

Trinidad and Tobago Securities and Exchange Commission

***Regulation in the Service of Capital Market
Efficiency in Trinidad and Tobago***

June 9, 2012



Address by Professor Patrick Watson, TTSEC Chairman

Hosted by the Institute of Banking and Finance (IBAF)

Introduction

Mrs Andrea Taylor-Hanna, President, IBAF, other IBAF Council members, Mrs Karen Williams-Hall, CEO, IBAF, awardees, graduands, Ladies and Gentlemen.

I bring greetings to you on behalf of the Board of Commissioners of the Trinidad and Tobago Securities and Exchange Commission (TTSEC). I wish, first of all, to thank the Institute of Banking and Finance (IBAF) for its kind invitation to address its graduands, an invitation that we accepted with great pleasure. I also take the opportunity to offer you, the graduands, sincerest congratulations on behalf of the Board of Commissioners of the TTSEC and on my own behalf.

I shall speak today about what the TTSEC is doing to ensure that capital markets in Trinidad & Tobago attain greater efficiency. The efficiency of the capital market is an important issue to emerging economies, such as that of Trinidad & Tobago, as it reflects whether scarce financial resources are being used optimally, which is important to the wider issue of economic development. According to Robinson (2005), it is critical “to have efficient capital markets so as to ensure... the optimal allocation of very scarce resources, otherwise misallocation may occur” and this “may severely retard the developmental process”.

We at the TTSEC believe that a properly functioning capital market redounds to the benefit of all since it plays an important part in this developmental process. The ultimate goal of the TTSEC and, indeed, any securities regulator, is to encourage the growth of an efficient capital market and thereby improve the allocation of resources in the economy, which results in growth and development. The TTSEC is, in particular, focused on promoting informed investor decisions and investor confidence: investors must feel confident that, outside of the normal risks associated with any financial investment (and they are many), there is nothing untoward lurking in the shadows likely to run them into unexpected loss. Without investors, without their confidence, there is no capital market.

In the aftermath of the recent crisis, which had its genesis in the failure of the financial system in the developed economies, regulators worldwide are in the process of assessing and re-defining the role of regulation in capital markets. The focus of the international regulatory community is on new measures to expand the perimeter of regulation to include areas that were previously unregulated or under-regulated. Many jurisdictions have adopted a more aggressive approach to regulation, strengthening their regulatory oversight through the passage of new and revised legislation. This is balanced with the concern, of course, to avoid over-regulation, which is sometimes as bad as no regulation at all since it may have the effect of keeping investors away.

I wish to spend this afternoon speaking to you about what we at the TTSEC have been doing in this regard and, at the same time, seek your buy-in to the process. I note, after all, that the mission of IBAF is to facilitate the continuous development of banking and finance professionals and to promote high standards of knowledge, skills and conduct to meet the demands of a changing financial industry. There must therefore be synergies between our organizations.

As graduands of the IBAF programme, it is critical that you understand the industry in which you are expected to function and the high standard of performance that is expected of you, not only by this organization but more importantly by the investing public whom you will be required to serve and the regulators (like us) who are there to protect their interests.

Mandate of the TTSEC

A key aspect of the mandate of the TTSEC is to foster the orderly development of the securities market in Trinidad and Tobago, a market which, over the years, has increasingly assumed many of the characteristics of the more developed international markets. We therefore address key issues like the disclosure of information, the monitoring of market behaviour and possible unfair trading

practices such as insider trading, price rigging, misrepresentation of information, excessive trading, front running and market manipulation.

You may be aware that, this year, the Commission is celebrating its fifteenth year as the sole regulator of the Securities Industry. When we opened our doors in 1997, our focus was mainly on the registration of new securities issues. However, the securities market in Trinidad and Tobago has grown markedly since that time, with the value of securities registered with the Commission, as a percentage of GDP, growing from TT\$6.35 billion, or approximately 16% of GDP in 1997, to TT\$251 billion or 175% of GDP by March 2012.

This expansion of the capital market will clearly have given rise to an increase in the number and complexity of the demands made on the Commission. I am pleased to state that we have embarked on a much more active role than when we first began regulating the market in 1997 and we no longer consider ourselves to be merely a repository of registration material.

Current Legislative Challenges and Responses

Capital markets today are inextricably linked and we are all affected by adverse occurrences internationally. Most of the world's financial markets were exposed to the ravages of the most recent financial crisis and many are still reeling from its effects. The most telling impact of the crisis was the erosion in investor confidence globally. Interestingly, a lack of adequate regulation was cited as one of the main causes of this crisis, despite the fact, that prior to the crisis, many advocated the need for little or no regulation.

Globally, regulators face the challenge of keeping abreast of constantly changing products, which involves, *inter alia*, acquiring the necessary expertise to deal with the sophisticated forms of market abuse and market manipulation. In Trinidad and Tobago, in particular, we have encountered new challenges for which the existing Act, the Securities Industry Act (1995) makes no provision. To ensure the orderly development and growth of the securities and capital

markets, we must first ensure that there exists an adequate legal framework which provides for the transparent operation of the markets.

The TTSEC has consequently reviewed the existing legislation and has proposed a revised Bill to address specific areas for reform. We have incorporated into our Draft Bill a regulatory system which is forward-looking so that, as regulators, we can readily adapt to market innovations and evaluate potentially new risks to the system.

In our view, the proposed changes to the SIA will give investors and financial institutions, both domestic and foreign, greater confidence in the local financial system, thereby encouraging their entrance and active participation in the domestic market. The Bill has focused on building regulatory capacities to ensure the preservation of market integrity and frameworks for enforcement mechanisms, expanding supervision into previously 'unregulated' markets; strengthening prudential regulation for financial institutions especially those of 'systemic' importance; enhancing disclosure and reporting regimes.

Other Major Initiatives

Legislation is only one facet of an effective financial regulatory system. The Commission views as equally important improving regulatory co-operation and co-ordination locally, regionally and internationally. As a member of the International Organization of Securities Commissions (IOSCO), we are mandated to ensure a regulatory framework that would allow us to co-operate with other Commissions worldwide through the regular exchange of information. 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 lead by example.

In addition to the role it plays in the IOSCO, the TTSEC works alongside its regional counterparts to develop the Caribbean Exchanges Network ("CXN"), which is a market integration initiative of the Stock Exchanges and Central Depositories of Barbados, Jamaica and Trinidad and Tobago (the Exchanges

and Depositories). The CXN agreement is regarded as a strategic alliance between the Exchanges and Depositories and essentially enables any eligible broker doing business in any Caribbean territory to access the trading network of the respective Exchanges/Depositories for the purpose of trading in securities on behalf of any resident of the broker's home territory.

The Commission is committed to working with its counterparts elsewhere and has adopted international standards as it strives to address such issues as money laundering and the financing of terrorism within a cohesive regulatory framework. To this end we have partnered locally with the Financial Intelligence Unit (FIU) and have developed and recently launched AML-CFT guidelines which govern the functioning of market intermediaries. Compliance programmes are being approved by the FIU in collaboration with the CBTT and the TTSEC.

The Commission continues to have investigations and enforcement as strategic initiatives as it continues to fulfill its mandate under Section 5 (e) of the Securities Industry Act (1995) to ensure the orderly growth and development of the capital market. To this end, the Commission remains resolute in its commitment to the taking of enforcement action against Reporting Issuers who contravene the Act and who fail in their obligations under the Act.

A very special initiative of the TTSEC is its investor education thrust which seeks to promote informed investor decisions and investor confidence. It is aimed specifically at new investors although it also addresses issues faced by existing investors. It recognizes that certain industries within the financial sector are under-utilized by the retail investor, that is, the ordinary "man in the street" (the stock market is one such area) and that the retail investor can make a significant contribution to the development of the financial sector if he/she is actively encouraged to participate in the market as a means of potentially generating wealth.

This investor education thrust focuses on:

- **Giving investors a better understanding of the operations of the nation's securities markets;**
- **Explaining to investors the role of the TTSEC in regulating those markets;**
- **Informing them of the role of the intermediaries who act on their behalf in the market; and**
- **Providing information designed to help them to make informed financial decisions.**

Our investor education programme targets the private/public sector, professional groups, NGOs/CBOs and educational institutions, has an overall goal of informing, educating and empowering investors so that they can ultimately make wise investment decisions, know their rights and responsibilities and be able to recognize a scam. We hope that we can collaborate on future investor education initiatives with the IBAF.

In Summary

A regulatory framework in the service of the efficiency of capital markets is made up of many components that ensure:

- **Financial intermediation that delivers products better geared to satisfy the needs of investors and businesses;**
- **A financial system that is competitive, promoting both innovation and efficiency;**
- **Full disclosure, accountability and corporate governance from market participants ;**
- **Prevention of inefficient regulation of financial institutions;**

- **Avoidance of excessive regulation and supervision;**
- **Accommodating socially useful financial innovations;**
- **Better understanding and oversight of risks in the financial sector and greater transparency of institutions.**

The market itself should play a role in achieving the objectives of regulation. Regulators can influence the direction of the financial system by providing rules and standards to which market participants should adhere. Market participants, in turn, can build the financial system in general and, more specifically, structure their operations and conduct their business using these rules as appropriate guidelines. Enforcement can further provide firms with the motivation to implement sound business practices that ensure their clients are treated fairly and honestly.

It would help very much if market participants take ownership of the regulatory measures put in place by the regulator: this will play an important part in the successful implementation of the rules. In this regard, the regulator and the market must work together to ensure that the rules are not onerous and that they remain relevant to the specific needs of the market. The challenge, therefore, is to strike a pleasant balance between financial openness that supports and encourages growth and enhances innovation while at the same time implementing regulations and effective supervision that limit the potential risk of financial instability.

In a well regulated market, disclosure is important as investors are informed about their options and choices. A code of conduct can ensure that an investor is treated fairly and honestly. Effective regulation helps to broaden the investor base. A well regulated system promotes confidence and therefore encourages investment. Investor education programmes give potential investors, especially the retail investor, the knowledge to invest.

It is important to note and remember that effective regulation encourages foreign investment and deters capital flight, as domestic investors are encouraged to invest locally. The development of financial markets, a result of a properly functioning regulatory system, would also help reduce TT's exposure to currency fluctuations and allow for financial diversification. Effective regulation also provides a financial safety net that can prevent, or at the least minimize, the impact of failure in one area of the system.

Ladies and gentlemen, in closing I would like to invite all of you and, indeed, your entire membership to participate in our public consultations on the Draft Securities Bill which will be taking place on June 12th at the Arthur Lok Jack Graduate School of Business from 8.30 am to 11 am. Contact our offices to secure a place at the event so that you can understand the changes being sought in relation to the existing Securities Act and what it means to you and the way you do business.

Thank you for the courtesy of your attention.

Reference

Robinson J. 2005. Stock Price Behaviour in Emerging Markets: Tests for Weak Form Market Efficiency in the Jamaican Stock Exchange. *Social and Economic Studies*. 54(2): 51-69.