Trinidad and Tobago Securities and Exchange Commission

Remarks at the UTC Investment Conference 2011 Regulators Round Table Session

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Address by the Chairman- Ms. Deborah Thomas-Felix
Hyatt Regency Trinidad

ADDRESS

According to World Bank Reports, before the financial crisis of 2007-2009 an estimated One hundred and Fifty million new customers for financial services were added to the global economy each year. Although this rate has slowed post crisis, the number of financial customers continues to grow. Hence the role and function of the capital market and the need for customer protection and strengthened regulation for the long term stability of the global financial system is critical.

It is widely accepted that a well developed and efficient capital market is a necessary condition for economic growth. The capital market in Trinidad and Tobago is relatively small compared to markets in developed countries. It is comprised of equities, mutual funds, fixed income securities and derivatives type instruments. The value of securities in issue stood at approximately TT$236 billion at the end of August 2011. To put this in context the value of securities outstanding measured over three times the value of deposits held by commercial banks and represented 182 % GDP, in effect therefore the capital market is much larger than our commercial banking sector.

/ Capital markets are

Capital markets are by their very nature quite volatile. The financial crisis and the current volatility of the US and European stock markets have underscored the need for transparency, confidence and effective regulation of markets. The many reasons given for the crisis have been well documented such as:

- **Poor underwriting standards in the US subprime mortgage sector**
- **Shortcomings in firms' risk management practices**
- **Poor investor due diligence**
- **Poor performance by the credit rating agencies in respect of structured credit products**
- **Incentive distortions**
- **Weaknesses in disclosure and**
- **Lax Regulation …….among others**

What is undeniable and this has been acutely highlighted by the recent financial crisis is that markets are globally linked, and it is for this reason a crisis which started in the US has affected all of us. Equally, the regulatory infrastructure of a country impacts its financial stability and by extension, its capacity to attract investment.

Whilst we can spend hours discussing the reasons for the crisis, it is important to note, however, that since the crisis the following is evident:

- There is a distinct lack of business confidence – as indicated by the continued decline in business lending;
- There exists an uncertain international outlook;
- There is an inadequate investor base, particularly for the equity market – it appears that the domestic investor isn't sufficiently knowledgeable about the stock market and its benefits.

What we cannot deny however is that the role of the regulator is more relevant today than ever before and that regulators continue to face many challenges post crisis. I want to highlight a few key challenges; the first is in the area of resources. To be effective as regulators in this globalised world, not only do we need to be knowledgeable about new and complex structured products, but we should be provided with the much needed resources in terms of human capital and financial resources to conduct effective surveillance and monitoring of the market.

/ Financial innovation continues

Financial innovation continues to occur at a rapid pace and regulators are under tremendous pressure to keep up with these innovations. If regulators are to be effective they must have experienced human capital and adequate financial resources.

Regulatory bodies across the globe have generally been funded by the public purse and consequently have always competed, albeit unsuccessfully, for the best talent in the world of finance.

Commissions such as the SEC must continue to be staffed with experienced and well qualified experts who are adequately remunerated. One possible solution to the financial resource constraint of the Commission is to amend its regulations to allow all penalties and fines which are collected by the Commission to be retained and used in the operations of the Organisation.

Another challenge is the legislative framework. Regulators globally have recognized and accepted the need to strengthen their legal and regulatory framework to meet advances in technology and the proliferation of new, complex products.

/ They have been

They have been feverishly reviewing and strengthening the legal framework to deal with this reality. The United States, for example, responded to the crisis with legislation in the form of its Dodd Frank Act and many countries including Latin America and the Caribbean have reviewed or are reviewing their current legislation.

Trinidad and Tobago is no different. Our current Securities Industry Act (SIA 1995) is under review and we hope to have a new piece of legislation by next year which is aimed at creating a more effective regime for the protection of investors. The pending legislation, the Securities Bill, when it becomes law will further strengthen the Commission's powers to conduct onsite examinations and will also properly define the offence of insider trading.

There is however the need to harmonize all the legislation in Trinidad and Tobago which deals with finance and the economy. The difficulties created by separate legislation, amended at different times over the years cannot be underestimated. There is also a need for the establishment of a standing committee to review all legislations related to finance on an ongoing basis.

/ A further regulatory

A further regulatory challenge is identifying risks early and managing them well. At the SEC we have been strengthening our prudential oversight of the market with a view to detecting emerging systemic risks and taking the appropriate action to mitigate them. Market integrity and efficiency remain our corner stone. The market is getting more and more sophisticated with technological developments and emerging issues such as direct electronic access, dark pools, high frequency trades and Exchange traded funds and we must ensure that regulation is appropriate and relevant.

An important question is how do these developments affect the core function of markets which is to provide efficient price discovery and an efficient trading platform? I think the key is transparency (pre and post trade), unfettered access to information and market integrity (supported by effective surveillance).

Another area of concern, in my view, is the unregulated sectors of the market; these sectors need be carefully monitored since they may pose systemic risk. We at the SEC have had many instances where we have intervened and examined unregistered products.

/ As you may know

As you may know the Commission has successfully imposed sanctions upon Lawrence Cole, Alpha Investments and others and we are currently actively examining the books of a few market actors to see if there is any unwarranted and unlawful activity.

With the continued emergence of financial pyramids and sophisticated Ponzi schemes, there should be a requirement for the licensing of all entities that contact the public to solicit funds for investment or speculative purposes.

I am not knocking the Sou Sous which have traditionally provided funding for many. I am talking about public solicitations to an indeterminate number of investors. As regulators, we must prevent the distribution of unregistered securities and as a country we should rethink the laws on private placement. Currently a Private placement signals no registration and no regulation. In my view the days for private placements without regulatory oversight are over. While private placement generally speaking targets the sophisticated investor, unfortunately, sophistication is not always measurable and does not guarantee diligence, transparency and integrity.

In my last few minutes I wish to emphasize the need for cross border cooperation among regulators. Trinidad and Tobago has been playing a very active role in this area with our fellow regulators in the region and in the United States of America. We will become Chair of the Caribbean Group of Securities Regulators in November, and we have been working assiduously with regulators in the region to develop a common takeover code for Mergers and Acquisitions in addition to Choice of Law rules. The Code and the rules are in the very final stages of completion.

Regulators need to combine their strengths to carefully monitor and manage risks by information sharing in order to ensure greater efficiency, transparency and integrity in the market.

Ultimately, the burden placed upon regulators globally, is to bring order and sanity back to the table; all for the sake of renewed investor confidence and growth of the economy. While the regulator's prudential oversight of the market may not necessarily prevent the occurrence of another financial crisis it will still go a long way in bolstering confidence and thereby enhancing the stability of the financial system.

Market actors also have a responsibility to conduct their affairs in accordance with the highest ethical standards, in this respect; they should adhere at all times to the code of ethics of the industry.

On behalf of the Commission, I wish to thank the organizers of this conference for the opportunity to contribute to the discourse on “changing your investment mindset”

The TTSEC is receptive to ideas from the industry on tailoring regulation to the realities of the market. I believe that if the industry embraces effective regulation this can lead to a win-win situation for both the industry and the regulator.

Thank you.