

Trinidad and Tobago Securities and Exchange Commission

Opening Remarks
Launch of Repo and AML/CFT Guidelines

April 23rd 2012



Address by Professor Patrick K. Watson, TTSEC Chairman

Belmont Salon, Trinidad Hilton & Conference Centre

Good Morning Ladies and Gentlemen. I am pleased to be here with you this morning for what is my first interaction with you as Chairman of the TTSEC. I wish to assure you of my willingness to work with you to ensure that we build the capital market and ensure that it remains transparent, fair and productive.

I am pleased as well that so many of you accepted our invitation to attend the launch of our Repurchase (Repo) and Anti Money Laundering and Combating the Financing of Terrorism (AML-CFT) guidelines today.

The Trinidad and Tobago Securities and Exchange Commission, as you know, is responsible for creating and promoting conditions for the orderly growth and development of the securities market. The Commission is the designated authority for registering and regulating reporting issuers, self-regulatory organizations and market actors to ensure their compliance with the provisions of the Securities Industry Act 1995 (“the SIA”) and other relevant regulations. In order to carry out this function, section 6(b) of the SIA empowers the Commission to formulate principles for the guidance of the securities industry.

Repo Guidelines

There are a number of benefits of using Repos, which have resulted in their rapid growth locally. Market participants, such as financial institutions, brokerage houses and securities companies have found that Repos are a convenient way to improve their cash flow situations or to source cheap financing. For institutions facing a cash flow shortage, or facing long positions in securities, Repos offer an efficient alternative to liquidation. On the other hand, institutions that are in cash-rich situations, such as money market funds, may find repos particularly attractive as they are a relatively secure investment option that offers enhanced returns. These transactions also lead to greater market liquidity, lower the cost of raising funds for capital market borrowers and, generally, reduce counterparty risks in money market borrowing and lending since collateral is assigned for the transaction.

As we all know, transactions in securities are all subject to various levels of risk but we also know that these risks are likely to be more acute in unregulated environments. Limited regulation, or no regulation at all, may lead to lax internal controls and imprudent practices that could ultimately place investors and market actors at risk.

A Repo is a legal contract, which means that failure to comply with applicable legal provisions may result in civil and, in some cases, criminal sanctions. However, counterparties are not protected against the most significant transactional risk they face, namely counterparty insolvency. A well drafted securities lending agreement, the segregation of collateralised securities and appropriate guidelines may, however, mitigate some of these risks.

In developing these guidelines, the Commission grouped risk into the following areas:

- **Credit Risk** – The risk that an issuer of debt will default on his/her repayment obligations, or the risk of a downgrade of the quality of the collateral.
- **Liquidity Risk** – The risk that the market for the assets becomes too thin to enable fair and efficient trading to take place.
- **Legal Risk** – The risk to earnings on capital arising from unenforceable contracts, lawsuits, adverse judgments or non-conformance with laws, rules and regulations. In instances of default, the process of liquidation or administration may be lengthy.
- **Market Risk** – Risk arising from movement in prices in financial markets, i.e. the uncertainty of the asset price when securities are sold.
- **Operational Risk** – The risk of direct or indirect loss resulting from deficiencies in information systems or internal controls; inadequate or failed internal processes, people and systems; or from external events, leading to unexpected loss.

- **Custody Risk** – The risk of loss of securities held with a custodian, as a result of the Custodian’s insolvency, negligence or fraudulent action.

At this juncture, it is difficult for the Commission to make a definitive assessment of the impact that the introduction of the Repo Guidelines will have on the market. We firmly believe, however, that all repo participants have a common interest in promoting and maintaining the overall stability of the market so that it operates in a sound and orderly manner. To achieve these aims, it is essential that firms and their staff adopt prudent practices, act at all times with integrity and observe the highest standards of market conduct.

AML-CFT Guidelines

The Anti-Money Laundering and the Combating the Financing of Terrorism (AML–CFT) Guidelines were developed to conform to the current domestic legislation and in keeping with international best practice. These guidelines are essential as they establish the measures that must be implemented in order to minimize the threat of becoming a target for money launderers and terrorist financiers. Moreover, these guidelines seek to encompass the various pieces of legislation which the Parliament of Trinidad & Tobago has enacted in order to mitigate the financial and reputational risk of the country.

You are fully aware, I am sure, of the vulnerability of the securities industry to money laundering and to the financing of terrorism, which has serious implications for the sustainability, profitability and reputation of Trinidad and Tobago’s financial markets. Market actors should therefore view compliance with the AML-CFT policies and guidelines as an integral part of their risk management process and not as a stand-alone legislative obligation. Moreover, the nature of money laundering and terrorist financing poses systemic risks which can only be contained through collective action by the industry.

The guidelines outline what the Commission views as the necessary measures that market actors should undertake to minimize the risk of the securities market being targeted by money launderers and financiers of terrorism.

In addition to these guidelines, the Commission has created a supervisory scheme which will allow for practical and proactive regulation and the early detection of suspicious activity. We are not only creating the rules; we are also laying the foundation that will allow us to detect any untoward activity.

The Commission expects, therefore, that all market actors will implement the principles and procedures of these Guidelines.

Conclusion

Recognizing the importance of remaining relevant, and keeping pace with developments within the realm of both Repos and AML-CFT, the Commission shall undertake periodic reviews of its policies and guidelines, and shall continue to consult with other Supervisory Authorities, as well as with market actors, so as to ensure the maintenance of a feasible and effective framework.

Ladies and gentlemen, thank you for your attention.