter rather than longer, we need to pay attention to the structural issues in the market. Some of these are no doubt driven by the business decisions that may be taken by potential security issuers and indeed the Stock Exchange, but here I will restrict myself to two major areas in which the Commission can play a role in contributing to continued growth in the market.

The Commission has an important facilitatory role to play in the operation, development and growth of the securities and capital markets. It does so firstly by ensuring that an adequate legal framework exists that provides for the operation of the markets. The regulatory environment that provides the framework for our role addresses the key areas of securities regulation, including the disclosure of information and the monitoring of market behaviour and of unfair trading practices such as insider trading and market manipulation.

In addition to the strictly regulatory function, the Commission also has a responsibility to encourage the orderly development of the market, and we take that role as seriously as we do our regulatory function.

In the next few weeks the Commission will be actively pursuing both these roles.

Let me therefore review some of the provisions that the Commission is seeking to implement through the revised Securities Industry Act as well as our most recent approach to widening the market through providing for the issue of depositary receipts in Trinidad and Tobago.

Improving the Capital Market

One of the prerequisites for strong securities markets is the existence of a framework for effective regulation. Such a framework focuses on rules for encouraging full and timely disclosure of information relating to the development and fortunes of securities; rules that discourage unfair market practices such as insider trading and manipulative market practices; rules that seek to ensure that market actors deal fairly with their customers; a regime of sanctions designed to enforce adherence to the rules and the existence of an authority that is empowered by statute to monitor, regulate and enforce the rules.

In such an environment all parties to securities market transactions will approach the market with confidence that the market is fair and transparent and therefore attractive. In the absence of effective rules in the areas outlined and/or an authority with the legal and resource capacity to enforce adherence to the rules, securities markets tend to reflect sluggish growth, the absence of quality securities and low investor participation.

It is with these concerns to stimulate your sustainable demand for a wide range of securities that the Trinidad and Tobago Securities and Exchange Commission has proposed that the existing Securities Industry Act of 1995 be substantially revised to provide for more effective rules and their enforcement, in accordance with international standards. We believe that this position is very congruent with the objective of the Trinidad and Tobago Government to make this country an International Financial Centre of choice for both domestic and international investors. Indeed, a strong regulatory environment consistent with international standards is a **sine qua non** for any successful capital market and very much so for the proposed Trinidad and Tobago International Financial Centre.

The Commission also believes that it must do its part to help encourage the development of the domestic capital market as well as that represented by the International Financial Centre.

Consequently it has devoted a considerable proportion of its resources to creating an effective regulatory environment under law for the securities market and to creating opportunities for the development of new products and new trading opportunities in the market. I will briefly outline our efforts in these two areas.

Regulatory Reform—Proposals of the Revised Securities Act

In 2001 the Commission commenced an exercise to review and revise the Securities Industry Act and bring it up to acceptable international standards. The Consultants that were engaged to undertake this exercise presented a comprehensive proposal for a new Act that sought to effectively balance the objectives of satisfying international standards with the current stage of development of Trinidad and Tobago and its capital markets. Following on the recommendations made by the consultants, which were arrived at after a series of public and private consultations with relevant stakeholders the Commission has presented to the Minister of Finance a number of proposals for regulatory reform as contained in its Draft of a Revised Securities Industry Act for Trinidad and Tobago.

The Commission is currently organising to continue its public consultations on this Draft and in that regard is scheduling a public meeting in Tobago on May 9 and in Port of Spain on May 13 to allow all stakeholders of the capital market the opportunity to further comment on the legislative proposals before they are presented to the Parliament. To facilitate discussion on the Draft Act we have posted a copy on our website at www.ttsec.org.tt and copies can be obtained from the offices of the Commission. It is our hope and expectation that the current environment of renewed activity on the stock market and the active promotion and development of the TTIFC will encourage all stakeholders to participate fully in this consultative exercise and we look forward to the participation of Members of this Chamber, as well as of other business and citizen groups.

Allow me to quickly highlight some of the key provisions of the Draft Act so that you may get a sense of what is included in the Draft and of what is required to ensure that the Trinidad and Tobago capital market and International Financial Centre are strong markets.

The objectives of the Draft Act are to:

- ¾ Bring securities regulation in line with international practice
- ¾ Create strong market that protects and attracts domestic and international investors
- ¾ Assure that TTIFC operates in a fair, transparent, equitable market

To this end, the Draft Act focuses on improved disclosure, the regulation of insider dealing and market manipulative practices, the monitoring and surveillance of brokers and other market actors, the strengthening of enforcement powers and sanctions and the strengthening of the Commission to better provide the capacity to monitor the market and to enforce the comprehensive provisions and sterner sanctions that have been provided for in the Act. I will briefly outline the principles adopted and approaches taken by the Commission to achieve the objective of effective regulation of the market in the five broad areas that I have just outlined.

Disclosure and Transparency

Principle: To ensure that all participants have timely access to information to inform decisions – reduce asymmetry

Approach: Quarterly filing of financial information; more explanation to be provided through the MD&A; Insider reporting – that is the reporting of trading activities by insiders, whenever such activities takes place; and increased penalties for late filing of required disclosure statements. Currently the maximum penalty for the late filing of such statements that can be imposed by the Commission is \$50,000. But this low level of penalty has not created enough incentive to curb the practice of late filing, resulting in literally hundreds of outstanding cases to be heard to determine what penalties ought to be imposed. The Act proposes to increase this maximum penalty to \$500,000.

Insider Trading & Market Manipulation

Principle: No person must be allowed to benefit from trading with undisclosed information or from unfair or manipulative trading.

Approach: Prohibit trading with undisclosed information by insiders, connected persons and tippees. The offence is based on the rebuttable presumption, in a manner that applies elsewhere in Trinidad and Tobago law, that insiders such as directors and officers of an issuer who are in possession of price sensitive information, and who have conducted trades before such information has been made generally available to the public, have committed an offence.

In part to help protect such insiders from unfair criticism, the Draft Act sets out clear provisions that require them to report to the Commission each trade they may have conducted, whenever they have done so. The Draft Act also provides for the imposition of substantial penalties of up to \$2 million on indictment of persons found guilty of illegal insider trading and of other market manipulation offences. In addition provision is made for the disgorgement by such guilty persons of any gains or profits that may have been made, or losses avoided, from the unfair trading practice.

Monitoring Market Behaviour

Principle: To ensure that customers are protected from improper conduct, sales or trading practices by market actors - in other words, a consumer protection objective.

Approach: Provision has been made for the Commission to undertake routine on-site inspections of market actors' operations much in the way that the Central Bank undertakes routine inspections of financial institutions. In addition the Commission is constantly improving its capacity to maintain surveillance of trading by developing real time systems to do so. The Commission is also actively preparing money laundering guidelines for the operations of market actors. In support of these efforts increased sanctions and monetary penalties are also provided for in line with the overall approach throughout the Draft Act to provide for stiffer penalties for contraventions of the Act.

Commission Strengthening

For the Commission to properly discharge the responsibilities allocated to it under the Act it must have adequate power to regulate a rapidly changing market and adequate resources to discharge its functions including its quasi-judicial functions.

The Draft Act addresses these concerns by providing for much broader By Law making powers by the Minister, on the recommendation of the Commission by specifying some 44 areas in which By Laws may be made. In addition, provision has been made for a broad power to make additional By Laws in respect of any matter advisable for carrying out the purposes of the Act, and for the power to make urgent By laws to regulate conditions in the market that require urgent action. Urgent By Laws would be effective for ninety days unless re-issued or replaced by permanent By Laws.

In addition to broadening the Commission's By law making powers, the Act also provides for the appointment of three temporary Commissioners, who would be primarily persons with judicial or other special skills and who would normally be utilised to assist in the discharge of the Commission's quasi-judicial functions, that is, to assist in the hearing of matters related to contraventions of the Act.

Enforcement

The final area of regulatory reform which I will address today relates to the strengthening of the Commission's enforcement powers to the extent necessary to allow it to participate in a global approach to regulation and enforcement that has been made necessary by the ease with which securities and capital could move from market to market, and in order to interdict the movement of illegal money gained from securities fraud or other securities-related crimes.

Consequently the Draft Act provides for the Commission to share information with securities and other regulators at home and abroad. In this regard, the Commission, as a Member of the International Organisation of securities Commissions (IOSCO) is expected to subscribe to a Multilateral Memorandum of Understanding on information sharing to which all members of IOSCO are required to subscribe by January 2010.

The changes and improvements that have been provided in the Draft Act are intended to:

- Establish a quality environment for international actors to participate in the Trinidad and Tobago market through the IFC;
- Preserve the integrity of and confidence in the market and encourage wider participation by domestic and international investors and companies; and
- Maintain the independence and effectiveness of the Commission.

Placing New Securities on the Market

I have gone into some detail about the manner in which we are attempting to ensure a strong and viable market through improving the regulatory framework.

And now we come to our major developmental effort to introduce new securities into the market – an effort that has generated some level of envy from Jamaica. I speak of course of the preparation and publication of a framework for the issue of depositary receipts in Trinidad and Tobago.

I have earlier mentioned that in order for the current market rally to continue and to be sustainable, there also needs to be a continuous flow of new activity reflected by the issue of new securities on the stock exchange. It is also my belief that the trading rules of the Exchange also need to be reviewed and updated to encourage liquidity in the market.

The Commission cannot of course introduce new product or direct the course of development of the Stock Exchange, but we have now provided for the introduction of depositary receipts on to the market and for an environment in which the Exchange could experiment with the introduction of some of the new rules that we think will eventually contribute to the creation of liquidity in the market and to the sustainability of rallies such as the current one.

The Depositary Receipt Programme

Depositary receipts are securities that are issued in domestic markets that are based on other securities, particularly equities and debt securities that have been issued in a foreign jurisdiction. The original – foreign – issuer of equity securities, for example, would typically issue depositary receipts in a market other than its home market in an effort to raise capital

in such markets. Thus, companies including those that are familiar to us such as BP and Mittal, both of which are resident outside of the US, have issued depositary receipts in the US through the New York Stock Exchange. Depositary receipts issued in this manner with the active participation of the original security issuer are called sponsored depositary receipts.

Depositary receipts are also issued where interest exists for domestic investors in acquiring shares or interests in foreign companies, even where the foreign company is not desirous of trading in the domestic market. Such unsponsored depositary receipts are created and issued by domestic market actors and are traded domestically.

The Commission is of the strong view that sufficient market interest exists or will emerge for depositary receipts issued in Trinidad and Tobago that are based on the shares of important energy based companies operating in Trinidad and Tobago such as BP, BG, BHP Billiton and Mittal. The issue of depositary receipts in such companies would allow the average Trinidad and Tobago investor, many of whom do not have the capacity or resources to access these shares in metropolitan markets, an opportunity that we think will be most welcome to participate and share in some way in the fortunes of these companies and of Trinidad and Tobago.

Although we had contemplated recommending the introduction of depositary receipts as a mechanism through which Mittal could discharge its obligation to issue shares to its employees, it was the RBC/RBTT transaction that provided the opportunity for the Commission to actively and aggressively prepare a legal framework for the introduction of these new securities. In our view, the RBC/RBTT transaction could not be allowed to result in the substantial reduction of securities and of value available on the stock exchange and we therefore strongly encouraged RBC to replace that value on the Exchange. The result was an agreement by RBC to issue depositary receipts based on the shares of RBC and traded as domestic securities on the Trinidad and Tobago Stock Exchange once the primary transaction has been completed.

While RBC is the first institution that has indicated its willingness to issue **Sponsored** depositary receipts other foreign companies are much further away in terms of their policy positions from doing the same. As a result, the Commission has also provided in the legal

framework for the issue of unsponsored depositary receipts in any number of foreign shares. We have set minimum criteria in terms of the values of and trading liquidity in the securities of companies that may qualify for the issue of DRs. We have defined, at least initially, that such companies must be listed on a recognized exchange and regulated by the securities regulators in the US, Canada or the UK.

In developing the policy framework for this new security the Commission has also made recommendations to the Stock Exchange on changes in the trading rules that we believe are important to facilitate and encourage active trading and liquidity in DRs and which we believe would, if applied to the domestic market, have similar positive impacts on the trading of domestic shares on the Exchange.

We believe that the framework and policy recommendations that we have made provide for new activity and for new rules that can help in the revival of and maintain sustained activity in the stock market. It is our understanding that other initiatives are being taken to issue additional new securities in the market including, as reported in the press, the possible partial divestment of First Citizens Bank.

We believe that people such as the members of this Chamber who represent such an important part of the entrepreneurial and investment potential of the country have a very significant role to play in creating, developing and sustaining our capital markets. We look forward to your active participation in these new initiatives in the market. For our part, we at the Commission remain committed to assuring that you are presented with a fair and transparent market, supported by our willingness to enforce the rules of the game. The rest is up to you.

I thank you.