MINISTRY OF FINANCE AND THE ECONOMY

Government of the Republic of Trinidad and Tobago

Minister's Speech for Council of Securities Regulators of the Americas (COSRA) meeting

October 29-30, 2012

The Changing Landscape of Regulation: Embracing the Global Dynamic

Opening remarks

Thank you very much Master of Ceremonies, Ms. Jessie-May Ventour for that warm introduction

Salutations

Professor Patrick Watson,
Chairman of the Trinidad & Tobago Securities & Exchange Commission (TTSEC)

Mr. Fernando Coloma Correa,
Chairman of the Council of Securities Regulators of the Americas (COSRA)

Mr. Tajinder Singh, Deputy Secretary General
International Organisation of Securities Commissions (IOSCO)

Mr. Jwala Rambarran,
Governor of the Central Bank of Trinidad & Tobago (CBTT)
Other distinguished guests

Members of the media
Ladies and Gentlemen,
Good morning.

Let me first begin by congratulating Mr. Fernando Coloma Correa on his election as the new Chair of the Council of Securities Regulators of the Americas (COSRA). Secondly, to the Trinidad and Tobago Securities Exchange Commission, thank you for organising, what I consider a most timely conference, against a background of significant impending changes in the securities market in Trinidad and Tobago. I don't know how many of you are aware that the Trinidad and Tobago Securities and Exchange Commission was elected as the third representative of the Inter-American Regional Committee of the International Organisation of Securities Commissions (IOSCO) for the period 2012-2014. Congratulations to you, as well. Undoubtedly, this conference is well within your role to work closely with the newly elected Chair of COSRA to bring to the Board of IOSCO, the interests, needs and opinions of the Region on the performance of the securities market.

The International Context

The global financial crisis of 2008/09 will forever change the field of regulation. The actions of a few have never threatened the financial welfare of so many as during the 2008/09 financial crisis.

The International Monetary Fund (IMF), in its most recent forecast, published at the beginning of October 2012, anticipated that growth in world output will fall from 3.9 percent in 2011 to 3.3 percent in 2012. As expressed by Ministers at the recently concluded Meeting of the Inter-Governmental Group of 24 on International Monetary Affairs and Development, this low growth reflects instability in financial markets, fiscal adjustments and deleveraging by banks, leaving in its wake, adverse affects on the economies of many emerging market and developing countries (EMDCs). Added to the mix, the flow of capital to EMDCs has become more erratic.

The International community reiterates, that one of the immediate and concerted actions needed to boost global growth is the repair of financial sectors, particularly in the major financial centres of the world. Ladies and Gentlemen, the steps taken to enhance securities / financial regulation by financial regulators across the globe in particular the Euro area are encouraging and have been essential is addressing the vulnerabilities of the financial system—and have been essential in addressing investors' biggest fears. However, what is urgently required is faster and rigorous implementation.

What are the recent steps taken by Euro leaders? One such step is the promotion of measures to address the sovereign-banking nexus. In addition, the European Central Bank (ECB) announced an Outright Monetary Transaction (OMTs) programme. This is intended to serve as a replacement for the Securities Market Programme (SMP) which is expected, among other impacts, to have greater credibility, ease periphery bank liquidity and capital concerns and create a potential reduction in sovereign bond volatility.

As the financial crisis has clearly demonstrated, we, in the Caribbean, are not isolated economies and I have deliberately drawn reference from financial reform taking place in the Euro Area, as emerging markets need to strengthen their regulatory framework to guard against potential further shockwaves, while managing a slowdown in growth that could expose home-grown financial stability risks. We, as Policymakers, are well advised to deftly navigate country-specific challenges to safeguard financial stability.

Regional Context

Regionally, we have our own challenges. As you may be aware, the United States enacted the Foreign Account Tax Compliance Act (FATCA), as part of the Hiring Incentive to Restore Employment ("HIRE") Act. The aim of the FATCA is to increase transparency for its Inland Revenue Service with respect to US residents who may be investing and earning income through non-US financial institutions. The Act is primarily aimed at U.S. residents and entities who minimize the payment of taxes, through the use of offshore accounts. The challenge, Ladies and gentlemen, is that FATCA introduces, what I would describe as onerous reporting requirements on our financial institutions (FFIs) as well as non-financial foreign entities ("NFFE") and will enforce a withholding tax where the desired documentation and reporting requirements are not met. Our financial institutions expect the Act to impact their processes and operations, customer service and technological systems. I am aware that some attempt is being made to address this issue through the establishment of a Regional Task Force. It is therefore my hope that we can mobilize our regional machinery and speak with one voice to resolve challenges such as this.

Over the next two days it is expected that the member states of the Association of Caribbean Securities Regulators (CGSR) will identify specific measures which will be implemented to address the challenges which the region faces regarding the securities market, in particular the challenges faced in the harmonization of legislation among member states. If we can reach consensus or at least make some headway in resolving outstanding issues at this forum, the region will be better prepared to make representation at the wider regional and international level.

The Domestic State of Play – Interventions into the Regulatory Framework

Ladies and gentlemen, on the domestic front, reform of the current regulatory framework for financial supervision is a priority for the Government. Legislative and regulatory reforms are envisioned for the insurance sector, the credit union sector, occupational pension plan, the securities industry and the mutual fund industry. Other priorities pertain to the strengthening of the current institutional, supervisory and enforcement capacity of our regulatory institutions, in the areas of:

i. Anti-Money Laundering and Combating of Terrorist financing;
ii. implementation of procedures for the collection of administrative fines and the recovery of supervisory costs by the Central Bank of Trinidad and Tobago;
iii. financial disclosure; and
iv. introduction of risk-based capital requirements and an actuarial valuation methodology for insurance companies.

The securities market in Trinidad and Tobago comprised 213 market participants as at the end of July 2012. These market participants cover the functions of Brokers, Reporting Issuers, Underwriters, Dealers, Traders, Securities Companies, Self-Regulatory Organizations and Investment Advisors. This is in stark contrast to the 77 market participants registered in 1997 when the Securities Industries Act of 1995 was first proclaimed. At that time the capital market's value was estimated to be TT$6.35 billion or approximately 16 percent of GDP. As at September 2012, the securities market was estimated to be valued TT$259 billion or 167 percent of GDP. In spite of this growth, we still have a long way to go in developing our capital market. For the nine (9) months to September 30 of this year, only four (4) corporate issues were registered with the SEC, amounting to $563 million. Of these one was a US dollar issue. What is striking is that there were no trades in the secondary corporate market for the nine months. In the case of Government bonds, the picture is somewhat better, with 68 trades taking place in the secondary market representing a value of $965 million. This was a significant improvement over the previous year when there were only 30 trades at a value of $ 127 million.

Government is preparing legislation aimed at strengthening the regulatory and supervisory regime in accordance with international best practice as developed by the International Organization of Securities Commissions (IOSCO).

The proposed legislation will be laid in the Parliament, this week and is intended to replace the existing Securities Industry Act, 1995. As the Chairman of the SEC has described, the purpose of the Securities Bill 2012 includes strengthening protection for investors from unfair, improper or fraudulent practices; fostering fair and efficient capital markets, promoting confidence in the securities industry in Trinidad and Tobago and reducing systemic risk. This Bill seeks to address deficiencies in the previous Bill relating to regulator access to records of market participants, sharing information with other regulators, record-keeping and confidentiality provisions.
Failure to enact this Bill into law this year will result in Trinidad and Tobago being blacklisted by IOSCO.

We cannot afford to find ourselves in such a situation in which we are unable to comply with these international standards, as the consequence for our securities market in such an event would indeed be dire.

The Expectation of a Strong Regulatory Environment for Securities

Ladies and gentlemen, in a strong regulatory environment, the securities market will provide channels for reallocation of savings and investments, and a linkage between the savings and the preferred investments across listed companies.
The securities market will enable all individuals to share in the increased wealth created by competitive enterprises. A well regulated securities market will allow individual investors who lack the wherewithal to start and manage an enterprise either because of insufficient resources or entrepreneurial ability or both, to invest in the stock of a listed enterprise.

A well regulated securities market will facilitate the internationalisation of an economy by linking it with the rest of the world in the form of inflow of capital for portfolio investment. Moreover, a strong domestic stock market performance forms the basis for good performing domestic corporate entities to raise capital in the international market. In so doing, the domestic economy opens up to international competition pressures, thus enhancing efficiency. We also anticipate that a well regulated domestic securities market will deter capital outflow by providing attractive investment opportunities within our domestic economy.

State of Play in the Domestic Securities Market

Turning to the stock exchange and taking a look at a few statistics on the performance of domestic equities we see it has not been buoyant as in the recent past. The market enjoyed a favourable run throughout 2011 but has not sustained this momentum thus far into 2012. Between October 2011 and June 2012, the Composite Price Index (CPI) increased by a meagre 3.3 percent, compared with an increase of 15.6 percent in the same period last year. This probably reflects the completion of the reallocation of portfolios by investors which eliminated the arbitrage opportunities between the dividend yield on stocks and rate the return on money market mutual funds. Moving in tandem with the change in the CPI, stock market capitalization rose to $97.8 billion at the end of September 2012, up from $92.3 billion at October 2011. The volume of shares traded between October 2011 and June 2012 declined by 22.2 percent to 45.6 million shares traded with a market value of $491.7 million, as compared to 58.6 million shares traded at a market value of $733.9 million during the same period a year earlier.

In the six months to March 2012, activity in the primary bond market seems to be recovering with a total of nine bonds issued, carrying a collective face value of $2.8 billion, compared with only three issues with a collective face value of $2.6 billion in the same period a year earlier. This period was characterised by a low interest rate environment, which encouraged borrowers to secure long-term funding at fixed rates, which is reflected in the fact that seven of the nine bonds issued carried maturities of 10 years or more and were all fixed rate securities.

How Do We Dynamize The Local Securities Industry

Ladies and gentlemen, our stock exchange is ripe for an injection of fresh investments and the Government of Trinidad and Tobago is intent on breathing new life into the securities industry.

In our recent 2013 Budget Statement, we signalled our intent to add some dynamism to the domestic securities market by listing three (3) state owned securities. These three new Initial Public Offers or IPOs would feature First Citizens Bank Limited (FCB); the Trinidad and Tobago Home Mortgage Bank (TTMB) - which will be amalgamation of Trinidad and Tobago Mortgage Finance Company and the Home Mortgage Bank; and the CLICO Investment Fund comprising Republic Bank Limited shares.

In bringing the CLICO matter to an end, 25,115 Short-Term Investment Products (STIPs) holders, which comprise individual and corporate investors, accounting for $10.268 billion have accepted the Government's settlement offer. Government intends to launch the CLICO Investment Fund in the next few days and on January 2, 2012 trading will begin on the Trinidad and Tobago Stock Exchange for the units of those persons who exchanged their 11-20 year bonds for units in the CLICO Investment Fund.

Investors would now have an opportunity to participate in the share ownership of the IPOs of First Citizens, and the Trinidad and Tobago Home Mortgage Bank and the CLICO Investment Fund.

Ladies and gentlemen, the listing of these two state companies and the CLICO Investment Fund on the domestic exchange is in accordance with one of the stated objectives of the COSRA, which speaks to the implementation of regulatory, legal and structural reforms to facilitate broad-based participation in the securities markets, and where appropriate, to provide a means for wider ownership by the people of state-owned business in the Americas.

Despite our capacity problems such as the thinness of the number of listed companies, and the low volume of trades over certain periods, Trinidad and Tobago was the fifth (5th) best performing exchange globally for 2011 as indicated by the Business Insider website. The TTSE was among the 11 exchanges worldwide to end the year in positive territory. This is a significant achievement for a small developing economy and a source of motivation for us to strive to do even better.

Prospects/outlook for the local industry in the medium to long term

With a facilitative regulatory environment, additions to the number of companies listed on the domestic stock exchange and the necessary level of skill and IT infrastructure in place, the Government expects the domestic securities market to perform its prime functions of allocating risk and providing access to financial capital for local and regional firms in a more effective manner. This will greatly assist our economic growth by creating incentives to stimulate investment in Trinidad and Tobago.

Conclusion

Finally it should be noted that in modern day economies the financial sector is at the heart of the economic system providing the lifeblood to the millions of transactions that occurs daily. A healthy financial sector is indicative of a healthy economy and *vice-versa*. The ideal situation in such economies and indeed ours, is for the State to play a facilitative role by providing an enabling environment and proper regulation, and the private sector to go about their business of starting, running and making the necessary decisions for the survival and success of their enterprises.

When there is market failure and this failure is systemic the regulator is seen in a negative light and blamed for not doing enough to prevent or stop an impending financial crisis. The global financial crisis has taught us much in this respect. On the other side of the coin, when the regulator is too stringent and rigorous in terms of reporting and other requirements, it is seen as suffocating free enterprise and an obstruction to progress. Regulation is an art that requires astute management to achieve its objectives.

In closing I would say that market regulation is a balancing act between too little a regulatory environment and too tight a regulatory environment. To borrow an analogy from nature, regulating a securities market is akin to holding a bird in one's hand, hold it too loosely and it escapes, hold it too tightly and it suffocates and dies.

Ladies and gentlemen, I wish you fruitful deliberations in your two days of discourse and I thank you.