Trinidad and Tobago Securities and Exchange Commission

Welcome Remarks

Public Consultation on Draft Securities Bill

June 12, 2012

Address by Professor Patrick Watson, TTSEC Chairman

Yara Auditorium, Arthur Lok Jack Graduate School of Business

The ultimate goal of securities regulation is the attainment of an efficient capital market, which in turn serves to improve the allocation of resources in the economy. The optimal allocation of resources assists in the achievement of long term, sustainable economic growth and development, and such development redounds to the benefit of everyone. Sound capital market development is, in turn, facilitated through the development of effective and robust securities market regulation which, ultimately, encourages local and foreign investment, deters capital flight and reduces Trinidad and Tobago's exposure to currency fluctuations, all of which eventually contributes to economic growth and development.

As you may appreciate, regulatory reform is a never ending process as the market being regulated is one that is dynamic: and as situations change, so too must the regulatory framework. The Trinidad and Tobago Securities and Exchange Commission (TTSEC or "the Commission") is governed by the Securities Industries Act of 1995 ("the Act"), which was proclaimed in 1997 when the capital market was much smaller, when the main focus of the Commission was the registration of securities. At that time, 77 market participants were registered as Brokers, Reporting Issuers, Underwriters, Dealers, Traders, Securities Companies, Self Regulatory Organizations and Investment Advisors. The value of the capital market was estimated then to be TT$6.35 billion, or approximately 16% of GDP.

Over the years, however, the market has grown significantly. This increase may be attributed to greater access to the market by investors, a better understanding of the risk and returns of investing in the market and the greater use of the capital market as a source of financing by companies. Over the period 1998-2012, the value of the equity market rose from TT$846 million to TT$94.38 billion; debt securities outstanding rose to TT$67.94 billion from an estimated TT$2 billion; mutual funds grew from TT$4 billion to TT$41.96 billion

and securitized instruments rose from an estimated TT$636 million to TT$50.55 billion.

At the end of the fiscal year 2010/2011, there were 208 market actors and reporting issuers registered with the Commission. As at March 2012, the capital market was estimated at a value of TT$251.4 billion or 175% of GDP (as compared to 16% in 1997). This is an increase of over 3000 percent since the inception of the Commission. A negative shock to the securities market may therefore have a disastrous effect on the health the financial system and, by extension, the entire economy and we have to guard more effectively against such shocks.

The capital market also saw significant institutional development over the period with the introduction of electronic trading on the Stock Exchange in 2005, the change in the opening period of the Stock Exchange from 3 days to 5 days, the launch of the secondary bond market in 2007 as well as the launch of the US Dollar securities market in 2011. Given all these developments, it is no surprise that there is need for a more effective securities regulatory framework to protect the wider financial system and economy as a whole from systemic risks. This need was further underscored in 2008-9 when the global financial system was plunged into crisis as major financial institutions in the developed economies collapsed, triggering a wave of instability in markets worldwide. The effects of that crisis are still being felt in many of the world's financial and other markets.

The crisis, which started in the financial markets of the developed economies, quickly spread to the wider economic systems of both developed and developing countries, resulting in severe loss of wealth and confidence and unanticipated market failures. Governments across the globe launched bailout plans of staggering proportions in an effort to support their economies. However, despite their efforts, there is still danger lurking on the horizon.

We have learnt, as if we needed the lesson, that we do not operate in isolation and that we are all affected by both positive and negative shocks within the global financial system. It became even more evident to us that the creation of a strong and robust capital market cannot be established without reference to the soundness of the reporting mechanisms, the reliability of the regulatory regime within which it operates, the effectiveness of corporate governance in the market as well as the degree of the transparency and fairness in existence.

It is interesting to note that the lack of adequate regulation has been cited as one of the main causes of the financial crisis despite the strong criticisms by eminent persons in the past about 'excessive' pre-crisis levels of regulation.

International bodies, such as the G20, have placed greater emphasis on the promotion of financial regulation that reduces risks and prevents future financial crises. To this end, they have mandated the International Organization of Securities Commission (IOSCO) and the Financial Stability Board (FSB) to develop guidance and standards for their member countries that, *inter alia*:

1. **Promote and improve market transparency, efficiency and integrity;**
2. **Improve investor protection;**
3. **Strengthen the regulation of credit rating agencies and promote the reduction of dependency on ratings and;**
4. **Assist in the regulation of:**
    a. **Commodity markets**
    b. **Over the counter (OTC) derivative markets**
    c. **Shadow Banking**

5. Assists in the supervision of Hedge Funds

Regulators across the globe are in the process of reviewing and re-defining the role of regulation within their financial markets with such guidance from the IOSCO and the FSB. However, long before the financial crisis of 2009, the TTSEC had recognized the changing landscape of the local capital market, as well as the need for stronger, more effective regulation to provide enhanced investor protection and started the process of revising the Act even before that.

A revised Securities Bill (the Securities Bill 2009) was passed in the House of Representatives and was subsequently debated in the Senate, but the Bill lapsed at the conclusion of the term of office of the previous administration. The Bill was re-submitted to Parliament in 2010 but the Commission was advised by the IOSCO, of which the Commission is a Signatory B member, that the Bill was deficient in several areas. These areas included the ability by the regulator to access records of market participants and to share information with other regulators, record-keeping and confidentiality provisions. The Commission then recommended to the Minister of Finance that the Bill be allowed to lapse again so that the deficiencies identified by IOSCO might be addressed in order, among other things, to allow the TTSEC to meet the criteria of becoming a full, signatory A member of the IOSCO Multilateral Memorandum of Understanding (MMoU).

What is this MMoU? IOSCO, as the international umbrella body, provides guidance to securities regulators across the world on international best practice in securities regulation and aims to ensure that its members adopt and maintain high regulatory standards through effective international cooperation, which will ultimately help protect investors and reduce systemic risk. The IOSCO has mandated that all members become full signatories to the IOSCO MMoU, which is now considered to be international best practice in securities regulation.

I am happy to announce, *en passant*, that the TTSEC was recently elected to the interim Board of IOSCO, which means that we have even greater reason to become a signatory A member.

The amended Bill provides the Commission with:

1. **Expanded functions and powers;**
2. **Enhanced disclosure obligations;**
3. **Provisions for greater confidentiality and information sharing with both local and international regulatory agencies;**
4. **Enhanced enforcement capabilities of which includes providing the Commission with the ability to access books, records and documents of market actors; and**
5. **Greater regulatory oversight on market conduct.**

All of these areas will be addressed in detail by the presenters that follow me.

It is our view that the amended Bill meets the IOSCO requirements, which will allow the TTSEC to become a signatory A member, and, in addition, positions Trinidad & Tobago as a Financial Centre where investors, both local and foreign, may access the local capital market with the confidence that the Commission, the Regulator, will have the necessary legislative authority to manage and enforce the rules established in the legislation.

Ladies and gentlemen, be assured that the Commission remains dedicated to the promotion of investor confidence, fairness and the orderly growth of the local capital market. This is primarily achieved through the ongoing development of a regulatory system that is geared towards ensuring a high degree of information dissemination and investor protection as well as building

enforcement capacity to ensure the preservation of market integrity. The Commission will also continue to work with the IOSCO to ensure that our regulatory system meets international best practice. We have been, and will continue to be, guided by a concern for the protection of investors and the maintenance of investor confidence.

This Bill is important to us and to you since an effective regulatory framework redounds to the benefit of us all. Please feel free to voice your opinions and any concerns that you may have regarding the Bill. Your feedback will assist us in crafting a Bill that is effective.

Thank you, ladies and gentlemen, for the courtesy of your time and attention.