TRINIDAD AND TOBAGO
SECURITIES AND EXCHANGE COMMISSION

Development of the Securities Market in Trinidad and Tobago, 1997 to 2003, with Prospects for the Future

Prepared by: Research Division
Trinidad and Tobago Securities and Exchange Commission

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As a caveat the reader should note that the administrative data from secondary sources was extensively used in the preparation of the report. Therefore, the data should be read with an understanding of the limitations of such a data set.

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ABBREVIATIONS

BDS:	Barbados Dollars
CARICOM:	Caribbean Community
CariCRIS:	Caribbean Credit Rating Information Service
CBTT:	Central Bank of Trinidad and Tobago
CISs:	Collective Investment Schemes
EC:	Eastern Caribbean Dollar
EPS	Earnings Per Share
ESOPs	Employee Stock Options
GBP:	Great British Pound
GDP:	Gross Domestic Product
GORTT	Government of the Republic of Trinidad and Tobago
HPR:	Holding Period Return
IOSCO	International Organisation of Securities Commissions
IPO:	Initial Public Offering
JMD:	Jamaican Dollar
Mn.	Million
NBFS:	Non Banking Financial Sector
NEL	National Enterprises Limited
NFM	National Flour Mills Limited
QIC:	Qualifying Investee Company
SIA (1981):	Securities Industry Act of 1981
SIA (1995):	Securities Industry Act of 1995
SOPs	Stock Options
SRO:	Self Regulatory Organisation
TPL	Trinidad Publishers Limited
TTCD:	Trinidad and Tobago Central Depository
TTD:	Trinidad and Tobago Dollar
TTSE:	Trinidad and Tobago Stock Exchange

ABBREVIATIONS (continued)

TTSEC:	Trinidad and Tobago Securities and Exchange Commission
USD:	United States Dollar
USSEC:	United States Securities and Exchange Commission
UTC:	Unit Trust Corporation of Trinidad and Tobago Limited
VCC:	Venture Capital Company
VCIP:	Venture Capital Incentive Programme
w.e.f.:	With effect from

1.0 EXECUTIVE SUMMARY

This report on the securities market was commissioned by the Trinidad and Tobago Securities and Exchange Commission in 2003 and covers the period 1997 to 2003. Its main objective was to assess the growth and trends of the securities market of Trinidad and Tobago. The report comprises the following eight components:

1. A comparison of the Trinidad and Tobago securities market and selected regional markets to selected extra-regional markets
2. A historical review of the securities market of Trinidad and Tobago – post independence period
3. A review of the current economic and institutional structures of the securities market [1]
4. A review of the size and structure of the securities market of Trinidad and Tobago
5. An analysis of the structure of debt and equity in Trinidad and Tobago corporations
6. A review of the TTSEC and its impact on the market place
7. A summary of impediments to market development, and
8. An overview of future trends in the securities market

1.1 *TRINIDAD AND TOBAGO SECURITIES MARKET – AN INTERNATIONAL CONTEXT*

This review of the performance and state of development of the Trinidad and Tobago securities market, in an international context, was conducted using data from the major stock exchanges of selected countries as a reference for comparison. Over the period 1997 to 2003 the exchanges of Trinidad and Tobago, and the other regional exchanges of Barbados and Jamaica, outperformed the exchanges of the major developed markets of the United States of America (USA) and the United Kingdom (UK). Moreover, the

[1] For the purposes of this report, the term *economic structures* refers to the mechanisms for trade and pricing, while *institutional structures* refers to the market participants and their inter-relations.

regional exchanges also outperformed the principal exchanges of the major emerging markets of Singapore, Argentina, and Norway. This is observed when analysed from the concepts of Holding Period Return (HPR) and market capitalisation. The HPR measures the average return on an index over a period of time, usually annually. During the period of review the principal exchange of Trinidad and Tobago had an average Holding Period Return (HPR) of 11.26% per annum.[2] The HPR on the composite price index of the principal exchange in Singapore had an average return of 10.17% per annum, with the average HPR from the principal exchanges of the USA and the UK being 2.91% per annum and -2.26% per annum respectively during the period.

The exchanges in the Caribbean region had even higher percentage changes in market capitalisation. For example, the market capitalisation of Trinidad and Tobago's principal exchange grew by 246% during the review period, while the major exchanges of the USA and the UK had overall percentage increases of 31% and 8%, and Singapore had an overall decrease of 41%.

Notwithstanding this performance, other comparative indicators revealed that the Trinidad and Tobago market, as well as the other selected Caribbean markets, lacked depth and breadth. In other words, in these markets' exchanges, there was a limited range of product offerings and the stock markets were highly illiquid. Even when we compare the domestic market capitalisation of the exchanges to GDP ratios, it was clear that the stock markets of Trinidad and Tobago and the Caribbean region were relatively insignificant when compared with the performance of the respective national economies.

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[2] The Holding Period Returns are used to calculate the average return on the relevant index over a one-year period. For our purposes the calculation used assumes that the return is over the average value of the stock index, thus the formula is $\{[(y_1 - y_o)/ ((y_o + y_1)/2)] \times 100\}$, where y_0 is the value of the index at the beginning of year and y_1 is the index value at the end of the year.

1.2 *BRIEF HISTORY OF THE TRINIDAD AND TOBAGO SECURITIES MARKET*

Most of the major institutional developments in the Trinidad and Tobago market have occurred within the last twenty years. These developments included the establishment of the regulatory framework through the Securities Industry Act of 1981 (SIA (1981)) and the Securities Industry Act of 1995 (SIA (1995)). This regulatory framework established the country's major Self Regulatory Organisation (SRO), the Trinidad and Tobago Stock Exchange (TTSE) in 1981, and the industry's regulator, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) in 1995.

Within the last five years there was an increase in the variety of product offerings providing more hybrids of debt and equity issues, with more creativity in the debt issues than the equity issues. And there were also indicators that cross border transactions in both the debt and equity markets were playing a greater role in the widening and deepening of the market offerings.

1.3 *THE TRINIDAD AND TOBAGO SECURITIES MARKET: VALUE AND TYPE OF ISSUES*

Over the period 1997 to 2003 $53 billion in debt securities and $2.8 billion in new equity capital issues were transacted on the market, while Collective Investment Schemes funds under management increased from $3.2 billion in 1997 to $20 billion in 2003.

Among the new equity capital issues, Rights Issues were the major vehicle used to access new equity capital, raising 67% of the new equity capital. The major issuers were the Commercial Banking sector, which accounted for 69% of the Rights Issues on the market.

In the debt securities market, bonds were the predominant form of security raising $26.3 billion, or 49.6% of the total capital raised by debt securities. The major issuers of bonds were governmental organisations, with the manufacturing sector being the main non-governmental issuer of bonds.

1.4 *Impact of the Trinidad and Tobago Securities Commission: Views of the Market Participants*

In assessing the impact of the TTSEC on the regulation of the market we interviewed 23 market actors on the following issues:

1. the effectiveness of regulations against unfair trading practices;
2. the level of effectiveness of the regulation of SROs;
3. the prevalence of unregistered market actors within the securities market; and
4. the effectiveness of the Commission's investor education programme.

In summary, our findings from the survey were that 43.5% of the respondents thought that unfair trading practices were prevalent in the market place; 34.8% were not satisfied with the performance of the SROs; and 39.1% believed that the TTSEC should enhance its investor education and public relations programmes.

Generally, the market actors found that the TTSEC was an ineffective regulator in the four dimensions of performance that were assessed.

1.5 *Hindrances to Market Development*

Based on the views of the market participants the following were the major issues cited as constraints to the development of the securities market:

1. inefficiency of the trading systems;
2. inability of the TTSEC to regulate the market;

3. low level of investor education;
4. lack of market depth and width *(amount and variety of securities)*;
5. inconsistency of financial reporting;
6. combative TTSEC/TTSE relations;
7. entrepreneurs who fear dilution of ownership as related to issuing their companies' shares on the market;
8. limited number of market makers; and
9. high transaction costs.

The most frequently referred to constraints were the following:

1. inefficiency of the trading system;
2. inability of the TTSEC to regulate the market; and
3. low level of investor education.

1.6 *RECOMMENDATIONS*

Given the findings of the report, we present recommendations on policy issues and suggested areas for future research. The major policy issues we addressed related to the need for improvement in the regulation of non-domiciled issuers, derivative instruments, and collective investment schemes. The specific policy recommendations are as follows:

1. Regulation of non-domiciled issuers:
   Given the apparent increasing internationalisation of the Trinidad and Tobago securities market, it is vitally important that the TTSEC seeks to clarify matters relating to Reporting Issuers that are not domiciled in Trinidad and Tobago. The proposed amendments to the SIA (1995) suggest that foreign issuers from approved jurisdictions that have disclosure and reporting requirements that are equal to or superior to that of the TTSEC will be exempted from certain registration requirements.

2. Regulation of the Derivative Instruments

   The credit/debt derivatives sector of the market has shown signs of growth. It is therefore imperative that the rules related to this sector be improved to ensure effective monitoring, disclosure and regulation of the sector.

3. Regulation of Collective Investment Schemes

   The Collective Investments Schemes have garnered a substantial amount of funds over the period 1997 to 2003. It is necessary that greater research be carried out in this sector and that regulation considers matters such as fund management practices, fund structures, cross border transactions, fund nomenclature and disclosure requirements.

4. Development of the securities market

   There is room for development of the Trinidad and Tobago securities market. To remedy the situation the following is recommended:

   a. efforts should be made to bring the major economic activity of the country – the energy sector – into the securities market; and
   b. efforts should be made to introduce trading of debt and debt-equivalent issues on the Trinidad and Tobago Stock Exchange or alternative trading floor.

We also recommend the need for research to clarify those issues relating to the structure and practices of the various sectors of the securities market. Specifically, it was suggested that there was an immediate need for a survey of the CIS's market and a review of the performance of the TTSE as an SRO.

2.0 INTRODUCTION

Since the establishment of the Trinidad and Tobago Securities and Exchange Commission (TTSEC) in 1997, the capital market in Trinidad and Tobago has experienced substantial growth and expansion. At the same time, however, the market has witnessed a number of allegedly improper and perhaps illegal activities that may have the potential to impair its integrity.

Both the growth of the market and the occurrence of potentially inappropriate activities represent significant challenges for the TTSEC. The question arises as to whether the TTSEC has the capacity, powers of surveillance and enforcement, which are adequate to ensure the integrity and viability of the market. It is imperative that the TTSEC review its role and performance with the view of ensuring that it carries out its legitimate mandate as stated in the SIA (1995).

An important ingredient in facilitating such a review of the Commission's role is the need for a thorough understanding of the market and its development over the past six years. To this end, on May 2, 2003, the Chairman of the TTSEC commissioned its Research Division to carry out a comprehensive study on the domestic capital market. The specific terms of reference for the study were as follows:

(a) To review all Capital and Securities issues marketed in Trinidad and Tobago over the period 1997–2003, including:

- types and values of issues;
- identification and classification of issues;
- identification of issues subject to regulation by the SEC and those not so subject;
- issues initiated on the Stock Exchange;
- domestic and foreign issues marketed.

(b) The study also sought to:

- analyse the purpose for which issues have been marketed;
- analyse the extent to which trading on the Stock Exchange represents the raising of new capital in Trinidad and Tobago;
- analyse the structure of debt and equity in the corporations and businesses of Trinidad and Tobago;
- analyse the impact of the TTSEC on the regulation of the securities market in Trinidad and Tobago;
- identify future trends in capital market expansion and growth and the requirements for regulation and surveillance;
- identify major impediments to the development of the market; and
- recommend general policies that may be needed for the regulation and development of the Trinidad and Tobago securities market.

To assist with this project, two Research Assistants and one Clerical Assistant were hired by the Commission. Data gathering and analysis began in February 2004 and culminated in the following report.

The reader must note that the research methodologies employed were at the primary and secondary levels. At the primary level, data collection involved the use of exploratory research techniques, such as open-ended questions and informal interview sessions with the various market participants. At the secondary level, the sources of data were, in the main, administrative data such as financial reports, registers, annual reports, and statistical digests of the various market makers, trade associations, and regulators of the Trinidad and Tobago securities market, as well as from selected international bodies.

3.0 OVERVIEW OF THE TRINIDAD AND TOBAGO SECURITIES MARKET

This overview of the Trinidad and Tobago securities market will entail the following:

1. a brief history of the contemporary development of the Trinidad and Tobago securities market;
2. a description of the institutional framework and components of the Trinidad and Tobago securities market;
3. a brief description of the development of market depth and breadth; and
4. a review of the performance of the Trinidad and Tobago Stock Exchange in an international context.

3.1 *BRIEF HISTORY OF THE TRINIDAD AND TOBAGO SECURITIES MARKET*

This is a chronological review tracing the development of the institutional structures of the Trinidad and Tobago securities market from the post-independence period.

Trinidad and Tobago began the process of constructing appropriate, independent local financial and securities market structures in the period 1964 to 1968. This era saw the establishment of the Central Bank of Trinidad and Tobago (CBTT), the passing of the Commercial Banking Act, the Insurance Act, and the Financial Institutions Act, among others.

With a view to strengthening the local securities market, the CBTT instituted a Call Exchange in 1965. This self-regulated exchange operated as a clearinghouse for the trading of shares. A Capital Issues Committee was formed in 1970 to provide an oversight function for the securities market. This Committee had no legislative and enforcement powers. Concurrent with these developments in the local securities market, the 1970s saw the emergence of stock brokerage firms, responding to the increasing activity in the market.

In 1981, the Securities Industry Act (SIA (1981)) established the Trinidad and Tobago Stock Exchange (TTSE). Consequently, the Call Exchange and the Capital Issues Committees were abolished, with the TTSE effectively acting as a Self Regulatory Organisation (SRO). The TTSE was considered a vital addition to the securities market operations because it facilitated more efficient market transactions, and in the end, it contributed to the process of savings and investment.

Another major development in the institutional infrastructure of the securities market was the proclamation of the Unit Trust Corporation Act of Trinidad and Tobago (1981) and the establishment of the Trinidad and Tobago Unit Trust Corporation (UTC).[3] This heralded the appearance of Collective Investment Schemes on the financial landscape.

Given the need to harmonise the regulatory framework of the securities industry, the SIA (1981) was repealed and replaced with the Securities Industry Act, 1995 (SIA (1995)). This Act established the Trinidad and Tobago Securities and Exchange Commission (TTSEC) which functions as the regulator of the country's securities market.

The most recent development in the institutional support of the securities market was the establishment of the Trinidad and Tobago Central Depository (TTCD). The TTCD, established by the TTSE, began operations in January 2003. This central depository was created to facilitate the smooth and efficient operation of book-entry systems. The major services provided by the TTCD are securities ownership record keeping and custody of physical certificates. The TTCD performs the clearing agent function and provides dividend payments services. It is expected that with the introduction of the TTCD the settlement period for a securities transaction will be reduced from the current default settlement T+5 to T+3. The establishment of the TTCD acted as the forerunner to

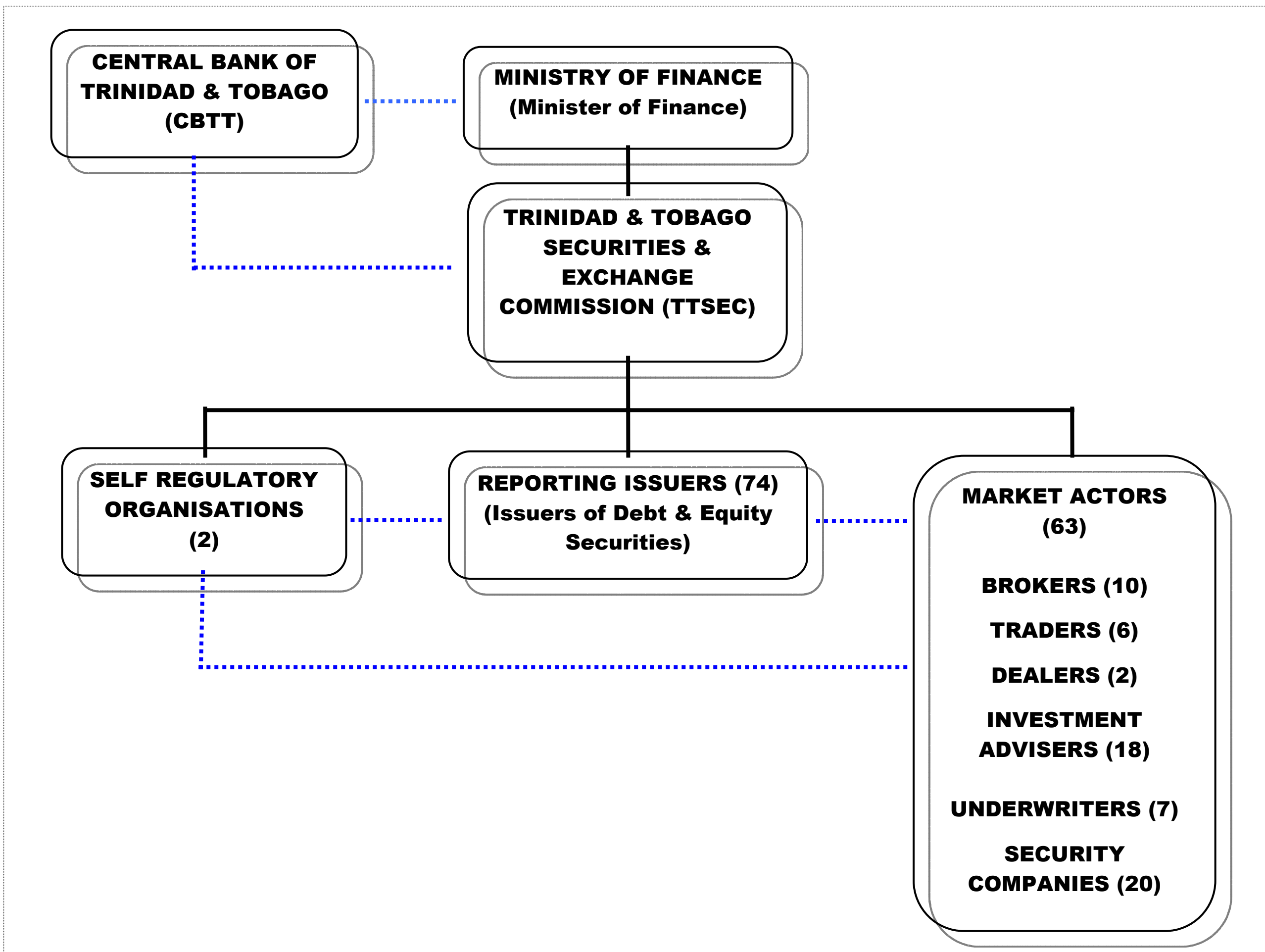
[3] Forde et al. 1997

automated trading which was about to be implemented at the time this report was being prepared.

3.2 *Description of the Institutional Framework of the Securities Market*

At present, the regulatory and institutional framework of the Trinidad and Tobago securities market is as depicted in Figure 1.

Figure 1: The Institutional and Regulatory Framework of the Trinidad and Tobago Securities Market



Each of the institutions performs certain roles within the securities market. These are described as follows:

1. *The Ministry of Finance*

The major role of the Ministry within the securities market is as follows:

1. provide the general policy framework for regulation of the securities market;
2. exercise political will for the enactment of major policies and legislations; and
3. provide part funding for the operations of the TTSEC.

The TTSEC provides the Minister of Finance with an annual report that is tabled and ratified by the country's Parliament.

2. *The Trinidad and Tobago Securities Commission (TTSEC)*

The principal functions as stated in the SIA (1995) are as follows:

- advise the Minister of Finance on all matters relating to the securities industry;
- maintain surveillance over the securities market and ensure open, fair, and equitable dealings in securities;
- register, authorise, or regulate reporting issuers, self-regulatory organisations, and market actors (brokers, dealers, traders, investment advisers, underwriters and securities companies) to ensure that proper standards of conduct and professionalism are maintained in the securities business;
- protect the integrity of the securities market against any abuses arising from the practice of insider trading; and

- create and promote such conditions in the securities market, as may seem necessary, advisable or appropriate to ensure the orderly growth and development of the securities market.

The TTSEC has the responsibility of ensuring that market actors comply with the provisions of the Securities Industry Act (1995) and the accompanying regulations.

At present, the TTSEC is reviewing the SIA (1995) with a view to enhancing its authority, powers and effectiveness in the regulation of the market to ensure efficiency and integrity.

The review of SIA (1995) is aimed at enhancing the regulatory framework of the securities market of Trinidad and Tobago. Some of the proposals in the new act include the following:

(a) codes which regulate Corporate Governance practices;
(b) requirements for enhanced disclosure of information;
(c) simplified registration processes;
(d) enhanced enforcement capacity;
(e) enhanced rule-making powers for the TTSEC; and
(f) establishment of a securities market tribunal.[4]

3. *The Central Bank of Trinidad and Tobago (CBTT)*

The Central Bank of Trinidad and Tobago does not regulate the securities market. However, in its role as financial regulator in the market, the Central Bank often collaborates with the TTSEC in regulatory matters as they relate to the financial sector.

[4] See interim report "Review and Revision of the Trinidad and Tobago Securities Industries Act, 1995 and relating By-laws and Associated Legislation" by Stikeman-Elliot LLP

4. *The Self Regulatory Organisations (SROs)*

The SIA (1995) defines a Self-Regulatory Organisation (SRO) as an association of securities companies, a clearing agency, or a securities exchange and includes the Stock Exchange. The securities market currently has two registered SROs, namely, the Trinidad and Tobago Stock Exchange (TTSE) and the Trinidad and Tobago Central Depository (TTCD). The TTSE is the only registered centralised market place which facilitates the trading of shares in Trinidad and Tobago. One of the key functions of the TTSE is the supervision of trading in the secondary market, amongst its members.

The TTCD was established by the TTSE as a clearing facility for securities transactions. It is expected that with the introduction of the TTCD the settlement time for a securities transaction will be reduced from the current default settlement of T+5 to the international standard of T+3.

As at December 2003, the shares of only three of the thirty-two first tier publicly traded companies were not online with the TTCD; BWIA's, Furness' and Valpark's securities transactions were still being cleared by the archaic manual system. However, only 15% of the outstanding share issues were registered with the TTCD at the time of preparation of this report.

5. ***The Reporting Issuers***

A Reporting Issuer is defined as an issuer:

(a) who has filed a prospectus and obtained a receipt;

(b) whose securities are listed on the Stock Exchange; or

(c) who issues any form of security to the public.

6. *The Brokers/Traders/Dealers*

The SIA (1995) defines a "broker" as a person engaged in the business of effecting transactions in securities for the account of others, while a "dealer" is a person engaged in the business of buying and selling securities for his own account. Traders, on the other hand, are employed by the brokers and dealers to trade on the floor of the Exchange.

7. ***The Investment Advisers***

The SIA (1995) defines “Investment Adviser” as a person engaging in, or holding himself out as engaging in, the business of advising another with respect to investment in, or the purchase or sale of securities. There are twenty-two (22) investment advisers registered with the TTSEC. This register does not include visiting persons who may offer investment advice – the so called “suitcase traders.”

8. ***The Underwriters***

According to the SIA (1995), an “Underwriter” means a person who:

- as principal, agrees to purchase a security for the purpose of a distribution;
- as agent, offers for sale or sells a security in connection with a distribution; or
- participates directly or indirectly in a distribution described in (1) or (2) above.

This definition does not include:

- a person whose interest in the transaction is limited to receiving the usual and customary distribution or sales commission payable by an underwriter or issuer; or
- a company that purchases shares of its own issue and resells them.

In Trinidad and Tobago, most of the underwriters are either subsidiaries of commercials banks or the major financial houses. This relationship is typical of the more developed markets.

9. ***The Securities Companies***

The SIA (1995) states that a "securities company" is a company which carries on a business of trading in securities on behalf of others and, without limiting the generality of the foregoing, includes a company which carries on business as:

1. a broker;
2. a dealer;
3. an underwriter;
4. an adviser as to the value of securities or as to investing in purchasing or selling securities; or
5. any combination of two or more of the foregoing.

3.2.1 Interlocking Directorates: a Peculiarity of the Institutional Framework

A striking feature of the institutional framework of the market is the occurrence of interlocking directorates among the boards of the companies listed on the TTSE. The existence of such interlocking directorates may signal the possible concentration of control in the market place.

A review of the TTSE administrative data, as well as the companies' annual reports, facilitated the creation of Table 1, which provides some insight into the level of interlock amongst directorates of firms listed in the First Tier of the TTSE listed companies.

Of the 30 companies surveyed,[5] 25 had at least one director presiding on the board of another listed company. This translates to 83% of the companies listed on the TTSE with interlocking directorates.

Table 1: Level of Occurrence of Interlocking Directorates

Level of Interlock	Number of Occurrences (Firms)	Percentage of Firms
Number of Firms with at least one director sitting on more than 3 Boards	16	53%
Number of Firms with at least one director sitting on other Board	9	30%
Number of Firms with no Directors sitting on other Boards	5	17%
TOTAL	**30**	**100%**

Source: TTSE Administrative Data and Various Annual Reports

Furthermore, the data showed that of the 231 directors, only 15% (35 directors) presided on one other board and 4% (10 directors) sat on three or more boards (see Table 2). In summary, 19% of the directors sat on more than one board, and 83% of the listed companies shared directors.

Table 2: Number of Interlocking Directors

Sitting Occurrence	Number of Directors	Percentage of All Directors
Sitting on more than two Boards	10	4%
Sitting on at most one other Board	35	15%
Sitting on no more than one Board	186	81%
TOTAL	**231**	**100%**

Source: TTSE Administrative Data and Various Annual Reports

[5] Companies listed on the Second Tier market as well as Capital & Credit Merchant Bank were not included because at the time of preparation of the report the necessary information was not available

Table 3: Market Capitalisation and Value of Assets by Occurrence of Interlock of Directors

Sitting Occurrence	Number of Directors	Value of the Assets of Companies (TTD)	Percentage of Total Value of Assets	Market Capitalisation of Companies (TTD)	Percentage of Total Market Capitalisation
Sitting on more than two Board	10	62,512,102,672	55%	33,235,273,000	67%
Sitting on at most one other Board	35	18,726,408,869	16%	10,583,822,000	21%
Sitting on no more than one Board	186	32,601,657,565	29%	5,940,151,000	12%
TOTAL	**231**	113,840,169,106	100%	49,759,246,000	100%

Source: TTSE Administrative Data and Various Annual Reports

Moreover, it was found that the firms which had directors who sat on more than two boards controlled $62.5 billion worth of assets or 55% of the total value of the assets of the surveyed firms (see Table 3). These firms represented 67% of the total market capitalisation of all the surveyed firms. While the firms which had directors who sat on, at most, one other board controlled $18.7 billion worth of assets or 16% of the total value of assets of the surveyed firms. These firms accounted for 21% of the total market capitalisation.[6]

Cumulatively, firms with interlocking directors controlled $81.2 billion worth of assets or 71% of the value of the assets of the surveyed firms and accounted for 88% of the total market capitalisation of the surveyed firms.

[6] Source: TTSE Administrative Data

It is clear that the existence of the phenomenon of interlocking directorates have essentially resulted in a high concentration of control among a few directors.

3.3 *Development of Market Breadth and Depth*

In the immediate post-independence period, the structure of the market consisted of what can be termed "plain vanilla" type securities.[7] The debt market in this period comprised mainly Government Treasury Bills, Government Bonds, and Corporate Bonds, while the equity market consisted of ordinary shares and a small volume of preference shares.[8]

In the equities market the number of stocks traded increased from 89.4 million shares valued at $544.7 million in 1982, one year after the TTSE was formed, to 436.5 million shares valued at $2.8 billion in 2003.[9] This represents a 388% increase in the number of shares traded and a 414% increase in market value over the eleven-year period.

Since 1981 the securities market has shown signs of increasing sophistication with the development of financial instruments such as Collective Investment Schemes (CIS), Commercial Paper, and Derivatives. In 1981, the local CIS market started with equity-based and money market funds, with only $24.9 million under management. Today, the CIS market has in excess of $20 billion in funds under management with resources invested in equities, debt and real property or hybrids of these, as well as money market instruments.

Another enhancement in the market offerings was the development of cross border trading in equities in the 1990s. Over the period 1997 to 2003 there were six cross listings that accounted for 4.69 billion shares, or 51% of the new shares, on the TTSE. Although they were the most popular form of new share issues, these cross listings did not substantially increase the market capitalisation of the TTSE. The value of these cross

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7 These are securities which have a direct claim on the underlying assets.
8 O'Brien 1989
9 See various Annual Reports of the Trinidad and Tobago Stock Exchange

listed issues was approximately \$5.7 billion, which represented only 18.2% of the \$31.5 billion of the new equity issues which were listed on the TTSE.

The securities market has shown some evolution in the range and profile of the product offerings. However, when compared with more developed markets there is still room for improvement.

3.4 *TRINIDAD AND TOBAGO SECURITIES MARKET: AN INTERNATIONAL COMPARISON*

A fundamental part of this overview is an evaluation of the general features and performance of the market as compared with the leading regional and extra-regional markets. In order to assure relevance and brevity, we will focus on a comparison of the major stock exchanges of developed and emerging markets, as these can serve as a proxy for what occurs in the general market place. The overview shall focus on the relative size, liquidity, and performance of the markets during the period under review.

3.4.1 Number of Issuers and Market Capitalisation

In looking at the number of issuers and size of market capitalisation it is clear that the exchanges of Trinidad and Tobago, Barbados and Jamaica are much fewer than those of the major stock exchanges of the market of the United States of America (USA) and the United Kingdom (UK) (see Table 4 and Table 5).[10]

As a measure of the level of turnover in respect of the number of issuers who enter and exit the Exchange we used the ratio of the average deviation in the number of issuers to the annual average number of issuers.[11] Interestingly, we have found that by using this

[10] The stock exchanges referred to are the New York and London Stock Exchanges. Source: www.world-exchanges.org

[11] Average deviation is a measure of variability which is the average of the absolute deviations of data points from their mean. It is calculated by the formula: *1/n (∑ |x – (average of x)|)*, where *x* refers to the observed values and *n* is the number of observations.

measure of turnover of the number of issuers, the selected regional stock exchanges had levels of turnover which were more or less at the same level as the major stock exchanges of the USA and UK over the period under study (see Table 4).

The stock exchanges of Jamaica and New York exhibited the same level of turnover with a ratio of 4%. The Barbados Stock Exchange had the highest level of turnover with a ratio of 13%, followed by the UK stock exchange which had a ratio of 9% and the TTSE with a ratio of 7%. As regards the turnover of issuers on the stock exchanges, one can therefore suggest that the pattern of turnover exhibited by the more developed USA and UK stock exchanges was not different to the patterns exhibited by the selected regional exchanges.

Table 4: Amount of First Tier Listed Firms of Selected Markets 1997–2003

	Number of Equity Issuing Firms				
Year	**UK**	**USA**	**T&T**	**J'CA**	**B'DOS**
	London Stock Exchange	***New York Stock Exchange***	***Trinidad and Tobago Stock Exchange***	***Jamaica Stock Exchange***	***Barbados Stock Exchange***
1997	2,157	3,047	25	49	18
1998	2,087	3,114	26	48	20
1999	1,945	3,025	28	45	22
2000	1,904	2,862	28	45	22
2001	1,809	2,798	30	43	25
2002	1,701	2,783	30	41	26
2003	1,557	2,755	32	42	26
Annual Average	**1,880**	**2,912**	**28**	**45**	**23**
Average Deviations *(rounded to nearest Whole number)*	**164**	**129**	**2**	**2**	**3**
Average Deviations as a Percentage of Annual Average	**9%**	**4%**	**7%**	**4%**	**13%**

Sources: Annual Report of the Trinidad and Tobago Stock Exchange (various years)
Website of Jamaican Stock Exchange, www.jamstockex.com
Website of Barbados Stock Exchange, www.bse.com.bb
Website of the World Federation of Exchanges, www.wolrd-exchanges.org
Website of New York Stock Exchange, www.nyse.com
Website of London Stock Exchange, www.londonstockexchange.com

Table 5 highlights the differences in the growth of market capitalisation between the selected exchanges in the Caribbean and the New York and London Stock Exchanges over the period 1997 to 2003. Whereas the London and New York Stock Exchanges grew by 8% and 31% respectively, the selected exchanges of the region experienced tremendous growth. Overall growth ranged from as high as 544% for the Jamaican Stock Exchange, to as low as 78% for the TTSE during the period under review.

Table 5: Market Capitalisation of Selected Exchanges 1997–2003

Year	London Stock Exchange *(USD Millions)*	New York Stock Exchange *(USD Millions)*	Trinidad and Tobago Stock Exchange *(USD Millions)*	Jamaican Stock Exchange *(USD Millions)*	Barbados Stock Exchange *(USD Millions)*
1997	$2,298,254	$9,413,109	$3,136	$1,313	$2,261
1998	$2,612,399	$10,864,472	$3,990	$1,303	$770
1999	$3,342,593	$12,402,917	$4,394	$1,716	$641
2000	$3,299,861	$12,591,107	$4,685	$2,641	$2,318
2001	$2,797,966	$11,857,125	$5,074	$3,661	$2,296
2002	$2,107,996	$9,740,943	$7,682	$4,820	$2,968
2003	$2,490,001	$12,325,533	$10,857	$8,458	$4,015
Overall Percentage Changes	**8%**	**31%**	**246%**	**544%**	**78%**

Conversions w.e.f. May. 27, 2004 GBP/USD = 0.544512, TTD/USD = 6.2611, JMD/USD = 60.6421, BDS/USD = 1.96601

e: Estimated
Sources: Annual Report of the Trinidad and Tobago Stock Exchange (various years)
Website of Jamaican Stock Exchange, www.jamstockex.com
Website of Barbados Stock Exchange, www.bse.com.bb
Website of the World Federation of Exchanges, www.wolrd-exchanges.org
Website of New York Stock Exchange, www.nyse.com
Website of London Stock Exchange, www.londonstockexchange.com

It is interesting to note that the overall growth in market capitalisation of the selected regional exchanges was even higher than that of the selected exchanges of the major emerging markets (see Table 6).

Table 6: Market Capitalisation of Selected Exchanges of Emerging Markets 1997–2003

Year	Argentina (Buenos Aires)	Norway (Oslo)	Singapore
	(USD Millions)	*(USD Millions)*	*(USD Millions)*
1997	$59,252	$66,503	$106,317
1998	$45,333	$46,273	$96,473
1999	$55,848	$63,695	$198,040
2000	$45,839	$65,267	$155,126
2001	$33,384	$69,445	$117,338
2002	$16,549	$68,103	$101,554
2003	$34,995	$95,920	$148,503
Overall % Changes	**-41%**	**44%**	**40%**

Source: World Federation of Exchanges.

The larger increase in the market capitalisation of the regional exchanges was primarily as a result of two facts. First, the prices of securities of the selected regional exchanges grew at a faster rate than the prices of the extra-regional exchanges as reflected in the HPR.[12]

Secondly, the market capitalisation of the selected exchanges of the Caribbean grew consistently notwithstanding the Asian contagion. This contagion negatively affected most of the non-regional stock exchanges. These non-regional exchanges only recovered in 2003. This contrasts with the consistent growth in capitalisation of the Jamaica, and Trinidad and Tobago exchanges over the period. With the exception of the contraction between the years 1997 to 1999, the Barbados exchange also exhibited resilience to the Asian contagion.

[12] See various Annual Reports of the World Federation of Exchanges and those of the Barbados, Jamaica, and Trinidad and Tobago Stock Exchanges

3.4.2 Performance of Selected Price Indices

In this report we use the concept of Holding Period Return (HPR) to calculate the change in the price index over a period relative to the average value of the price index over that period. Higher values for the HPRs will indicate greater changes in the price indices over the period. Therefore, markets with higher HPRs will exhibit greater levels of price appreciation than markets with relatively lower HPRs. As such, an investor in a market with relatively high HPRs will obtain greater returns on securities bought and held during the relevant period.[13]

The market indices showed that, in general, the exchanges of the emerging markets had higher HPRs than the major exchanges of the more developed securities markets of the UK and USA. One notes that in these more developed exchanges there was contraction in the Holding Period Returns (HPRs). This occurred in 1999 and 2002 for the major UK securities exchange, and in 2000 and 2002 in the US securities exchange. The average HPRs over the period were -2.26% per annum and 2.91% per annum for the London and New York Stock Exchanges respectively (see Table 7).

[13] For our purposes the calculation used assumes that the return is over the average value of the stock index, thus the formula used is $\{[(y_1 - y_o)/ ((y_o + y_1)/2)] \times 100\}$, where y_0 is the value of the index at beginning of year and y_1 is the index value at the end of the year

Table 7: Performance of Selected Price Indices of London and New York Stock Exchanges, for Years End 1997–2003

Year	London Stock Exchange		New York Stock Exchange	
	FTSE 100 Index	Holding Period Return	COMPOSITE Index	Holding Period Return
1997	5,136		5,405	
1998	5,883	13.56%	6,299	15.29%
1999	6,930	16.35%	6,876	8.75%
2000	6,223	-10.76%	6,946	1.01%
2001	5,217	-17.57%	6,236	-10.76%
2002	3,940	-27.89%	5,000	-22.01%
2003	4,477	12.75%	6,440	25.18%
Average Return	***-2.26%***		***2.91%***	

Source: Website of Jamaican Stock Exchange, www.jamstockex.com, Website of Barbados Stock Exchange, www.bse.com.bb, Annual Report of the Trinidad and Tobago Stock Exchange (Various Years), Website of the World Federation of Exchanges, www.wolrd-exchanges.org

In Singapore, the leading emerging market, there was a pattern of contraction and growth in prices similar to that exhibited in the USA and UK. On the major exchange of Singapore the index declined in four out of six years, but showed a net increase over the period on account of a significant increase in the year 2003 (see Table 8).

Table 8: Performance of Selected Price Indices 1997–2003

Year	Singapore Stock Exchange		T'dad & T'go Stock Exchange		Jamaica Stock Exchange		Barbados Stock Exchange	
	All Sing Equities Index	Holding Period Return	Composite Index	Holding Period Return	Composite Index	Holding Period Return	Composite Index	Holding Period Return
1997	425.94		352.27		19,846.66		1,893.45	
1998	380.51	-11.27%	436.3	21.31%	20,593.33	3.69%	2,794.41	38.44%
1999	668.79	54.95%	417.47	-4.41%	21,892.58	6.12%	4,534.62	47.49%
2000	502.38	-28.42%	441.5	5.60%	28,893.24	27.57%	4,464.01	-1.57%
2001	426.33	-16.38%	434.19	-1.67%	33,835.59	15.76%	4,294.99	-3.86%
2002	348.80	-20.00%	545.56	22.73%	45,396.21	29.18%	5,331.87	21.54%
2003	834.83	82.13%	694.13	23.97%	67,586.72	39.28%	6,094.76	13.35%
Average Return	***10.17%***		***11.26%***		***20.27%***		***19.23%***	

Source: Website of Jamaican Stock Exchange, www.jamstockex.com, Website of Barbados Stock Exchange, www.bse.com.bb, Annual Report of the Trinidad and Tobago Stock Exchange (Various Years), Website of the World Federation of Exchanges, www.wolrd-exchanges.org

The major exchanges of the Caribbean performed more consistently over the period 1997 to 2003. As at the end of 2003, the securities exchange of Jamaica performed better than the other selected regional exchanges. This was primarily due to the consistent performance of the exchange over the period under review. The Trinidad and Tobago market performed less consistently than the Jamaican market over the period and the returns on the TTSE were lower than those of the Jamaican and Barbadian Stock Exchanges. The combination of these occurrences resulted in the TTSE performing comparatively lower than the other Caribbean Exchanges.

3.4.3 Significance of the Securities Exchanges in the Domestic Economies

The use of market capitalisation as a percentage of the Gross Domestic Product (GDP) is a measure which indicates the relative significance of the respective securities exchanges in the domestic economy (Demirgüç-Kunt and Levine 1995). In theory, if the combined value of all the securities listed on the exchange accounts for all of the domestic production, then market capitalisation as a percentage of the Gross Domestic Product (GDP) will have a theoretical value of 100%. Values above 100% will indicate that there is input from non-domestic production on the respective exchange, while values below 100% indicate that there exists some domestic production which is not accounted for on the exchange.

As detailed in Table 9 the stock exchanges of the United Kingdom (UK) and the United States of America (USA) had capitalisation values, which appeared significant when compared to the GDP of the countries. The average market capitalisation to GDP ratios for the UK exchange over the period under review was 157%, while that for the US securities exchange was 134%. Moreover, in these exchanges the ratios were consistently over 100%, with the only exception occurring in 2002 on the major US exchange when the ratio fell from 137% to 86%.

The major exchanges of Argentina and Norway had average ratios of 18% and 39% respectively. This sharply contrasts with the major securities exchange of Singapore which had ratios which were consistently greater than 100%, and an average ratio of 148%, which is comparable to the more developed markets of the USA and UK.

On the other hand, the ratios for the selected Caribbean stock exchanges suggested that on average these exchanges were less significant in their respective economies when compared with the exchanges of the UK, US and Singapore. However, the data also showed that the Caribbean exchanges were becoming increasingly significant in their respective economies exchanges. As early as 2002 for the Barbados Stock Exchange, and as at 2003 for the Jamaica and Trinidad and Tobago securities exchanges, the respective ratios reached or surpassed the 100% level. In these selected Caribbean securities exchanges the increases in the ratio from 2001 to 2003 are partly explained by the conflation of the price increases and increased cross listings on the respective exchanges.

Table 9: Importance of Securities Exchanges in Selected Domestic Economies 1997–2003

Market Capitalisation as Percentage of GDP at Current Market Prices								
Year	**UK**	**USA**	**Singapore**	**Norway**	**Argentina**	**Trinidad and Tobago**	**Jamaica**	**Barbados**
1997	155%	133%	113%	43%	20%	54%	30%	101%
1998	171%	149%	114%	32%	15%	66%	28%	32%
1999	198%	181%	233%	42%	20%	64%	35%	25%
2000	184%	153%	168%	41%	16%	57%	47%	88%
2001	152%	137%	137%	42%	12%	56%	60%	88%
2002	111%	86%	114%	31%	18%	83%	72%	112%
2003	125%	103%	158%	41%	27%	100%	117%	181%
Average	***157%***	***134%***	***148%***	***39%***	***18%***	***69%***	***56%***	***90%***

Source: Website www.world-exchnages.org for UK, USA, Argentina, Norway, and Singapore
Central Bank of Trinidad and Tobago, Jamaica, and Barbados
Website of Jamaican Stock Exchange, www.jamstockex.com
Website of Barbados Stock Exchange, www.bse.com.bb
Annual Reports of the Trinidad and Tobago Stock Exchange (Various Years)

3.4.4 Internal Liquidity

The internal liquidity of a securities exchange is a measure of the extent to which an exchange facilitated buying and selling transactions.[14] The higher the percentage of market capitalisation that is traded, the more liquid the market is deemed to be.

At a level of 3% to 6% liquidity the Caribbean exchanges were highly illiquid. This may partly be due to the limited product offerings available in the market (see Table 10). The illiquidity of the Caribbean markets was in stark contrast to the average turnovers of 71% for the UK and USA exchanges.

Table 10: Turnover Ratios of Selected Exchanges 1997–2003

Year	Turnover Ratios							
	UK	USA	Norway	Argentina	Singapore	T'dad & T'go	Barbados	Jamaica
1997	39%	58%	86%	53%	62%	0%	1%	6%
1998	62%	44%	86%	57%	61%	5%	5%	3%
1999	66%	52%	86%	20%	102%	3%	2%	2%
2000	79%	51%	91%	20%	61%	3%	2%	2%
2001	79%	84%	63%	12%	52%	3%	0%	3%
2002	99%	114%	100%	12%	72%	2%	28%	3%
2003	71%	95%	77%	3%	64%	4%	5%	3%
Average	71%	71%	84%	25%	68%	3%	6%	3%

Source: Website www.world-exchnages.org for UK, USA, Argentina, Norway, and Singapore
Annual Reports of the Trinidad and Tobago Stock Exchange (Various Years)
Website of Jamaican Stock Exchange, www.jamstockex.com
Website of Barbados Stock Exchange, www.bse.com.bb

Moreover the exchanges of the selected emerging markets were more liquid than those of the Caribbean, with the Norwegian exchanges showing the highest average liquidity of 84%.

Generally, over the period 1997 to 2003, the selected Caribbean securities exchanges, performed favourably on most of the chosen performance indicators, when compared to the selected non-regional exchanges. The securities exchanges of the Caribbean offered

[14] The measure of internal liquidity of a stock exchange is the turnover ratio. This turnover ratio is calculated as the value of total shares traded divided by market capitalisation. The higher the value, the more liquid the market or the greater proportion of the outstanding market capital is traded (Demirgüç-Kunt and Levine 1995 and Demirgüç-Kunt et al. 2000*)*.

investors higher returns than the exchanges of markets in New York and London and had greater increases in market capitalisation. However, as is suggested by the low liquidity ratios, the limited range of product offerings seemed to restrict the ability of the Caribbean market to ensure participation by a wide cross-section of the public.

4.0 THE TRINIDAD AND TOBAGO SECURITIES MARKET: VALUE AND TYPE OF ISSUES

Debt and Equity are the primary means used by firms to finance their operations or investments.

In the Trinidad and Tobago securities market the equity issues are generally simple; on the other hand, one sees growing complexity in the use of debt. In this section, we will quantify the level of activity in the debt and equity markets of Trinidad and Tobago over the period 1997 to 2003.

4.1 *Equity Market (1997 – 2003)*

Equity financing represents claims against the assets of a firm, which unlike debt, are associated with the rights and risks of ownership in that firm. Generally, a firm can obtain such financing through open public offers, as well as unrestricted or restricted private placements.

The objective of this section is to assess the level of new equity capital raised by public firms in the securities market of Trinidad and Tobago over the review period 1997 to 2003.

Over the period under review, the TTSE registered an estimated $31.5 billion worth of new equity issues (see Table 11).[15] Shares related to Mergers, Acquisitions, Transfers and Restructurings accounted for most of the value (48.6%) of the new equity securities issued and listed over the period. This was followed by Bonus Issues which accounted for 23.3%, and Cross Listings which accounted for 18.2% of the value of the new equity securities listed.

[15] Source: TTSE Annual Reports 1997 to 2003

The funds which are raised for the firms at the time the firm issues a particular equity security can be considered as new equity capital. This new equity capital is associated with Rights Issues, Initial Public Offerings and Offers for Sale. The data shows that $2.8 billion worth of new equity capital, which represented only 9.0% of the total value of registered equities, was raised over the period under review.[16]

This new equity capital comprised Initial Public Offerings (IPOs), accounting for $651 million (2.1%); Rights Issues $1.888 billion (6.0%); and Offers for Sale $286.8 million (0.9%). Rights Issues – the issue of new stock to existing shareholders – was the major source of new equity capital for listed firms.

Table 11: Number and Value of Equity Securities Listed Issues on the TTSE 1997–2003

Type of Issue	Value ($TTD)	Percentage of Total Value	Number of Shares	Percentage of Total Number
Issues of New Equity Capital				
Rights Issues	1,887,671,654	6.0%	65,158,980	1%
Initial Public Offers	651,147,262	2.1%	154,779,906	2%
Offers for Sale	286,801,623	0.9%	180,149,744	2%
Sub-total	***2,825,620,539***	***9.0%***	*400,088,630*	5%
Issues other than New Equity Capital				
Mergers, Acquisitions, Transfers, Restructuring	15,319,515,063	48.6%	1,914,031,825	24%
Cross Listings	5,747,430,000	18.2%	4,665,059,687	59%
Employee Stock Option Plans	299,915,542	1.0%	114,209,537	1%
Bonus Issues, Stock Splits, Stock Dividends and Capitalisation Issues	7,346,435,279	23.3%	853,175,913	11%
Sub-total	***28,713,295,884***	***91.0%***	*7,546,476,962*	95%
TOTAL	**31,538,916,423**	**100.0%**	**7,946,565,592**	**100%**

Source: TTSE Annual Reports 1997 to 2003[17]

[16] In this report new equity capital refers to "virgin funds" or "new money" that a company raises via the primary market of the TTSE, from the issue of shares. It is therefore new cash flows into the firm which occur at the moment the security is issued and traded on the market.

[17] The TTSEC administrative data was used to corroborate the estimates from the TTSE data.

In Trinidad and Tobago, over the period 1997–2003, the TTSE registered 7.9 billion new share issues or an average of 1.1 billion new share issues per annum.[18] Table 11 highlights the fact that over the review period most of the new share issues (59%) resulted from shares that were originally listed on another exchange. This is an interesting point to note as it demonstrates that Cross Listings added most of the new share issues to the TTSE, and a possible consequence of this is that more of the trading occurring on the Trinidad and Tobago Stock Exchange will involve trading in cross listed equity securities. For the TTSEC this will have implications for the regulation of disclosure protocols of the cross listed entities.

4.1.1 Initial Public Offers

During the period 1997 to 2003, seven issuers accounted for the equity capital raised through Initial Public Offers (IPOs) (see Table 12). The seven IPOs offered an aggregate of 154,779,906 new shares valued at $651.1 million or 2.1% of the value of all the new shares listed. These seven issuers comprised four private corporate issuers, two government-related issuers, one venture capital fund and one Collective Investment Scheme.

In 1997 there was the issuance of the first cross-listed IPO from Life of Barbados, which along with the ANSA Finance & Merchant Bank IPO accounted for $150 million in new equity capital raised for that year (see Table 12).

By 1999, the value of capital raised via IPOs decreased to $39 million with Prestige Holdings Limited then placing 25% (15 million shares) of its issued capital on the open market.

There were three IPO issues in 2001 totalling 62.3 million shares valued at $262.1 million as compared with a single issue of 40 million shares valued at $200 million in 2002. No new IPOs were registered in 2003.

[18] Source: TTSE Administrative Data

The four private sector issuers accounted for $ 194 million (29.8%) while the government-related issues accounted for $ 257.1 million (3.95%) and the Collective Investment Scheme accounted for $200 million (30.7%).

Further, as seen from Chart 1, there was a general increase in the value of capital raised by IPOs over the period with the issues in 2002 and 2003, accounting for 71% of the value of capital raised by IPOs (see Table 12).

Table 12: Capital Raised by Initial Public Offerings 1997–2003

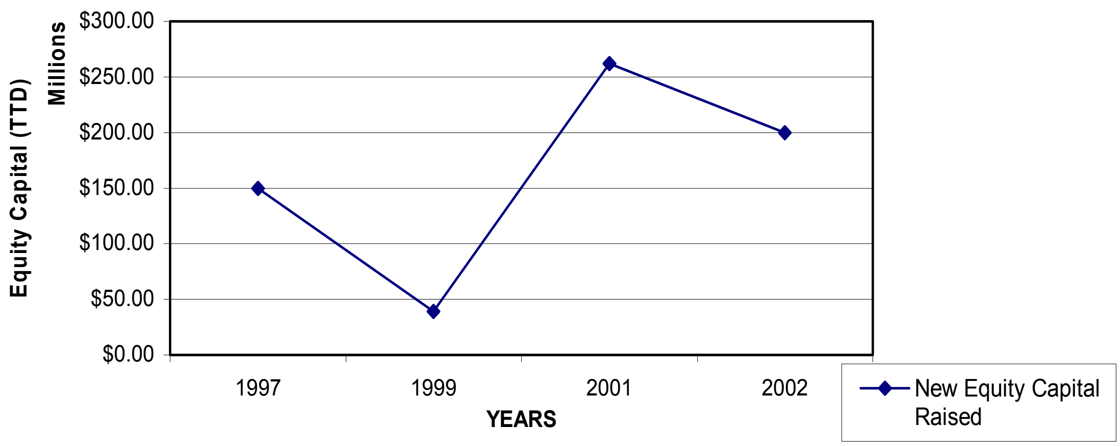
Issuer	Year	Volume of Shares	Listing Price	Capital Raised	Percentage of Total Capital Raised by IPOs	Purpose of the Issue
Life of Barbados[19]	1997	30,000,000	$3.75	$112,500,000	17.3%	
Ansa Finance & Merchant Ltd.	1997	7,500,000	$5.00	$ 37,500,000	5.8%	To finance activities and strengthen its capital base
Sub-total 1997		*37,500,000*		*$150,000,000*	*23.0%*	
Prestige Holdings	1999	15,000,000	$2.60	$ 39,000,000	6.0%	To finance investment opportunities
Sub-total 1999		*15,000,000*		*$ 39,000,000*	*6.0%*	
BWIA West Indies Airways Ltd.	2001	7,279,906	$7.85	$ 57,147,262	8.8%	To purchase spare engines and parts and finance the upgrading of the Company's information technology and communication systems
FNCU Venture Capital Company Ltd.	2001	5,000,000	$1.00	$ 5,000,000	0.8%	Invest in small and medium sized businesses in accordance with the Venture Capital Act (1994)
National Enterprises Ltd.	2001	50,000,000	$4.00	$200,000,000	30.7%	Government divestment
Sub-total 2001		*62,279,906*		*$262,147,262*	*40.3%*	
Praetorian Property Mutual Fund	2002	40,000,000	$5.00	$200,000,000	30.7%	Invest in real property, property mutual funds, debt securities and money market instruments
Sub-total 2002		*40,000,000*		*$200,000,000*	*30.7%*	
TOTAL		**154,779,906**		**$651,147,262**	**100.0%**	

Source: TTSE Administrative Data 1997–2003

[19] Delisted in 2003 due to Sagicor's successful takeover.

Generally, private sector interests accounted for most (60.6%) of the capital raised by IPOs. More interestingly, the firms involved in financial intermediation – namely Life of Barbados and ANSA Finance and Merchant Bank Limited – and the Praetorian Mutual Fund accounted for 53.8% of the total value of capital raised though IPOs.

Chart 1: New Equity Capital Raised by IPOs 1997–2002



Source: TTSE Administrative Data

4.1.2 Rights Issues

Rights Issues were the major mechanism through which firms raised new equity capital on the TTSE with eight issues accounting for $1.9 billion or 67% of the new equity capital that had been raised, or 6% of the total value of equities listed on the TTSE over the period under review. Activity in rights issues was three times greater in value and 16% greater in number of shares than IPO activity (compiled from Table 11, Table 12 and Table 13).

Notwithstanding the significant value raised by Rights Issues, activity generally declined over the period under review (see Chart 2), with the largest issue taking place in 1997. This $600 million issued by Republic Bank Limited accounted for 31.8% of the total value of capital raised by Rights Issues. This issue, together with an issue from the RBTT Financial Holdings in 1998 ($408 million), accounted for 69% of the total value of issues over the period, as the two institutions – Republic Bank Limited and RBTT – raised capital to finance their regional growth and expansion and growth (see Table 14).

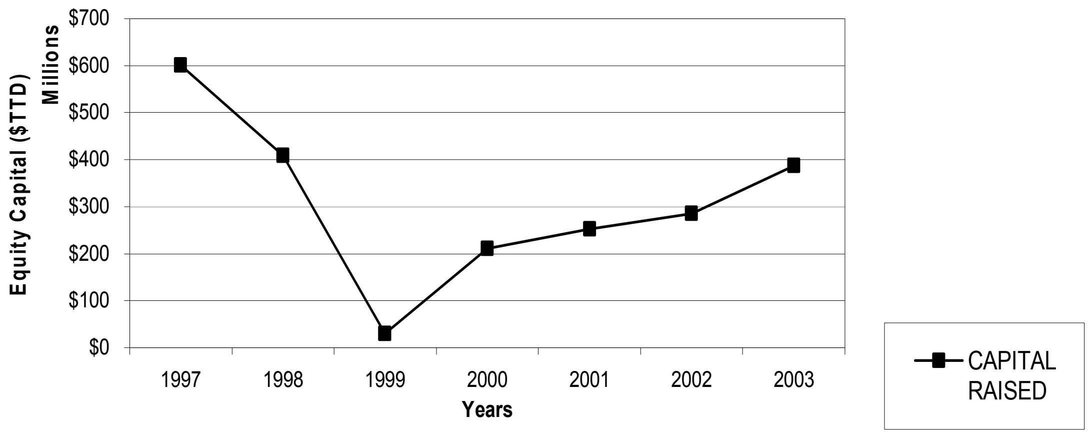
The Non-banking Financial Sector raised the next highest amount of capital by Rights Issues, with Guardian Holdings Limited being the only issuer for the sector raising capital valued at approximately $251 million, while the Manufacturing Sector raised approximately $210 million which accounted for 11% of the total value of capital raised by Rights Issues over the period (see Table 14).

Table 13: Capital Raised by Rights Issues 1997–2003

Issuer	Year	Volume of Shares	Offer Ratio	Listing Price	Capital Raised	Percentage of Total Value of Capital Raised	Purpose of the Issue
Republic Bank	1997	33,392,857	3:7	$18.00	$601,071,426	31.8%	To finance equity investments
RBTT Financial Holdings	1998	22,681,305	2:13	$18.00	$408,263,490	21.6%	To respond to domestic and offshore investment opportunities
Agostini's Ltd.	1999	5,365,171	1:4	$ 5.50	$ 29,508,441	1.6%	To finance warehouse expansion and upgrade production lines for their diaper and feminine napkin manufacturing operation
Trinidad Cement Ltd.	2000	40,284,699	1:5.2	$ 5.00	$201,423,495	10.7%	To liquidate a portion of debt entered into as a result of their acquisition of a further 42.6% in Caribbean Cement Ltd.
Flavorite Foods Ltd.	2000	2,777,778	1:1.8	$ 3.15	$ 8,750,001	0.5%	(1) To increase the capacity of their refrigeration and storage units (2) To extend the number of glass top freezers located at strategic outlets throughout the country (3) To increase their fleet of distribution trucks
Guardian Holdings Ltd.	2001	19,373,077	2:13	$13.00	$251,850,001	13.3%	To finance investments
CIBC (West Indies) Holdings Ltd.	2002	43,066,296	5:12	$ 6.62	$285,098,880	15.1%	To finance investments
PLIPDECO Ltd.	2003	13,208,561	1:2	$ 7.70	$101,705,920	5.4%	To facilitate the growth and development of cargo handling facilities
TOTAL		**180,149,744**			**$1,887,671,654**	100.0%	

Source: TTSE Administrative Data

Chart 2: New Equity Capital Raised by Rights Issues 1997–2003



Source: TTSE Administrative Data

Table 14: Value of Capital Raised from Rights Issues by Firms and Sector 1997–2003

Issuer	Sector	Year	Capital Raised ($TTD)	Percentage of Total Capital
CIBC (West Indies) Holdings Ltd.*	Banking	2002	$285,098,880	15%
RBTT Financial Holdings	Banking	1998	$408,263,490	22%
Republic Bank	Banking	1997	$601,071,426	32%
Commercial Banking Sector Sub-total			***$1,294,433,796***	***69%***
Flavorite Foods Ltd.	Manufacturing	2000	$8,750,001	0%
Trinidad Cement Ltd.	Manufacturing	2000	$201,423,495	11%
Manufacturing Sector Sub-total			***$210,173,496***	***11%***
Guardian Holdings Ltd.	NBFS	2001	$251,850,001	13%
NBFS Sector Sub-total			***$251,850,001***	***13%***
PLIPDECO Ltd.	Property	2003	$101,705,920	5%
Property Sector Sub-total			***$101,705,920***	***5%***
Agostini's Ltd.	Trading	1999	$29,508,441	2%
Trading Sector Sub-total			***$29,508,441***	***2%***
TOTAL			**$1,887,671,654**	**100%**

Source: TTSE Administrative Data

4.1.3 Public Offers for Sale

Another mechanism used by publicly traded firms to raise new equity capital was Public Offers for Sale. These are new share offers to the public by companies listed on the TTSE. This differs from Rights Issues, which involve offering new shares only to the existing shareholders. As Table 15 shows, only three companies – two of which are state enterprises – opted to place Public Offers for Sale over the period under study. These were National Flour Mills (NFM), Trinidad Publishing Company Ltd. (TPL) and National Enterprises Limited (NEL).

Table 15: Value of Capital Raised by Public Offers 1997–2003

Issuer	Year	Volume of Shares	Listing Price	Capital Raised
National Flour Mills	1997	8,414,000	$3.20	$ 26,924,800
Trinidad Publishing Company Ltd.	1998	6,233,440	$3.20	$ 19,947,008
National Enterprises Ltd.	2002	50,511,540	$4.75	$239,929,815
Total		**65,158,980**		**$286,801,623**

Source: TTSE Administrative Data

Both NFM and NEL's public offerings resulted from the Government's divestment strategy to encourage public participation in the ownership of various state-owned companies. The government's plan for NFM was to divest its 49% of share ownership over the period 1995–1997. In this regard, the government divested the first 20% (12 million shares) at the time of NFM's IPO in 1995; the second 15% (9 million shares) via a public offering in 1996; and a further 14% or 8.4 million shares via a third public offering in 1997. The last offering raised $27 million. This facilitated government's plan to divest 49% of its ownership in NFM.[20]

[20] See various reports of the Trinidad and Tobago Divestment Secretariat

The government also intended to divest up to 180 million shares or 36% of NEL's issued share capital on the TTSE in tranches. NEL's IPO in February 2001 represented government's first divestment. This divestment comprised 50 million shares or 10% of total shares owned by government. A further 50.5 million shares was divested, one year later, in 2002 through the issue of an Offer for Sale, this raised $240 million and brought the government's total divestment to 100.5 million shares. After the second divestment the government owned 396.3 million shares accounting for 72% of the Issued Share Capital of the company at the end of the two divestments.[21]

TPL, a privately owned company which was listed on the TTSE in 1981, issued a public offering in 1998. The purpose of these issues was to raise funds for the purchase of a radio station ($15.35 Mn.) and to fund relocation costs ($2.5 Mn.). Before the public offers for sale trading in TPL shares on the TTSE was relatively thin, attributed mainly to the company's shareholder profile at the time. The number of shareholders in the company stood at 220, with three shareholders owning 88%. This relatively small spread in the ownership resulted in thin trading.

As shown in Table 15 the public offering by TPL raised $19.9 million, and placed an additional 6.2 million shares on the open market. To deepen this offering, majority shareholder ANSA McAl divested 5.4 million of its share ownership. The 6.2 million new shares, together with ANSA McAl's 5.4 million shares, successfully increased the number of TPL shareholders from 220 to 8,340, and increased trading volume from 28,531 in 1997 to 4,591,424 at the end of 1998.[22]

4.1.4 Summary of Findings on New Equity Capital

The private sector firms accounted for most of the new equity capital raised on the TTSE. Our findings highlight that these private sector firms accounted for approximately 71% of

[21] See National Enterprises Limited. *Annual Reports* 2001, 2002, 2003
[22] See TTSE listed companies manual – 2002, 2003

the new equity capital raised during the period under review; government related firms accounted for 22% of the value of capital raised, while the Praetorian Mutual Fund accounted for the remaining 7%. (see Table 16).

Among the private sector firms, three commercial banks – Republic Bank Limited, RBTT Financial Holdings Limited and CIBC West Indies Limited – together accounted for $1.3 billion or 45.8% of the new equity capital raised on the TTSE. These firms raised new equity capital exclusively through the use of Rights Issues.

The National Enterprises Limited (NEL) Initial Public Offering in 2001 and the Public Offer in 2002 together accounted for most of the value of new equity capital raised by a government-related firm over the period. These NEL issues raised 15.6% of the new equity capital in the market.

Table 16: Value of New Equity Capital Raised by Type of Organisation and Type of Issue, 1997–2003

Name of Organisation	Organisation Type	Type of Issue	Value of Capital Raised	Percentage of Total
Praetorian Property Mutual Fund	CIS	Initial Public Offerings	$ 200,000,000	7.1%
Sub-total Collective Investment Schemes			***$ 200,000,000***	***7.1%***
National Flour Mills	Government	Public Offers	$ 26,924,800	1.0%
National Enterprises Limited	Government	Public Offers	$ 239,929,815	8.5%
PLIPDECO Limited	Government	Rights Issues	$ 101,705,920	3.6%
BWIA	Government	Initial Public Offerings	$ 57,147,262	2.0%
National Enterprises Limited	Government	Initial Public Offerings	$ 200,000,000	7.1%
Sub-total Government			***$ 625,707,797***	***22.1%***
Trinidad Publishing Limited	Private	Public Offers	$ 19,947,008	0.7%
CIBC (West Indies) Holdings	Private	Rights Issues	$ 285,098,880	10.1%
RBTT Financial Holdings	Private	Rights Issues	$ 408,263,490	14.4%
Republic Bank Limited	Private	Rights Issues	$ 601,071,426	21.3%
Flavorite Foods Limited	Private	Rights Issues	$ 8,750,001	0.3%
Trinidad Cement Limited	Private	Rights Issues	$ 201,423,495	7.1%
Guardian Holdings Limited	Private	Rights Issues	$ 251,850,001	8.9%
Agostini's Limited	Private	Rights Issues	$ 29,508,441	1.0%
Life of Barbados	Private	Initial Public Offerings	$ 112,500,000	4.0%
ANSA Finance and Merchant Bank	Private	Initial Public Offerings	$ 37,500,000	1.3%
Prestige Holdings	Private	Initial Public Offerings	$ 39,000,000	1.4%
FNCU	Private	Initial Public Offerings	$ 5,000,000	0.2%
Sub-total Private			***$1,999,912,742***	***70.8%***
TOTAL			**$2,825,620,539**	**100.0%**

4.1.5 Venture Capital Financing

The Venture Capital Investment Act of 1994 formalised Venture Capital as an investment financing mechanism in Trinidad and Tobago through the establishment of the Venture Capital Incentive Programme (VCIP). The prime objective of the programme was to supply risk equity capital for the establishment and growth of businesses.

The five major components of the programme and their respective roles are as follows:[23]

1. The VCIP Administrator
    - regulates and advises the other players in the venture capital industry;
    - promotes the concept of venture capital financing;
    - registers Venture Capital Companies (VCCs);
    - registers Qualifying Investee Companies (QICs); and
    - issues Tax Credit Certificates.

2. The Intermediary
    - assists in the venture capital deal making process; and
    - offers professional advice to the other players.

3. The Investor
    - invests in the particular enterprise; and
    - obtains the tax credit which is equal to the marginal rate of tax, which is currently 34%.

4. The Venture Capital Company (VCC)
    - provides only one class of shares with no special rights or restrictions attached;

[23] Source: http://www.vcip.org/

- makes eligible and permitted investments; and
- provides business and managerial expertise.

5. The Qualifying Investee Company (QIC)
    - receives the invested funds.

Since its establishment, the VCIP programme has registered the following three VCCs on the specified dates of registration:

1. **Prudent Venture Capital Company Limited –** December 31, 1996
2. **Add-Venture Capital Fund Limited –** January 13, 1997 and
3. **FNCU Venture Capital Company Limited –** December 17, 1999

Among these VCCs only the FNCU Venture Capital Company Limited is listed with the TTSE and is registered with the TTSEC as a reporting issuer.

The following Qualifying Investee Companies (QICs) received funds over the period 1997–2003:

QIC	SECTOR	YEAR FINANCED	PURPOSE OF FINANCING
Kaisoca Productions Limited	MEDIA	1998	Establishment of a radio station
Danakina Limited	TOURISM	2000	Build hotel resort
Lincoln Enterprises Limited	MARKETING	2000	Boost stock levels and establish chroming facility
The Carnival Export Company Limited	TOURISM	2001	Manufacture cultural products
Shells Productions Limited	ENTERTAINMENT	2001	Establish film production entity
Caribbean Molding Industries Ltd.	MANUFACTURING	2001	Establish rubber extrusion plant

These firms received approximately $2 million in financing during the review period with eleven more firms awaiting a further $44.4 million TTD in financing.[24] When compared

[24] Source: www.vcip.org

with the $2.8 billion in new equity capital raised by firms on the TTSE, the $2 million raised by Venture Capital was very small. Also, none of the Venture Capital Companies were registered with the TTSE, TTSEC or CBTT. They are, however, regulated by the Venture Capital Administrator.

As the VCCs mobilise more significant levels of capital in the market place, the nature of regulation provided by the Venture Capital Investment Act will need to be examined. However, more regulation at this stage in the development of the venture capital sector may constrain the development of the sector.

4.1.6 Stock Options

Stock Options represent a privilege, issued by one party to another, that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a stock at an agreed-upon price during a certain period of time, or on a specific date. Employee stock options are a specific form of stock options granted to employees of a company. Employee stock options carry the right, but not the obligation, to buy a certain amount of shares in the company at a predetermined price. The major difference between employee stock options (ESOPs) and regular stock options (SOPs) is that the ESOPs do not usually have a put feature, which means that SOPs can give the buyer of the option the right to either buy (call) or sell (put) the underlying shares of the option, while ESOPs only give the buyer the option to buy the underlying shares at a predetermined price.

Over the review period all stock options registered with the TTSEC were employee stock options. This meant that during this period there were no regular stock options offered to the public.

Table 17 shows that 114 million units of stocks were registered as ESOPs by 21 issuers over the period 1999 to 2003, representing an average of 5.4 million ESOPs units per issuer. These ESOPs resulted in an average dilution of 3% in the earnings per share.

This means that on average shareholders' investments were worth 3% less as a result of the issuance of ESOPs.

The highest erosion in shareholder's wealth occurred with the issue of ESOPs by ANSA McAL Limited in 1999 which diluted the earnings per share from $0.81 to $0.52, a dilution of 35.2%. Besides this sizeable dilution in the earnings per share most dilutions in the earnings per share ranged from as high as 6.8%, associated with Neal and Massy's ESOPs registered in 2001, to as low as 0.04% associated with the Life of Barbados ESOPs issue in 2000.

Table 17: Diluted Earning per Share for Employee Stock Option Registered with the TTSEC 1997–2003

Year	Issuer	Number of Shares For ESOPs	Earnings	Basic Earning Per Share	Diluted Earning Per Share	Change in EPS
1999	ANSA McAl Limited	88,917,421	$ 132,424,000	$ 0.81	$ 0.52	-35.2%
	The Barbados Shipping & Trading Company Limited	38,428	$ 18,626,000	$ 0.32	$ 0.32	-0.9%
Sub-total		*88,955,849*				
2000	Guardian Holdings Limited	300,000	$ 137,940,000	$ 1.10	$ 1.10	-0.9%
	Life of Barbados	17,029	$ 11,040,000	$ 0.26	$ 0.26	-0.04%
	The Barbados Shipping & Trading Company Limited	2,664,833	$ 26,125,000	$ 0.37	$ 0.37	-0.3%
Sub-total		*2,981,862*				
2001	ANSA McAl Limited	410,000	$ 181,249,000	$ 1.10	$ 1.10	-0.2%
	Grace, Kennedy & Company Limited	4,485,900	$ 721,519,000	$ 3.33	$ 3.26	-2.0%
	Guardian Holdings Limited	300,000	$ 18,849,500	$ 1.36	$ 1.34	-1.5%
	Mora Ven Holdings Limited	125,000	$ (832,300)	$ (0.10)	$ (0.11)	-1.0%
	Neal and Massy Holdings Limited	6,500,000	$ 164,518,000	$ 1.85	$ 1.73	-6.8%
	RBTT Financial Holdings Limited	2,056,826	$ 409,486,000	$ 1.20	$ 1.19	-0.6%
	The Barbados Shipping & Trading Company Limited	396,718	$ 28,242,000	$ 0.38	$ 0.38	-0.3%
Sub-total		*14,274,444*				
2002	Grace, Kennedy & Company Limited	3,629,122	$ 1,010,320,000	$ 3.79	$ 3.73	-1.3%
	Guardian Holdings Limited	2,128,168	$ 183,795,000	$ 1.16	$ 1.14	-1.7%
	Mora Ven Holdings Limited	65,000	$ (147,264)	$ (0.02)	$ (0.01)	-4.7%
	The Barbados Shipping & Trading Company Limited	259,443	$ 28,242,000	$ 0.39	$ 0.38	-0.3%
Sub-total		*6,081,733*				
2003	Agostini's Limited	17,500	$ 5,350,000	$ 0.35	$ 0.35	-0.1%
	Grace, Kennedy & Company Limited	428,074	$ 1,419,243,000	$ 4.39	$ 4.38	-0.1%
	Guardian Holdings Limited	590,000	$ 1,055,629,000	$ 6.35	$ 6.25	-1.6%
	Prestige Holdings Limited	500,000	$ 17,135,706	$ 0.29	$ 0.28	-1.0%
	Republic Bank Limited	380,075	$ 583,714,000	$ 3.67	$ 3.66	-0.2%
Sub-total		*1,915,649*				
Grand Total		**114,209,537**	**Average Change in EPS**			**-3.0%**
Total Number of Issuers		**21**				
Average Number of ESOPs per Issuer		**5,438,549**				

Source: TTSE Administrative Data

Further, when the ESOPs were divided into those which are for executive management and directors of the company (Executive ESOPs) and those which are for the non-executive staff of the company (Non-Executive ESOPs) it is noted that 92% of the underlying shares relate to Executive ESOPs, which caused a 3% erosion in the earnings per share (see Table 18). Therefore, most of the erosion in the value per share, as a result of the issuance of ESOPs, was attributable to the issuance of Executive ESOPs by companies.

Table 18: Number of Underlying Shares and Average Percentage Change in Earnings Per Share by Type of ESOP 1997 to 2003

Type of ESOP	Number of Underlying Shares	Percentage of Total Number of Underlying Shares	Average Percentage Change in Earnings Per Share
Executive Stock Options	105,252,694	92.0%	-3.0%
Non-Executive Stock Options	8,956,843	8.0%	-1.0%
Total	**114209537**	**100%**	
Average			**-3.0%**

Generally, ESOPs give the employees of the firm the opportunity to share in the value created by the firm. However, the preponderance of Executive Stock Options and their implications for erosion of shareholders' proportion of the wealth of the firm and the obvious dilution of representation of the shareholders, all emphasise the need for continual monitoring of the issuance of ESOPs and its possible impact on the rights of shareholders. Moreover, for those investors who do not benefit from ESOPs, it is necessary to ensure that proper disclosure of the impact of ESOPs on shareholder wealth is made to the investor.

4.2 *COLLECTIVE INVESTMENT SCHEMES (CISs) 1997– 2003*

Mutual funds, or as they are more generally termed, Collective Investment Schemes (CISs), are enjoying an ever growing presence on the landscape of the Trinidad and Tobago domestic securities since 1981. The first major CIS was established through the initiation of the schemes of the Trinidad and Tobago Unit Trust Corporation. Since then the number and value of funds under management have grown significantly.

All Collective Investment Schemes have to be registered with the TTSEC prior to their issue. In 1997 there were three (3) funds registered with the TTSEC, all of which originated from domestic financial firms. By December 2003 fifty (50) funds were registered with the TTSEC,[25] with the highest number of registrations occurring in 2001 (see Table 19).

Table 19: Number of Collective Investment Schemes Registered 1997–2003

Year	Number of Funds Registered
1997	3
1998	8
1999	3
2000	5
2001	17
2002	5
2003	9
Total	**50**

Seventy per cent of the Collective Investment Schemes originated from local institutions. The remaining 30% of the CISs were funds registered by local agents representing foreign issuers. These foreign funds were, more or less, evenly distributed among eight other jurisdictions, with the respective jurisdictions accounting for as little as 2%, to as much as 6% of the registered CISs (see Table 20).

Table 20: Number of Collective Investment Schemes Registered by Jurisdiction of Origin 1997–2003

Registered Jurisdiction of Origin	Number Registered	Percentage of Total
Barbados	2	4%
Canada	2	4%
Cayman Islands	2	4%
Channel Islands	3	6%
Isle of Man	3	6%
Jamaica	1	2%
Luxembourg	1	2%
Trinidad and Tobago	35	70%
United States of America	1	2%
Grand Total	**50**	**100%**

[25] If the various sub funds are included the number of funds will total one hundred and seventy-seven (177) funds. Source TTSEC administrative data

From the TTSEC's register we also found that most of the CISs were Balanced Funds, which accounted for 32% of all the funds registered.[26] The second most predominant type of fund was Money Market Funds, which accounted for 18% of the total number of funds (see Table 21)

Table 21: Number of Collective Investment Schemes by Type of Funds

Type of Collective Investment Scheme	Number of Funds	Percentage of Total
Balanced Funds	16	32%
Equity Funds	7	14%
Family of Funds	8	16%
Money Market Funds	9	18%
Property Funds	2	4%
Bond Funds	8	16%
Total	**50**	**100%**

The Family of Funds are a group of funds which are often registered as a package of funds which comprises various types of funds. Further analysis of the package of funds provided greater insight into the distribution of the various fund types.

The decomposition of the Family of Funds into its component sub funds revealed that the Equity Funds, accounted for 46% of all issues and were the most predominant form of CISs, followed by Bond Funds and Balanced Funds, which respectively accounted for 16% and 14% of all issues.

[26] Balanced funds refers to CISs which invest in a mix of equity securities and bonds with the objectives of conserving capital, providing fixed income and achieving long-term growth of both principal and income, *Investment Company Institute, 2004*.

Table 22: Number of Collective Investment Schemes by Type of Fund 1997–2003 (Inclusive of Sub Funds)

Type of Collective Investment Scheme	Number of Funds	Percentage of Total
Balanced Funds	24	14%
Equity Funds	82	46%
Money Market Funds	19	11%
Property Funds	2	1%
Bond Funds	29	16%
Sector Funds	9	5%
Index Funds	12	7%
Total	**177**	100%

It is estimated that as at 2003, approximately $20 billion were under the management of the various funds as compared with $3 billion in 1997. This represented a total increase of 512% and an average increase of 46% per annum (see Table 23 and Chart 3)

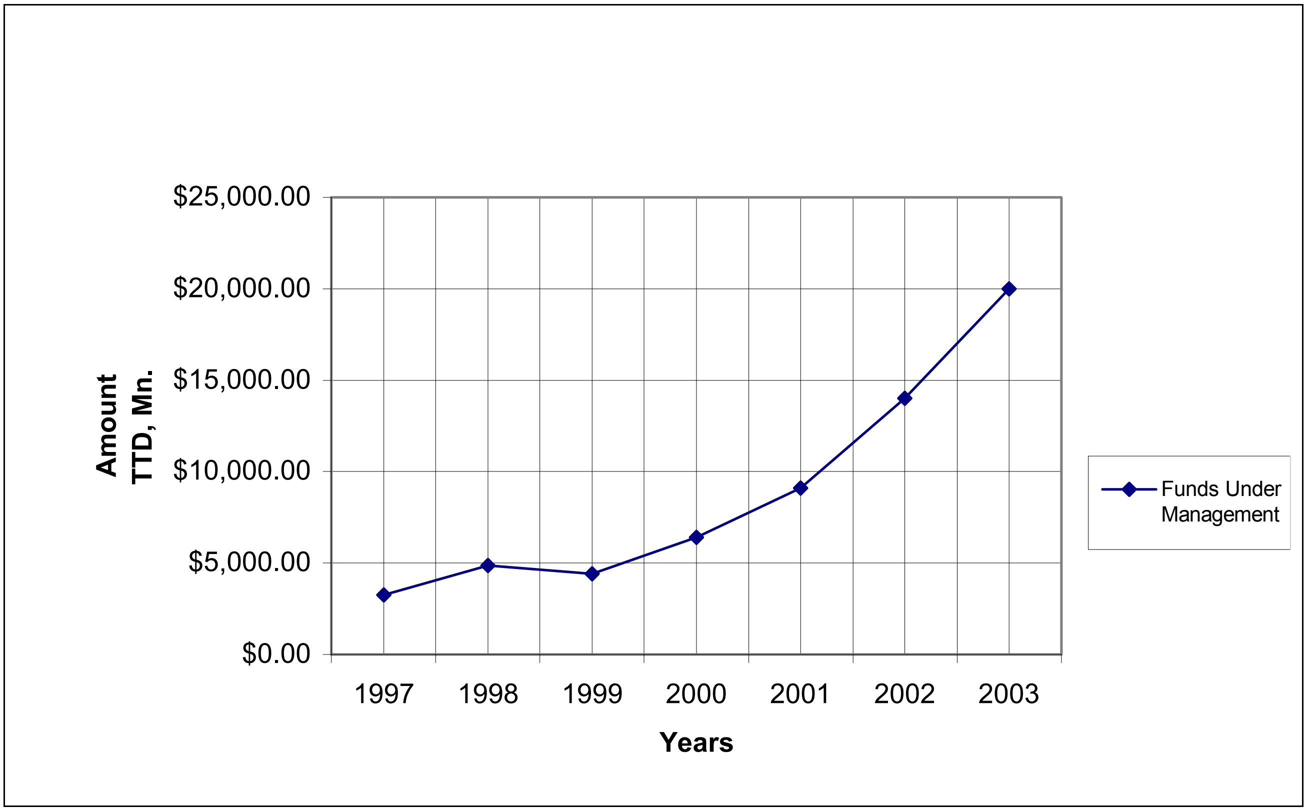
Table 23: Mutual Funds under Management 1997–2003

Years	1997	1998	1999	2000	2001	2002	2003
Mutual Funds ($TTD Mn.)	$3,268	$4,869	$4,400	$6,405	$9,095	$14,000	$20,000
Percentage Change		49%	-10%	46%	42%	54%	43%
Average Percentage Change	**46%**						
Overall Percentage Change	**512%**						

Source: Central Bank *Annual Economic Survey* 1998, 1999, 2000 and 2001 and TTSEC Staff Estimates

Although there was a 49% increase in the funds under management between 1997 and 1998, there was a 10% decline between 1998 and 1999. This resulted in a net percentage change of 39% between 1997 and 1999. After 1999 there was consistent upward growth in the funds under management, with the percentage changes ranging from 42% to 54%.

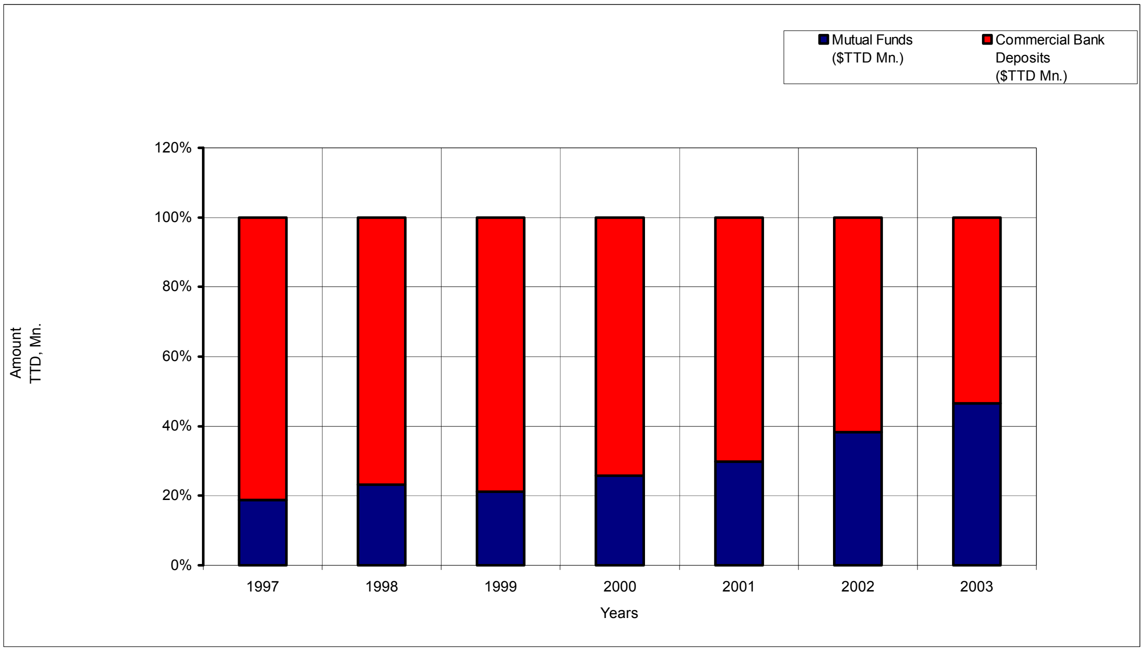
Chart 3: Funds under Management Mutual Funds 1997–2003



Source: Central Bank *Annual Economic Survey* 1998, 1999, 2000, 2001 and TTSEC Staff Estimates

Further, the growing importance of mutual funds as a savings vehicle is highlighted when compared with the size of deposits in commercial banks. In 1997 the value of commercial bank deposits and funds under management by mutual funds totalled $17.4 billion, with mutual funds accounting for $3.3 billion, or 19% of the aggregate of funds and deposits (see Table 24). However, by 2003 mutual funds accounted for $20 billion (47%) of the aggregate funds, while commercial bank deposits accounted for $23 billion (53%). The data showed that over the review period the rate of growth of funds deposited into mutual funds was higher than that for commercial bank deposits. (see Chart 4 and Table 24).

Chart 4: Relative Percentage of Funds under Management for Mutual Funds versus Commercial Bank Deposits 1997–2003



Source: Central Bank Statistics and TTSEC Staff Estimates

Table 24: Relative Amount of Funds under Management of Mutual Funds versus Commercial Bank Deposits 1997 – 2003

Years	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Mutual Funds ($TTD Mn.)	3,268	4,870	4,400	6,406	9,096	14,000	20,000
Commercial Bank Deposits ($TTD Mn.)	14,168	16,202	16,463	18,517	21,430	22,504	23,000
Total Funds	17,436	21,072	20,863	24,923	30,526	36,504	43,000
Mutual Funds as a % of Total	19%	23%	21%	26%	30%	38%	47%
Commercial Bank Deposits as % of Total	81%	77%	79%	74%	70%	62%	53%
Difference in Contributions as a %	63%	54%	58%	49%	40%	23%	7%
Overall %Growth of Mutual Funds				512%			
Overall %Growth of Commercial Bank Deposits				62%			

Source: Central Bank Annual Statistics and TTSEC Staff Estimates

There are no indicators that there will be an abatement of the growth of the mutual funds sector. It is also evident that mutual funds are quickly becoming the preferred form of deposits in Trinidad and Tobago. Therefore, it is plausible that mutual funds can quickly become the most widely distributed form of security in the market place and as such the regulation of the industry is of increasing importance. Because of the growing significance of CIS in the securities market, there are some phenomena about the industry which require further investigation. These include the following:

1. the structure of the funds;
2. the value of funds under management according to the jurisdiction of origin of the funds;
3. the degree of cross listing of the various funds in the market place; and
4. the fund management strategies employed, with special emphasis on fund nomenclature, fee structures and performance presentations.

Notwithstanding the limitations of the data set, the analysis revealed certain features of the CIS industry in Trinidad and Tobago. These include:

1. the CISs have become a prevalent form of investment in the securities market;
2. Equity Funds, Bond Funds, Balanced Funds and Money Market Funds are the most prevalent form of CISs registered with the TTSEC; and
3. the CIS industry consists of products from various foreign jurisdictions.

4.3 *DEBT MARKET 1997 – 2003*

This section will review the activity of debt securities over the period 1997 to 2003. Whereby, we will then assess the patterns and trends of the debt securities market in Trinidad and Tobago, using the debt issues registered with the TTSEC.

4.3.1 The Debt Securities Market of Trinidad and Tobago: Trends and Patterns.

We have attempted to analyse the trends and patterns of the debt securities market using the TTSEC's register of securities. This register is not the universal set of all debt securities issued on the local market.[27] However, assumptions can be made and significant information garnered from the analysis.

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) registered one hundred and eighty-six (186) debt securities valued at $53 billion during the calendar period 1997 to 2003, in three distinct categories – bonds, commercial paper and credit/debt derivatives. Of the 186 securities, 107 were bond issues valued at $26.3 billion, 70 were credit/debt derivatives valued at $25.2 billion and only 9 were Commercial Paper issues valued at $1.5 billion (see Table 25).[28]

Table 25: Value of Debt Issues Registered by Type, 1997–2003

Type of Issue	Number of Issues	Value ($TTD) 1997–2003
Bonds	107	26,322,298,892
Commercial Papers	9	1,513,584,450
Credit/Debt Derivatives	70	25,184,433,526
Total	**186**	**53,020,316,868**

As seen in Table 26, the total capital raised by bonds and credit/debt derivatives has generally increased over the period. Over all the years, the average value of the bond issues was $3.8 billion per annum while for the credit/debt derivative issues it was $3.6 billion per annum.

[27]The TTSEC only registers public securities placements and placements by registered issuers. Under the existing legislation private issues by registered issuers do not require registration by the TTSEC. Consequently, this analysis is based on registered issuers only.
[28] For the purposes of the report the quoted value of the derivative securities is the value of the underlying debt securities at the time the corresponding derivative was registered.

Table 26: Value of Capital Raised by Bonds and Credit/ Debt Derivatives, 1997–2003

Year	Type					
	Bonds		Credit/Debt Derivatives		All Instruments	
	Value (TTD)	*Percentage Change*	*Value (TTD)*	*Percentage Change*	*Value (TTD)*	*Percentage Change*
1997	75,000,000		451,072,840		526,072,840	
1998	1,365,503,325	1721%	5,930,906,530	1215%	7,296,409,855	1287%
1999	4,312,586,55	216%	2,355,240,341	-60%	6,667,826,898	-9%
2000	2,798,500,199	-35%	1,108,586,880	-53%	3,907,087,079	-41%
2001	8,005,144,276	186%	2,953,433,234	166%	10,958,577,510	180%
2002	3,511,123,370	-56%	7,736,389,425	162%	11,247,512,795	3%
2003	6,254,441,165	78%	4,648,804,277	-40%	10,903,245,442	-3%
Total	**26,322,298,892**		**25,184,433,526**		**51,506,732,418**	
Average Amount	**3,760,328,413**	**352%**	**3,597,776,218**		**7,358,104,631**	**236%**
Adjusted Average Percentage Change		**78%**				**26%**

There was a net positive growth in the value of securities for the bonds and credit/debt derivatives. Over the period under review the value of Bonds registered declined only twice; first, in 2000 the value of registered issues declined by 35%, then in 2002 the value of issues declined by 56%. Notwithstanding these declines the value of bonds registered increased by an average of 352% per annum over the period of review, and if we omit the very high percentage change in 1998 we will have an average percentage change of 78% per annum.

Similarly, for credit/debt derivatives despite the declines that occurred in 1999, 2000 and 2003 there has been an average increase of 236% per annum in the value of the underlying securities of the derivatives and an adjusted percentage change of 16% per annum.

Further, the data also revealed that quasi-governmental organisations were the main issuers of debt securities, issuing 33% of the total number of debt securities valued at $18.5 billion and accounted for 35% of the value of the registered securities. The second most prolific issuers were foreign central governments, which accounted for 20% of the number of debt issues. However, these accounted for only 10% of the total value of debt issues (see Table 27).

Although the local central government was the third most prolific category of issuers, accounting for 19% of the debt issues registered, the category registered $12.7 billion worth of issues which accounted for 24% of the value of securities registered in the market.

Table 27: Registered Debt Securities by Issuer Category

Issuer Category	Local	Foreign	Number	Percentage of Total Number of Issues	Value (TTD)	Percentage of Total Value
Commercial Banks	13		13	7%	3,042,505,735	6%
Conglomerates		2	2	1%	1,783,412,176	3%
Local Central Government	35		35	19%	12,741,129,355	24%
Foreign Central Government		38	38	20%	5,171,613,779	10%
Manufacturing	16		16	9%	7,427,738,832	14%
Non-Banking Finance	12		12	6%	3,088,247,597	6%
Foreign Non-Banking Finance		2	2	1%	425,312,813	1%
Other	2		2	1%	492,217,427	1%
Property	1		1	1%	18,000,000	0%
Quasi-Government	61	1	62	33%	18,455,139,154	35%
Trading	3		3	2%	375,000,000	1%
Total	**143**	**43**	**186**	**100%**	**53,020,316,868**	**100%**

Among the private sector firms the Manufacturing Sector registered the most issues and accounted for the greatest value of issues registered. This sector accounted for 9% of all debt issues registered and 14% of the total value.

4.3.2.1 Bond Securities

Bonds are defined as long-term, fixed-obligations debt securities. The number of bonds registered with the Commission has grown considerably during the period under review. From 1997 to 2001, the number of bonds registered with the Commission increased from one to 32 issues. Though there was a sharp fall in the number registered in 2002, this trend was offset by a rise in the number of bonds registered in 2003 (see Table 28**)**

Table 28: Number of Bonds Registered, 1997–2003

Year Registered	Total Number
1997	1
1998	2
1999	21
2000	15
2001	32
2002	14
2003	22
Total	**107**

The value of capital raised by bonds was TTD$26.3 billion dollars, (see Table 26), with 33% of the issues valued at amounts greater than $250 million, but less than $500 million. Fifty-seven percent of the issues had values ranging from TTD$100 million up to TTD$500 million in value (see Table 29).[29]

Table 29: Number of Bonds Registered by Category of Par Value, 1997–2003

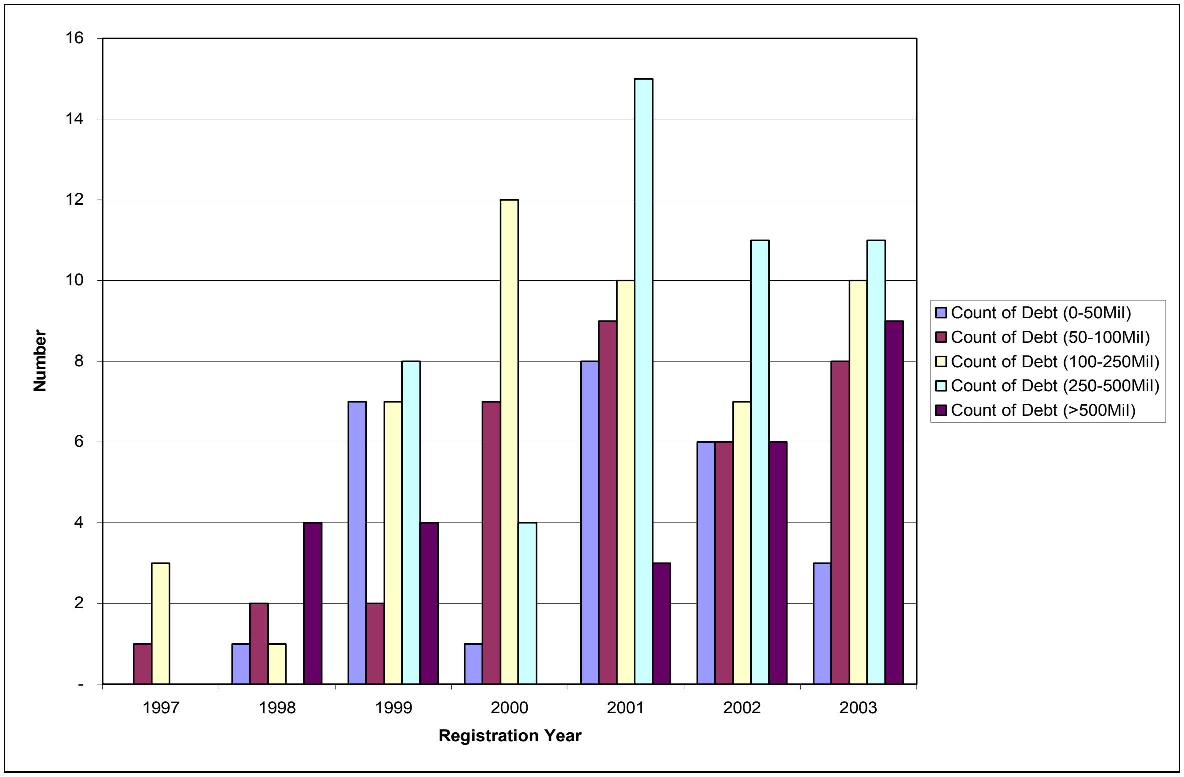
Year Registered	Value Category					
	< $50 Mn.	≥$50 Mn. but < $100 Mn.	≥$100 Mn. but < $250 Mn.	≥$250 Mn. but <$500 Mn.	≥$500 Mn.	Total Number
1997		1				1
1998			1		1	2
1999	7	2	4	7	1	21
2000		5	6	4		15
2001	6	5	7	12	2	32
2002	3	1	3	5	2	14
2003	2	4	5	7	4	22
Total	18	18	26	35	10	107
% of Total	**17%**	**17%**	**24%**	**33%**	**9%**	**100%**

Chart 5 demonstrates that over the years there has been a preponderance of bonds in the $100 million to the less than $500 million size category, with a growing occurrence of bond issues over $500 million. Conversely, bond issues of a value less than $50 million

[29] This 57% is the accumulation of the 33% for the $250 million to $500 million category and the 24% of the $100 million to $250 million.

has occurred less frequently. This suggests that issuers seemed to have developed a preference for larger issues.

Chart 5: Count of Registered Bonds by Value Category, 1997–2003



When we examined the currency of the bonds it was noted that 73% of the bond issues registered with the Commission was in TTD currency. However, since 2001, an increasing number of USD bonds was registered with the Commission; increasing from two issues in 2001 to seven issues in 2003 (see Table 30).

Table 30: Count of Bonds Registered by Currency, 1997–2003

Currency	1997	1998	1999	2000	2001	2002	2003	TOTAL	Percentage of Total
BDS						1		**1**	1%
EC			1	2	2		2	**7**	7%
TTD	1		16	12	28	8	13	**78**	73%
USD		2	4	1	2	5	7	**21**	20%
Total	**1**	**2**	**21**	**15**	**32**	**14**	**22**	**107**	100%

Moreover, apart from the TTD issues, the next highest value of issues was in the USD denomination, which accounted for 23% of the total value of the issues (see Table 31).

Table 31: Value of Bond Issues (TTD) by Currency, 1997–2003

Currency	Value (TTD)	Percentage of Total
BDS	31,952,000	0.1%
EC	500,717,070	1.9%
TTD	19,670,851,947	74.7%
USD	6,118,777,875	23.3%
Total	26,322,298,892	**100.0%**

Conversions: 2.3541 TTD / ECD
3.1952 TTD / BDS
6.2999 TTD / USD

Most of the bonds registered with the Commission had terms to maturity of ten, fifteen or twenty years (see Table 33). The coupon rate for these bonds varied from 5.45% to 12.25% with a median interest rate of 9.90% (see Chart 6**).**[30]

Table 32 shows that local central government and quasi-governmental agencies accounted for 25.8% and 29.9% respectively of the $26.3 billion raised by bond issues. Among the firms of the private sector, the Commercial Banks accounted for the highest value of registered bond issues (10.7% or $2.83 billion).

[30] Please note that for the chart twenty six of the issues did not have stated rates.

Table 32: Value of Bond Securities by Category of Issuer, 1997–2003

Issuer Category	Value (TTD)	Percentage of Total
Commercial Banks	2,818,000,000	10.7%
Conglomerates	786,500,000	3.0%
Foreign Central Government	2,785,638,070	10.6%
Local Central Government	6,803,553,306	25.8%
Local Quasi-Governmental	7,882,173,127	29.9%
Manufacturing	2,300,157,622	8.7%
Non-Banking Financial	1,893,482,000	7.2%
Non-Banking Financial (Foreign)	167,577,340	0.6%
Other	492,217,427	1.9%
Property	18,000,000	0.1%
Trading	375,000,000	1.4%
Total	**26,322,298,892**	**100.0%**

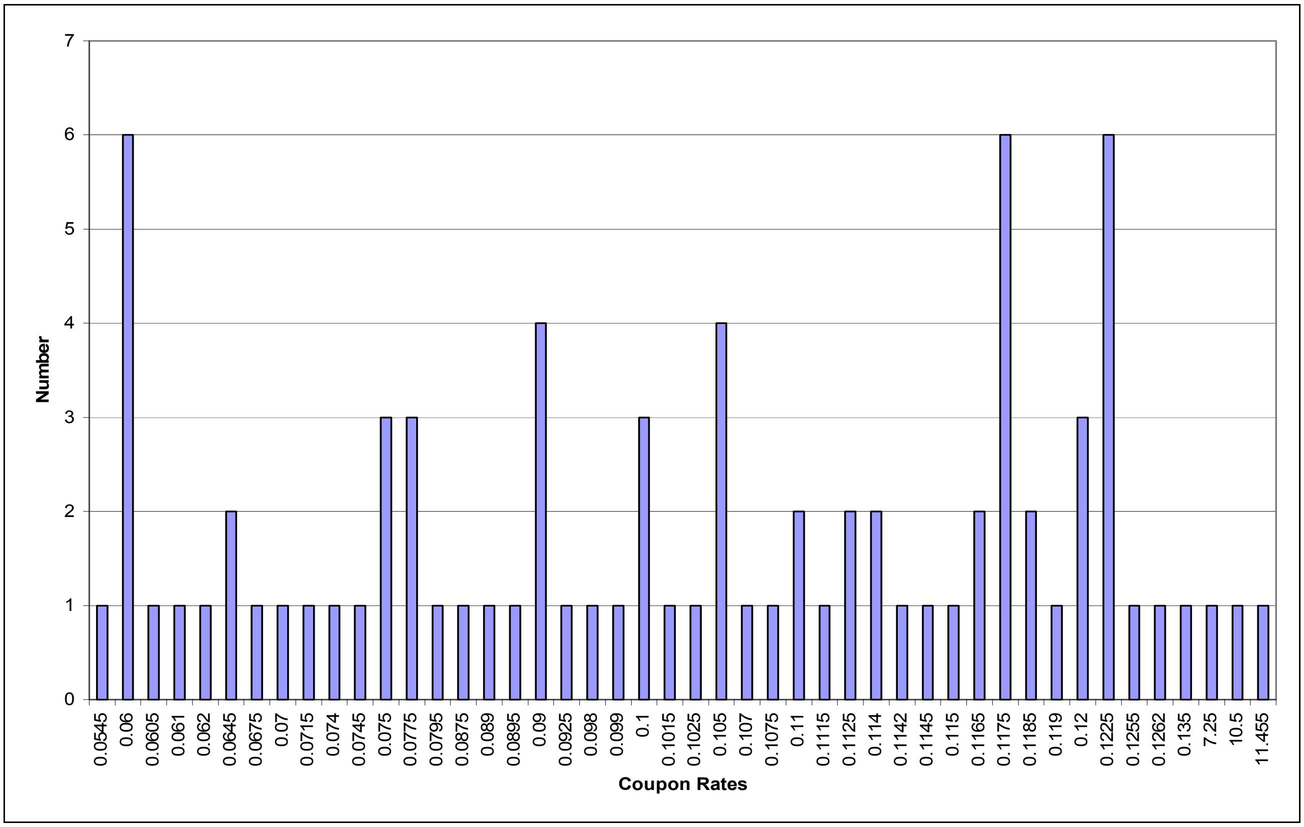
In sum, the analysis reveals that there was a growing tendency to register issues of bonds over $100 million, with terms to maturity of ten to fifteen years. Governmental issues raised the most capital followed by issues of quasi-governmental organisations. The private sector was not the major issuer on the market, with the Commercial Banks being the major issuer among these firms. The majority of issues were quoted in TTD, although there was a growing number of USD denominated issues coming onto the market in the latter part of the review period.

These observations may have direct implications for the registration and disclosure requirements of bond issues. For instance, peculiar to those issues which are quoted in foreign currency exchange rates risk should be disclosed for such issues.

Table 33: Terms to Maturity of Bonds Registered, 1997–2003

Term to Maturity of Bond Issues (Years)	Number of Issues
3	1
4	3
5	7
6	3
7	4
9	3
10	21
11	1
12	1
13	2
15	23
19	4
20	12
21	1
25	9
30	1
Not Stated	11
Grand Total	**107**

Chart 6 Count of Stated Coupon Rates of Bonds Registered, 1997–2003



4.3.2.2 Credit/Debt Derivative Securities

A derivative is a form of financing where the performance of the security is based on the performance of an underlying asset (bond). As such, issues of derivatives do not represent new capital.

In Trinidad and Tobago, there exist derivative securities such as forwards, futures contracts, options, and credit derivatives. Credit/debt derivatives may exist as swaps in the basic form, such as interest rate swaps, currency swaps, as well as hybrids.[31] The typical bond or debt derivative is a *Certificate of Interest* or *Certificate of Participation*. Both of these securities are strips of the underlying bonds, with the coupon and principal of the bonds representing separate asset pools.

During the period 1997 to 2003, seventy (70) credit/debt derivative securities were registered with the TTSEC. As is demonstrated in Table 34 the Citibank/Citicorp group issued the highest proportion (72.2%) of the total value of the derivatives issued. Also, two other major commercial banks, namely RBTT and RBL, respectively issued 11.3% and 11.4% of the total value of registered derivatives. Therefore, three firms out of a possible ten issued an aggregated 94.9% of the total value of derivatives registered. It is reasonable to suggest that the derivatives market is highly concentrated. In theory this relatively high concentration of the market may have implications for the efficiency of the pricing of issues in the market.

[31] Source: Annual Reports of various Commercial Banks and the TTSEC Administrative data

Table 34: Number and Value of Credit/Debt Derivatives Issued by Issuer Category, 1997–2003

Issuer	Number of Issues	Value ($TTD)	Percentage of Value
Caribbean Commercial Bank Limited	2	113,028,532	0.4%
Citibank/Citicorp	43	18,152,234,378	72.2%
CLICO Investment Bank Limited	1	125,210,513	0.5%
First Citizens Bank Limited	2	149,825,053	0.6%
Inter Commercial Bank Limited	2	53,400,000	0.2%
RBTT Merchant Bank Limited	7	2,864,493,440	11.3%
Republic Bank Limited	7	2,874,448,926	11.4%
Scotia Bank Trinidad and Tobago Limited	2	223,783,055	0.9%
The Home Mortgage Bank	3	228,009,628	0.9%
Trinidad and Tobago Unit Trust Corporation	1	400,000,000	1.6%
TOTAL	**70**	**25,184,433,526**	**100.0%**

We have also found that the credit/debt derivative market has shown some expansion over the period under review. The number of issues grew from three in 1997 to as much as twenty-one in 2002, and then fell to fifteen issues for the year 2003 (see Table 35).

Table 35: Count of Credit/ Debt Derivatives Registered, 1997–2003

Credit/ Debt Derivative Securities Registered	
Year	**Total**
1997	3
1998	6
1999	6
2000	9
2001	10
2002	21
2003	15
Total	**70**

Most of the credit/debt derivative securities (33%) had values in excess of $100 million and less than $250 million (see Table 36). The second most predominant size of issue were those issues which were over $500 million in value, these accounted for 21% of the number of issues registered over the review period. Cumulatively, all issues over $100 million accounted for 73% of the total number of issues[32] (obtained from Table 36).

Table 36: Count of Credit/Debt Derivatives by Category of Par Value 1997–2003

Value Category	1997	1998	1999	2000	2001	2002	2003	TOTAL	Percentage of Total
< $50 Mn.		1		1	2	3		**7**	**10%**
≥$50 Mn. but < $100 Mn.		2		2	1	4	3	**12**	**17%**
≥$100 Mn. but < $250 Mn.	3		2	6	3	4	5	**23**	**33%**
≥$250 Mn. but <$500 Mn.			1		3	6	3	**13**	**19%**
≥$500 Mn.		3	3		1	4	4	**15**	**21%**
Total	**3**	**6**	**6**	**9**	**10**	**21**	**15**	**70**	**100%**

Moreover, the issues over $100 million had a cumulated value of underlying assets of $24 billion, which accounted for 96% of the value of credit/debt securities registered (obtain from Table 37).[33]

Table 37: Value of Credit/Debt Derivatives by Category of Par Value 1997–2003

Year	Value Category					Total
	< $50 Mn.	**≥$50 Mn. but < $100 Mn.**	**≥$100 Mn. but < $250 Mn.**	**≥$250 Mn. but <$500 Mn.**	**≥$500 Mn.**	
1997			451,072,840			**451,072,840**
1998	21,671,656	124,392,982			5,784,841,892	**5,930,906,530**
1999			211,840,492	348,112,538	1,795,287,312	**2,355,240,341**
2000	45,339,593	152,918,822	910,328,465			**1,108,586,880**
2001	53,400,000	90,197,342	401,321,887	1,098,397,508	1,310,116,497	**2,953,433,234**
2002	130,778,500	301,972,141	667,839,281	1,988,109,963	4,647,689,540	**7,736,389,425**
2003		223,886,012	871,919,266	1,041,240,172	2,511,758,827	**4,648,804,277**
Total	**251,189,749**	**893,367,298**	**3,514,322,231**	**4,475,860,180**	**16,049,694,068**	**25,184,433,526**
Percentage of Total	**1%**	**4%**	**14%**	**18%**	**64%**	**100%**

[32] The 73% figure is the result of the sum of the percentages associated with the categories ranging from $100 million to over $500 million.

[33] This figure of $24.3 billion is cumulated from the total value of the categories: ≥$100 Mn. but < $250 Mn., ≥$250 Mn. but <$500 Mn. and ≥$500 Mn.

Most of the underlying securities were bonds issued by Foreign Central Governments, which had underlying debt securities in 24% of the credit/ debt derivative issues (see Table 38). The second highest owner of the underlying securities was the Quasi-Government firms followed by the Local Central Government, which accounted for 23% and 21% of the underlying debt securities. Among the private sector firms the Manufacturing Sector owned most of the underlying debt securities, which accounted for 11% of all the underlying debt securities.

Table 38: Number of Credit/Debt Derivatives by Category of Issuer of Underlying Asset, 1997–2003

Credit/Debt Derivatives Registered		
Issuer Category	**Number**	**Percentage of Total**
Commercial Banks	5	7%
Conglomerates	1	1%
Foreign Central Government	17	24%
Foreign Non-Banking Finance (NBF)	1	1%
Foreign Quasi-Governmental	1	1%
Local Central Government	15	21%
Manufacturing	8	11%
Non-Banking Finance	6	9%
Quasi-Governmental	16	23%
Total	**70**	**100%**

However, we found that in respect of value of the underlying debt securities, the Local Central Government had the highest value of underlying securities, which accounted for the $9.1 billion, or 36.3%, of the $25.2 billion of the underlying debt securities. In the private sector the Manufacturing Sector accounted for the greatest value of underlying assets, which represented 19.6% of the value of the underlying securities issued over the period (see Table 39)

Table 39: Value of Underlying Assets of Credit/Debt Derivatives by Category of Issuer, 1997–2003

Issuer Category	Value (TTD)	Percentage of Total
Commercial Banks	224,505,735	0.9%
Conglomerates	996,912,176	4.0%
Foreign Central Government	2,385,975,709	9.5%
Foreign Non-Banking Financial	257,735,473	1.0%
Foreign Quasi-governmental	104,636,802	0.4%
Local Central Government	5,937,576,049	23.6%
Local Non-Banking Financial Institutions	1,194,765,597	4.7%
Local Quasi-governmental	9,146,891,724	36.3%
Manufacturing	4,935,434,260	19.6%
Total	**25,184,433,526**	**100.0%**

Like bond issues, the highest number and value of credit/debt derivative securities were denominated in TTD currency, with USD derivative issues accounting for the next highest value and number of issues (see Table 40 and Table 41)

Table 40: Number of Credit Debt Derivatives Registered by Currency Denomination, 1997–2003

Currency	1997	1998	1999	2000	2001	2002	2003	Total
BDS						2		2
EC			1	1	2		2	6
TTD		1	2	3	8	10	8	32
USD	3	5	3	5		9	5	30
Total	**3**	**6**	**6**	**9**	**10**	**21**	**15**	**70**

However, unlike in the bond market where 74% of the value of the bonds registered was quoted in TTD, in the derivatives market only 55% of the value of the credit/debt derivatives registered was quoted in TTD. Also, in the bond market while 23% of the value of the bonds registered was quoted in USD, in the derivatives market 40% of the value of the credit/debt derivatives registered was quoted in USD. Therefore, the difference in the proportions of the value of securities quoted in TTD versus USD was smaller in the credit/debt derivatives market than in the bond market.

Table 41: Value of Credit/Debt Derivatives Registered by Currency Denomination 1997–2003

Currency	Value (TTD)	Percentage of Total
BDS	89,266,066	0.4%
EC	899,113,169	3.6%
TTD	14,023,780,930	55.7%
USD	10,172,273,361	40.4%
Total	**25,184,433,526**	**100.00%**
Conversions:	**2.3541 TTD / ECD**	
	3.1952 TTD / BDS	
	6.2999 TTD / USD	

In general, credit/debt derivatives increased in both number and value. The proportion of the value of issues according to the issuer indicates that the derivatives market was highly concentrated with one issuer controlling more than seventy per cent of the market. This is of importance in the regulation of the market as such a high level of market concentration can distort the pricing efficiency of the market.

The local governmental organisation accounted for most of the value of the underlying securities. However, we have shown that a significant proportion of the value of the underlying securities was owned by foreign governments. We have also shown that a significant proportion of the value of the derivative issues was quoted in USD.

4.3.2.3 Commercial Paper

A commercial paper is a short-term fixed debt obligation with a maturity of less that one year.

The Commission registered nine (9) commercial paper issues during the period under review. These issues were made by local quasi-governmental organisations, namely, Caroni 1975 Limited and the Water and Sewage Authority of Trinidad and Tobago.

Most of the issues of Commercial Paper were TTD dollar currency, with only one issue being denominated in USD currency. The coupon rates on the commercial paper issues ranged from 6.75% to 9.65%.[34]

Table 42: Commercial Paper Issues Registered 1997–2003

Commercial Paper Issues Registered	
Year	**Total**
1999	1
2001	3
2002	1
2003	4
Total	**9**

In sum, the Commercial Paper market is smaller than the credit/debt derivatives and Bond markets. However, the patterns and trends of the commercial paper market are similar to those of the credit/ debt derivatives and Bond markets.

4.4 *An Overview of the Structure of Capital and Loan Borrowings of Firms in Trinidad and Tobago*

A number of studies done in the 1980s and the 1990s all confirmed that during those periods debt financing dominated the financial sector.[35] This section of the study seeks to ascertain whether debt financing still pervades the capital structure of the firms in Trinidad and Tobago as opposed to equity financing. The period of review shall be between the years 1997 and 2003.

Earlier studies have found that traditionally Trinidad and Tobago's firms were extremely predisposed toward debt financing. [36] This predisposition results from the conflation of many factors, including the fact that debt financing avoids issues related to the possible

[34] Source: TTSEC Administrative Data
[35] See Clarke et al. 1984
[36] See O'Brien 1989

loss of control of the businesses, and the banking sector is the predominant source of business financing.

This study uses the firms' debt-to-equity ratios as a proxy of their capital structure.[37] Specifically, the ratio of non-current liabilities to shareholders' equity is expected to provide insight into the capital structure of the firm as it relates to its long-term investments.[38]

In accordance with globally accepted accounting principles, the ratios with values less than one suggest that the firms are not highly leveraged, while ratios with values greater than one suggest that the firms engage in high levels of debt financing.

The framework for the analysis was the companies listed with the Trinidad and Tobago Stock Exchange (TTSE). The firms are classified by the taxonomy used by the TTSE. The classifications are Commercial Banks, Conglomerates, Manufacturing I, Manufacturing II, Property, Trading, and Non-Banking Finance. They are descriptive of the first tier market. For purposes of reference, the ratios are calculated and presented in Appendix I and summarized in Table 43.

Table 43: Average Debt to Equity Ratios of First Tier Firms of the TTSE by Sector, 1997–2003

Sector	Debt to Equity Ratios 1997–2003						
	1997	1998	1999	2000	2001	2002	2003
Commercial Banks	2.14	2.15	2.15	1.65	1.55	1.07	0.95
Conglomerates	0.92	0.92	0.87	0.74	0.91	0.76	0.67
Manufacturing I	0.21	0.24	0.28	0.31	0.42	0.43	0.58
Manufacturing II	0.25	0.37	0.85	0.57	0.54	0.47	0.55
Property	0.1	0.13	0.22	0.27	0.2	0.21	0.29
Trading	1.13	1.35	1.59	0.68	1.03	1.56	0.69
Non-Banking Finance	1.74	1.37	1.28	1.39	1.61	1.59	2.22

[37] The debt/equity ratio was calculated by dividing a firm's non-current liabilities by its total shareholders' equity.

[38] Non-current liabilities are usually measured by the time taken before they are retired (debt which is retired after 5 years). In this report we use the non-current liability as that which extends over more than one production cycle, where a production cycle will be determined by the accounting period of the firm.

We noted that the averages of the debt-to-equity ratios for Commercial Banks were showing signs of a constant downward trend. In 1997, the average debt-to-equity ratio was estimated at 2.14 whereas, at the end of 2003, the ratio was calculated as 0.95. This suggests that the sector is increasingly reliant on equity financing in the pursuit of their long-term investments.

For the Conglomerates, the sectoral average debt-to-equity ratios ranged close to 1.0 with a slight decrease from 0.92 to 0.67 over the period under review. It was hypothesized that the individual ratios for the two firms in this category would have debt-to-equity ratios below or close to one, since each group includes a number of subsidiaries which can facilitate financing arrangements within the group. Such financing arrangements are expected to reduce the need for any significant debt financing by the group as a whole. The hypothesis held true for one of the firms. However, the other firm was more highly geared.

The ratios for the firms of the TTSE's Manufacturing I and Manufacturing II categories were generally below one. Notably, there was an upward trend in these ratios for each of the firms as well as across the relevant sector. In most cases, non-current liabilities and total shareholders equity increased at the same rate and as a result there was hardly any change in the debt-to-equity ratios. It was expected that the average ratios would be greater than one given the tradition of debt financing for this sector.[39] However, it appeared that the firms were five to six times more reliant on equity than on non-current liabilities as long-term financing. A closer examination of the balance sheets of these firms highlighted that in this sector most of the firms were engaged in the use of reinvested earnings to finance their long-term investments.[40]

As regards the firms in the Property category, it is expected that given the very nature of their core business, as regards the rate of turnover of assets, these firms would be more

[39] See O'Brien 1989

[40] See Annual Reports for Angostura Limited, Caribbean Communications Network Limited, Lever Brothers West Indies Limited, National Flour Mills, Trinidad Publishing Company, West Indian Tobacco Company Ltd., Berger Paints Trinidad Limited, Flavorite Food Limited, Readymix (West Indies) Limited and Trinidad Cement Limited 1997 to 2003

reliant on equity financing. As was hypothesized, the respective ratios were generally below one with the highest average ratio being 0.29. Nonetheless, the average ratios of the sector displayed increasing levels of debt financing in the capital structure of the firms, with a consistent increase in the ratios from 0.1 in 1999 to 0.29 in 2003.

Among the Trading firms, the debt-to-equity ratios were generally close to and over one. Noticeably the data was skewed, as one of the firms, namely BWIA West Indies Limited, had a high negative debt-to-equity ratio. This was not typical of the firms in this sector and generally the firms showed some predisposition towards debt financing.

On average the firms of the Non-Banking Finance sector had debt-to-equity ratios above one. Moreover, the ratios exhibited an upward trend from a value of 1.74 in 1997 to as low as 1.39 in 2000 and rebounding to a high of 2.22 in 2003. Therefore, it is clear that this sector has demonstrated an increasing tendency to higher levels of debt financing.

Given the frame of the analysis, the TTSE listed issuers, the debt-to-equity ratios observed were generally low, which was not surprising as these firms used the equity exchanges to assist with their strategic financing. For the Commercial Banks, Trading and Conglomerates sectors there was a general decrease in the debt-to-equity ratios over the review period. While for the Non-Banking Finance, Property, Trading and Manufacturing sectors the ratios indicate that the constituent firms were more reliant on debt financing.

Another perspective on the borrowing patterns of firms can be gained from the trends and patterns of loan borrowings over the review period.

Generally, the private sector has displayed trends of increased borrowings through loans. The total capital generated from commercial loans over the period 1997 to 2003 was $6.5 billion (Appendix II), of which the Commercial Banks, Finance Companies and Merchant Banks generated $5.0 billion and the Trust and Mortgage Institutions contributed $1.5 billion.

Based on the productive lending of the Commercial Banks, Finance Companies and Merchant Banks, one can discern a particular pattern to the borrowings of the productive sectors. The percentage changes in lending ranged from -0.1% between 2001 and 2002 to 33.9% between 2002 and 2003, the resultant effect was an increase in the net loans issued from approximately $611 million in 1997 to $2.5 billion in 2003.

The Services Sector accounted for most of the new capital generated from loan borrowings (65.7%). This contrasts with the Agriculture Sector which had a 0.4% reduction in the net loans generated.

From the foregoing it is clear that there has been increased loan borrowing by firms in the private sector. Most of the net loan borrowings occurred in the firms within the Services sector and the Construction sector. In the Agricultural sector there has been a net repayment of loans.

The analysis of the debt-to-equity ratios of the firms and the net loan borrowings suggests that debt financing of firms generally increased over the period under review. However, in certain sectors, like Commercial Banking, Trading and Conglomerates sectors, there were signs that an increasing proportion of the firms' capital consisted of equity. This equity financing could be obtained from Retained Earnings or New Share Issues.

4.5 *DEBT VS. EQUITY: THE PREFERRED MEANS OF FINANCING*

As earlier mentioned, firms in Trinidad and Tobago appear to prefer debt financing to new equity capital. The following are some of the reasons for this phenomenon:

1. illiquidity of the stock market leading to untimely exchanges and delayed pricing of the securities;
2. perceptions of a lack of transparency in the pricing mechanisms of the market;

3. the possibility of a dilution of ownership or takeover of the business enterprise when shares are issued in the public domain;
4. the level of disclosure required by publicly traded firms is perceived to be, at best, simply too onerous and, at worst, may result in the divulgence of trade secrets; and
5. creditors prefer to provide debt financing rather than underwrite equity financing arrangements for two reasons:
    a. returns from debt financing are more assured;
    b. debt financing improves the appearance of the creditor's balance sheet.

Apart from the elements identified above that might make the cost of equity seem higher than the cost of debt, there is also the question of whether the administrative costs associated with raising equity are higher than those for raising debt.[41]

For the purpose of comparison, it shall be assumed that a firm is interested in raising $500 million of common equity through a public listing, versus $500 million of debt through a corporate bond issued to less than fifty investors, and not listed publicly.[42]
When the firm raises capital through the issuance of common equity the structure of fees is as detailed in Table 44, where it is estimated that the initial fee for a $500 million common equity issue will be $2.3 million.

[41] In this analysis minor costs such as document preparation are omitted, as they are not considered material to the analysis of the cost differential.
[42] The condition of not listing publicly has been chosen since currently very few bonds are publicly listed in Trinidad and Tobago

Table 44: Estimate of Fees for Issuance of $500 Mn. Common Equity IPO

Type of Fee	Estimated Fee Payable[43]	
TTSEC Registration Fee	$	35,000
TTSEC Amended Registration Fee	$	500
Legal	$	200,000
Stamp Duty	$	2,000,000
Brokerage	$	20,000
Listing Fees		
Annual Charge TTSE	$	82,500
Annual Charge TTCD	$	11,000
Estimated Initial Cost	**$**	**2,349,000**
Estimated Annual Registration Cost	**$**	**94,000**

On the other hand, when raising a corporate bond issue the structure of the fees is as detailed in Table 45. Whereby, we show that the fee for raising capital via a corporate bond issue is $9.4 million.

Table 45: Estimate of Fees for Issuance of $500 Mn. Corporate Bond Issue

Type of Fee	Estimated Fee Payable	
	Flat Fee	
TTSEC Registration Fee	$	35,000
TTSEC Amended Registration Fee	$	500
Legal	$	500,000
Stamp Duty	$	2,000,000
Underwriting	$	3,650,000
Issuing Agent	$	3,250,000
Estimated Initial Cost	**$**	**9,435,500**
Estimated Annual Registration Cost	**$**	**500**

From the foregoing, it is clear that the initial cost of raising debt is four times as costly as raising equity. However, Table 44 and Table 45 show that the annual registration cost of maintaining an equity issue is much higher than that for debt.

Another factor is the annual payment towards dividends and interest. As shown in the section on debt securities, the median coupon rate for bonds is 9.1%, which is less than the average dividend payment of 39% for a TTSE listed firm (see Table 46). This means

[43] Based on documents submitted to the TTSEC by various Reporting Issuers.

that assuming that the issuers, in our example, were to perform as the average market actor, the issuer of $500 million worth of common stock will pay $195 million per year in dividends. The corporate bond issuer, however, only pays $45.5 million in interest payments per annum. This further shows that the yearly payment for the bond issuer is substantially lower than that for the equity issuer.

The conclusion that may therefore be drawn is that the factors outlined which include the illiquidity and perceived lack of transparency of the market, concerns about the loss of control and concerns about disclosure requirements, as well as the annual maintenance costs, all have the effect of increasing the perceived costs of equity financing to a level higher than that for debt financing.

Table 46: Dividend Payout for TTSE Listed Firms, 2002–2003

Listed Company	Recent Dividend Payments on Common Equity	
First Caribbean International Bank	$	0.05
National Commercial Bank of Jamaica	$	0.51
Republic Bank Limited	$	1.80
RBTT Financial Holdings	$	0.70
Scotia Bank Trinidad and Tobago Limited	$	0.70
ANSA McAL Limited	$	0.62
Barbados Shipping and Trading Company Limited	$	0.48
Grace Kennedy and Company Limited	$	0.62
Neal and Massy Holdings Limited	$	0.67
Angostura Holdings Limited	$	0.12
Caribbean Communications Network Limited	$	0.25
Lever Bros. West Indies Limited	$	2.05
National Flour Mills Limited	$	0.16
Trinidad Publishing Company Limited	$	0.25
West Indian Tobacco Company Limited	$	1.03
Berger Paints Trinidad Limited	$	0.17
Flavorite Foods Limited	$	-
Ready Mix Limited	$	-
Trinidad Cement Limited	$	0.14
PLIPDECO	$	0.21
Valpark Shopping Plaza Limited	$	-
Agostini's Limited	$	0.15
BWIA (West Indies) Limited	$	-
Furness Trinidad Limited	$	0.05
Prestige Holdings Limited	$	0.18
L. J. Williams Holdings Limited	$	-
ANSA Finance and Merchant Bank Limited	$	0.32
Capital Credit and Merchant Bank Limited	$	0.01
Guardian Holdings Limited	$	0.54
Jamaica Money Market Brokers Limited	$	-
National Enterprises Limited	$	0.27
Average Dividend Payment	**$**	**0.39**
Average Dividend Payout	**39%**	

Source: Annual Report of the Respective Issuers 2002/ 2003

5.0 IMPACT OF THE TRINIDAD & TOBAGO SECURITIES AND EXCHANGE COMMISSION ON THE MARKET: VIEW OF THE MARKET PARTICIPANTS

The earlier analyses and descriptions have generally shown that in the Trinidad and Tobago securities market there has been a recent introduction of products such as derivatives, ESOPs and CISs. Contemporaneously, the Trinidad and Tobago Securities and Exchange Commission was being established as the regulator of the securities industry and it is therefore important to understand the impact of the TTSEC on the securities market.

The Trinidad and Tobago Securities and Exchange Commission conducted a survey early in 2004 involving a sample of registrants. The aim of this exercise was to get their perceptions about the impact of the Trinidad and Tobago Securities and Exchange Commission on the securities market. Specifically, the survey sought to assess market participants' perceptions about the following:

1. the prevalence of unfair trading practices;
2. the effectiveness of the TTSE as a self-regulatory organisation;
3. the prevalence of unregistered market actors;
4. the importance of public relations and investor education; and
5. the overall impact of the TTSEC on the securities market.

The methodology used for the interviews involved the use of open-ended questions and informal discussions. The responses of twenty-three interviewees formed the basis of the analysis. These interviewees represented different groups of market participants; reporting issuers, market makers, and investors, as classified in Table 47 below according to their primary trade function.

Table 47: Firms Interviewed by Primary Market Function

Primary Market Function	Number of Firms Interviewed	Percentage of Total Number of Interviewees
Broker	2	8.70%
Investment Adviser	2	8.70%
Reporting Issuer	10	43.48%
Securities Company	7	30.43%
Self Regulatory Organization	1	4.35%
Underwriter	1	4.35%
Total	**23**	**100.00%**

The following section provides a brief description of the responses received as categorized in the following presentation.

5.1 *UNFAIR TRADING PRACTICES IN THE TRINIDAD AND TOBAGO SECURITIES MARKET*

Table 48: Perception of Prevalence of Unfair Trading Practices

Primary Market Function	Are Unfair Trading Practices Prevalent in the market place?			
	Not Prevalent	*No Comment*	*Yes Very Prevalent*	**Total**
Broker	1	1		2
Investment Adviser		1	1	2
Reporting Issuer		5	5	10
Securities Company		5	2	7
Self Regulatory Organization			1	1
Underwriter			1	1
Total	**1**	**12**	**10**	**23**
Percentage of Total Respondents	**4.3%**	**52.2%**	**43.5%**	**100.00%**

Table 48 shows that 43.48% of the respondents believed that unfair trading practices were very prevalent in the Trinidad and Tobago securities market. A point worth noting is that stockbrokers stated that insider trading was not as prevalent as perceived.

Most of the interviewees, with the exception of the stockbrokers, felt that the TTSEC should have at least brought one insider trading case to the courts within its seven (7) years of operation. The perceived lack of action was also communicated in statements such as "…the TTSEC was afraid to investigate insider trading accusations and bring the particular offenders to face the respective penalties."

Investment advisers expressed concern that the insider trading problem was linked to the phenomenon of interlocking directorates which exists in the market.

5.2 *SROs as Effective Regulators*

Table 49: Level of Satisfaction with the Performance of the TTSE and TTCD

Primary Market Function	**Are you satisfied with the performance of the TTSE and TTCD?**				
	No Response	**Not Satisfied**	**No Comment**	**Yes Satisfied**	**Total**
Broker			2		2
Investment Adviser			2		2
Reporting Issuer		6	2	2	10
Securities Company		2	5		7
Self Regulatory Organization	1				1
Underwriter			1		1
Total	**1**	**8**	**12**	**2**	**23**
Percentage of Respondents	**4.3%**	**34.8%**	**52.2%**	**8.7%**	**100.00%**

Most of the market participants (34.8%) who responded to this question were not satisfied with the level of effectiveness of the SROs (Table 49). The majority of market actors and reporting issuers expressed their displeasure with the TTSE and the Trinidad and Tobago Central Depository (TTCD) for their ineffective handling of matters such as:

1. insider trading;
2. price manipulation;
3. broker's bias to larger transactions;
4. length of time it took to establish TTCD's operations; and
5. length of time it is taking to establish automated trading.

It was felt that the TTSEC should intervene and generally improve the functioning of the TTSE and TTCD.

5.3 *THE PREVALENCE OF UNREGISTERED MARKET ACTORS WITHIN THE SECURITIES MARKET*

An expressed concern of the respondents was the increasing number of unregistered investment advisers operating within the Trinidad and Tobago securities market. Investment Advisers expressed their disgust over the situation, especially given that they provided the TTSEC with details of these unregistered persons.[44] One of the respondents even threatened to deregister, because they felt that there was no great advantage of registering with the Commission. The respondents also stated that they only registered because of "good conscience" and ethical business values, along with the fact that registering with the local authorities was a prerequisite for acting in the market on behalf of their foreign counterparts.

The Investment Advisers and Securities Companies compared the benefits of registering with the United States Securities and Exchange Commission (USSEC) as opposed to registering with the TTSEC. They suggested that a local investor has greater protection in dealing with a USSEC registered investment adviser versus a TTSEC registered investment adviser and generally, that those persons doing business with individuals registered under the USSEC were better protected. The respondents generally lacked confidence in the TTSEC's ability to provide a level of protection similar to that of the USSEC.

Investment Advisers stated that it was unfair that they paid their registration fees, submitted their financial reports dutifully every year, and yet faced competition from unregistered persons acting within the capacity of "Investment Advisers", selling products ranging from IPOs to mutual funds, and that the TTSEC is fully aware of this situation.

[44] Details provided were in the form of call cards and documents providing information about the type of products they sold, together with the location in which they were operating.

5.4 *PUBLIC RELATIONS AND INVESTOR EDUCATION*

Table 50: Perception of the Importance of Investor Education by Category of Respondent

Primary Market Function	**Should the TTSEC enhance its Investor Education Programme?**		
	No Comment	**Yes**	**Total**
Broker	2		2
Investment Adviser		2	2
Reporting Issuer	7	3	10
Securities Company	3	4	7
Self Regulatory Organization	1		1
Underwriter	1		1
Total	**14**	**9**	**23**
Percentage of Total Respondents	**60.9%**	**39.1%**	**100%**

A significant proportion of the market participants (39.1%) felt that the TTSEC should actively pursue educating investors and the public on the role and function of the TTSEC (see Table 50). They noted that the TTSEC has not been active in this area and felt that more investor education programmes should be conducted.

5.5 *PERCEPTIONS OF THE EFFECTIVENESS OF TTSE IN THE SECURITIES MARKET*

Table 51: Perceptions of Impact of TTSEC

Primary Market Function	**Does TTSEC have a great Impact on the Securities Market of Trinidad and Tobago?**			
	No	***No Comment***	***Yes***	**Total**
Broker	2			2
Investment Adviser	2			2
Reporting Issuer	7	3		10
Securities Company	4	1	2	7
Self Regulatory Organization	1			1
Underwriter			1	1
Total	**16**	**4**	**3**	**23**
Percentage of Respondents	**69.57%**	**17.39%**	**13.04%**	**100.00%**

Upon completion of the interviews the consensus was that, the TTSEC did not have any great impact on the market (see Table 51). Some interviewees expressed the view that the TTSEC was an effective registrar, but an ineffective regulator. They noted that within the 7 years of its operations, the TTSEC only “flexed its muscles” on the matter of the ownership restriction issue. The TTSEC was commended for the stance it took on this issue. A few respondents sympathized with the TTSEC and recognized its constraints within the context of staffing and the governing legislation.

6.0 THE COST OF REGULATION

At present the Trinidad and Tobago Securities and Exchange Commission is seeking to revise its fee structure. In this regard the central matter that has to be considered is the issue of the cost of regulation. The matter of who should bear the cost of regulation and whether the cost of regulation in the Trinidad and Tobago securities market is too onerous on the registered market actors must be addressed. The answer to these concerns will assist the TTSEC in deriving an appropriate fee structure, which may be mutually beneficial to the market actors and the regulator.

The TTSEC, like most of the other securities regulators, is guided by the core principles of the International Organisation of Securities Regulators (IOSCO). Two of the core principles of IOSCO which relate to the issue of financing of the regulator, are:

1. *"The regulator should be operationally independent and accountable in the exercise of its functions and powers."*
2. *"The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers."*

In short, a securities regulator should have adequate resources, which will allow them to exercise their powers, as prescribed by the relevant governing legislation. They should be operationally independent, which implies that their financing should not be solely dependent on any one issuer from the market.

The question as to whether the government or the private sector should bear the cost of regulation is often treated with in different jurisdictions. In jurisdictions such as the United States of America, United Kingdom, and Canada it was found that the full cost of regulation was borne by the market through the fees paid to the regulators (see Table 52). This contrasts with Trinidad and Tobago where the fees from the market place cover only

10%–12% of the expenditure of the TTSEC and the remaining 88%–90% is covered by government subventions. Only in 2003, did the TTSEC recover 20% of its expenditure by fees. The result is that the TTSEC is therefore highly dependent on a single issuer, namely the Government of the Republic of Trinidad and Tobago. This situation is contrary to the spirit of the aforementioned IOSCO principle on operational independence.

Table 52: Securities Regulators' Revenue, Expenditure and Fees

Securities Commission	Year	Total Revenue	Total Expenditure	Incoming Fees	Fees as a % of Expenditure
Financial Services Authority (FSA) (USD million)	2003/ 2004	430	409	430	105
Jordan Securities Commission (USD)	2003	3,843,854	2,367,033	83.705	4
Suruhanjaya Sekuriti Malaysia (USD million)	2003	23,641	25,593	5,282	21
Financial Services Commission of Jamaica	2002	1,359,774	984,055	614,871	62
Securities Commission New Zealand (USD million)	2003	3,343,537	2,786,837	161,567	6
United States Securities and Exchange Commission (USD million)	2001/ 2002	1,013	110	1,013	925
Ontario Securities Commission (USD million)	2003	70	69	56	81
Trinidad and Tobago Securities and Exchange Commission (USD)	2003	148,847	1,336,136	260,781	20

Also, when we analysed the fees collected over the past three years it was discovered that there was an increase in the fees received over the period from $0.9 million in 2000/01 to $1.3 million in 2002/03 (see Table 53). This was primarily driven by the increase of revenue collected from the TTSE.

Table 53: TTSE Fee Revenues, 2000/01–2002/03

Activity	Oct. '00 – Sept. '01	Oct. '01– Sept. '02	Oct. '02– Sept. '03
Broker	50,000	55,000	50,000
Collective Investment Scheme (Exempt)	-	-	-
Collective Investment Scheme (Non Exempt)	53,000	40,000	71,000
Dealer	10,000	15,000	10,000
Debt Securities (Exempt)	31,000	21,000	24,000
Debt Securities (Non Exempt)	-	-	-
Derivative Debt Securities (Exempt)	10,000	19,000	15,000
Derivative Debt Securities (Non Exempt)	85,000	70,000	105,000
Equity Securities (Exempt)	17,500	17,000	23,000
Equity Securities (Non Exempt)	45,000	35,000	40,000
Investment Adviser	120,000	142,500	127,500
Reporting Issuer	58,500	16,000	38,000
Securities Company	180,000	200,000	210,000
Self Regulatory Organisation	201,296	271,490	561,418
Trader	20,000	35,000	30,000
Underwriter	60,000	30,000	60,000
Total	**941,296**	**966,990**	**1,364,918**

When we categorised the fees paid according to fees received from market actors, versus fees from securities issues, it is clear that the market actors contributed 78% of all fee revenues to the TTSEC, while the actual market issues only contributed 22% (see Table 54). Even more importantly, we noted that the market actors had been paying an increasing percentage of the fees revenue of the Commission.

Table 54: Incidence of Fees Revenues, 2000/01–2002/03

Type of Registration	Oct. '00 – Sept. '01	Oct. '01 – Sept. '02	Oct. '02 – Sept. '03	Total
Market Actor	699,796	764,990	1,086,918	2,551,704
Securities Issue	241,500	202,000	278,000	721,500
Yearly Total	**941,296**	**966,990**	**1,364,918**	**3,273,204**
Percentage Paid by Market Actors	**74%**	**79%**	**80%**	**78%**
Percentage Paid by Securities Issues	**26%**	**21%**	**20%**	**22%**

As is detailed in the section entitled "The Trinidad and Tobago Securities Market: Value and Type of Issues," the securities market has shown considerable growth in equity, debt and CIS issues over the period 1997 to 2003. This contrasts with the small change in the number of market actors.

In answering the question as to whether the Trinidad and Tobago securities market is capable of bearing a greater proportion of the cost of regulating the market, we are of the opinion that if the cost of regulation is transferred as an activity-based fee, rather than a fixed fee, the market will be able to bear a greater proportion of the cost of regulation. In other words, if the fees are activity-based, the price of the products can be altered in a manner that will transmit the cost to the market. Therefore, when the TTSEC derives its fees structure it should be mindful that the proposed fees should not result in the Trinidad and Tobago securities market becoming uncompetitive.

At present the fee structure of the TTSEC is as detailed in Table 55. A perusal of these fees shows that most of them are fixed fees and are in no way related to market activity. If such a fee structure is retained there may be two major consequences. First of all, the TTSEC's income will not be correlated to the increase in market value – value which its regulation function contributes to. As a possible consequence, the operations of the TTSEC will have to be continually subsidised by the government. Secondly, the market actors will continue having to pay more than their justifiable share of the income needed for the operation of the TTSEC. Therefore, it is important that the fees income of the TTSEC be adjusted so as to assure equitable distribution of the cost of regulation of the market and to link the cost of regulation to value generating activity of the market, the main driver of the costs of regulating the market. It is with these objectives in mind that the TTSEC is currently reviewing the structure of the fees charged.

Table 55: Schedule of Fees of the TTSEC

<table>
<tr><td colspan="4">1) Registration Fees</td></tr>
<tr><td colspan="2">Activity</td><td colspan="2">Existing Fee</td></tr>
<tr><td>a.</td><td>Broker</td><td>Initial and Renewal</td><td>$5,000</td></tr>
<tr><td rowspan="3">b.</td><td>Investment Adviser</td><td></td><td></td></tr>
<tr><td>i. Corporation</td><td>Initial and Renewal</td><td>$7,500</td></tr>
<tr><td>ii. Individual</td><td>Initial and Renewal</td><td>$7,500</td></tr>
<tr><td>c.</td><td>Dealer in Securities</td><td>Initial and Renewal</td><td>$5,000</td></tr>
<tr><td>d.</td><td>Trader in Securities</td><td>Initial and Renewal</td><td>$5,000</td></tr>
<tr><td>e.</td><td>Securities Companies</td><td>Initial and Renewal</td><td>$10,000</td></tr>
<tr><td>f.</td><td>Underwriter of Securities</td><td>Initial and Renewal</td><td>$10,000</td></tr>
<tr><td>g.</td><td>Reporting Issuer</td><td>Initial</td><td>$5,000</td></tr>
<tr><td>h.</td><td>Stock Exchange</td><td>Initial and Renewal</td><td>0.02% of the aggregate dollar value of transactions occurring in each financial year</td></tr>
<tr><td>i.</td><td>Trinidad and Tobago Central Depository</td><td>Initial and Renewal</td><td>NIL</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">2) Filing Fees</td></tr>
<tr><td colspan="2">Activity</td><td colspan="2">Existing Fee</td></tr>
<tr><td>a.</td><td>Filing of a prospectus (bonds, derivatives securities)</td><td colspan="2">0.01% of the issue value of the securities covered by the prospectus, subject to a minimum of $5,000 and a maximum of $35,000</td></tr>
<tr><td>b.</td><td>Collective Investment Schemes</td><td colspan="2">$5,000 for registration of the fund</td></tr>
<tr><td>c.</td><td>Information Memorandum</td><td>NIL</td><td></td></tr>
<tr><td>d.</td><td>Filing of Registration Amendment Statement</td><td>$1,000</td><td></td></tr>
<tr><td>e.</td><td>De-listing of a security</td><td>$500</td><td></td></tr>
<tr><td>f.</td><td>Filing of Takeover bid</td><td>$1,000</td><td></td></tr>
<tr><td colspan="2"></td><td></td><td></td></tr>
<tr><td colspan="2">3) For every extract of a page of the Register, maintained under section 53 (4) of the Act, of persons registered with the Commission</td><td colspan="2">$2.50 per page</td></tr>
<tr><td colspan="2">4) Inspection of registration statements and information filed therewith.</td><td colspan="2">$2.50 per page</td></tr>
</table>

7.0 IMPEDIMENTS TO THE DEVELOPMENT OF THE MARKET AS PERCEIVED BY THE MARKET

Earlier we explored the impact of the regulator on the securities market, both in terms of the market's perceptions of the effectiveness of the regulator and the incidence of cost for the regulation of the market. While the impact of the regulator may have some implications for the development of the securities market it is important to assess the market's perceptions as regards the major impediments to the development of the market.

A number of reasons may be adduced to explain the performance and pattern of new equity capital issues on the market. These may include the following:

1. the relative cost of raising capital by debt, rather than by equities. A preliminary analysis of this matter is dealt with later in this report;
2. the concentration of corporate ownership among small groups of families and a related concern about the dilution of effective control;
3. the possibility that public perceptions of the lack of transparency and the possible manipulation of the market may inhibit wider participation by both potential issuers and potential shareholders in the market;
4. the lack of familiarity with the requirements and benefits of raising capital through the stock exchange; and
5. the absence of notable efforts by the stock exchange, and of appropriate incentives by the government, to encourage wider participation in the exchange, including the listing of entities engaged in the commanding energy sector.

A review of the responses provided by the interviewees on the matter of the perceived hindrances to market development has brought several issues to light. This section of the report will treat with those issues.

Table 56: Frequency of Occurrence of Responses

Perceived Hindrances to Market Development	Number of Occurrences of Responses	Percentage of Total Number of Occurrences	Cumulative Percentage of Total
Inefficiency of Trading System	11	22.92%	22.92%
Inability of TTSEC to Regulate	9	18.75%	41.67%
Low Level of Investor Education	7	14.58%	56.25%
Lack of Market Depth and Breadth *(Amount and Variety of Securities)*	5	10.42%	66.67%
Insufficiency in Financial Reporting Requirements	4	8.33%	75.00%
Combative TTSEC/TTSE Relations	3	6.25%	81.25%
No Comment	3	6.25%	87.50%
Ownership Phenomenon	3	6.25%	93.75%
Limited Number of Market Makers	2	4.17%	97.92%
High Transaction Costs	1	2.08%	100.00%
Total	**48**	**100.00%**	
Number of Respondents		**23**	

Table 56 shows forty-eight (48) responses received from the twenty-three (23) respondents on the matter of perceived hindrances to market development. The majority of responses (56%) referred to Low Level of Investor Education, Inability of TTSEC as a Regulator and Inefficiency of the Trading System, as hindrances to the development of the securities market.

One of the more interesting issues cited by market participants was the perceived combative nature of the relationship between the TTSEC and the TTSE. Although this is not a significant factor (accounting for only 6.25% of the responses) it is worth mentioning.

Another concern was the Lack of Depth and Breadth of the market. Some of the interviewees commented on this phenomenon having two major debilitating effects on market development. In the first case, a few powerful investors could easily control the market, and secondly, the securities market, especially the equities market, may be unable to attract the much needed liquidity owing to firms' unwillingness to offer their shares for fear of being easily taken over.

The responses of interviewees indicated that there is little investor confidence in the ability of the TTSEC to regulate the market. Market participants alleged that although there were obvious indications of market collusion, because of the impotence of the TTSEC, it resulted in a few powerful entities boldly engaging in price manipulation.

Low Level of Investor Education was identified as another major hindrance to market development. The retardation of the growth of the market occurs because there appeared to be limited knowledge about the investment mechanisms, the regulatory framework, and the rights of the investors.

Of the forty-eight (48) responses, eleven referred to inefficiency in the trading protocols and the lack of transparency in the pricing mechanisms as major impediments to market development. According to the participants interviewed, there is a need for the creation of proper automated systems and the need to increase the level of public participation in the trading process.

Inconsistency in financial reporting is another major hindrance cited as retarding the development of the market place. This has a direct relationship to the pricing of issues made by firms. In the long-term, this will distort the valuation mechanism of the market place and therefore will reduce the allocative efficiency of the market.

In general, most of the responses, (81.25%), cited the following as the major impediments to the development of the market:

1. inefficiency of the trading systems;
2. inability of TTSEC to regulate;
3. low investor education;
4. lack of market depth and breadth;
5. insufficiency in financial reporting requirements; and
6. combative TTSEC/ TTSE relations.

Of interest, is the fact that few of the responses (6.25%) cited the cultural phenomenon of ownership of the firm as a constraint to development of the market. However, this is related to the issue of the lack of market depth and breadth which was also seen as a major constraint.

8.0 OTHER ISSUES

In an attempt to discover the general state of readiness for a Pan-Caribbean securities market we carried out a literature survey of various articles published in regional newspapers, magazines, and newsletters in order to elicit the opinions of various authorities. Rising out of the survey, the following two items were outstanding:

1. the establishment of a regional stock exchange; and
2. the formation of a credit rating agency across the Caribbean economies.

8.1 *REGIONALISATION OF THE SECURITIES MARKET*

Our survey revealed that the issue of the formation of the Caribbean Stock Exchange is still being debated. The following are some of the major challenges to the formation of the Caribbean Stock Exchange:

1. removal of legislation which restricts the free flow of capital;
2. update of legislation to standardise accounting and reporting standards;
3. establishment of a plan to integrate all the regional exchanges; and
4. determination of the currency of exchange for the settlement of transactions.

In spite of the fact that there has not been any concrete action to overcome the challenges of a regional stock exchange, there are ongoing discussions on this issue. Nonetheless, there have been specific indicators of movement towards regionalizing the capital market. These are as follows:

1. increase in the number of cross listed securities on the major exchanges of Barbados, Jamaica and Trinidad and Tobago;[45] and
2. development of brokerages with alliances across the region, for instance the business relationship which exists between Jamaica Money Market Brokers of Jamaica and Caribbean Money Market Brokers of Trinidad and Tobago.

The second major development towards regionalisation is the formation of the Caribbean Credit Rating Agency and Information Service (CariCRIS) which is intended to operate as a regional credit rating agency. The main objective of this entity is to provide information on the credit worthiness of countries, firms and securities across the Caribbean. An agency such as CariCRIS is significant to the pricing mechanisms of the securities market in the Caribbean. At the time of the preparation of this report, CariCRIS had just established operations in Trinidad.

The major challenge for the Trinidad and Tobago Securities and Exchange Commission is deciding upon the best regulatory framework in the context of a regional market and what role the TTSEC should play in such a context. The TTSEC will have to make decisions about the regulatory framework for agencies such as a regional securities exchange and CariCRIS. And the question arises as to what shall be the optimum ownership structure and governance protocols for these firms, especially agencies like CariCRIS, which will have a fundamental effect on the operations of the market.

8.2 *CONSOLIDATING REGULATORY BODIES*

One major phenomenon of the securities market is the establishment of an amalgam of financial services under one business entity. In such an environment, the question posed by some of the market actors and policy makers is the possibility of the establishment of one "super-regulator".

[45] As an example the number of cross listings on the TTSE grew from one in 1997 to six as at the end of 2003.

In such a scenario, the matter to be considered is the absorption of the role and functions of the TTSEC as a sub-function of a "super-regulator". In Trinidad and Tobago, given the origins of the TTSEC, this step may indeed be a reversal. However, the scope of this study is too limited to pursue such an issue at this time. Nevertheless, the issue is currently receiving attention at the highest policymaking level.

9.0 SUMMARY OF FINDINGS AND RECOMMENDATIONS

9.1 *FINDINGS*

The major objective of this study was to conduct an assessment of the securities market in Trinidad and Tobago for the period 1997–2003, with special emphasis on trends, regulation, and performance of the industry. The presentation of the general findings of the report is along the lines of the following subsections:

1. a description of the size and structure of the securities market of Trinidad and Tobago;
2. the cost of equity capital versus the cost of debt capital;
3. the impact of TTSEC on the regulation of the market; and
4. future trends and issues in securities market development.

A review of the administrative data of the TTSE and TTSEC, as well as data from the Central Bank, indicated that the value of issues from debt and equity securities, commercial banks and mortgage loans, venture capital and CIS was $104.7 billion during the period 1997 to 2003 (see Table 57). The debt securities accounted for 50.6%, equity securities for 27.2% and CIS for 16.0% of the total value transacted in the market.

Our review of the bond securities market revealed two other major findings. Firstly, over the period, 74.7% of the capital raised by bond issues was denominated in TTD, with a significant amount of the funds (23.3%) being denominated in USD. Secondly, quasi-governmental organisations and local central governments were the most prolific issuers on the bond market. The commercial banks were the non-governmental institutions that raised the most capital on the bond market.

The debt issues via bonds seem to outstrip the issues by derivatives and commercial paper. However, there are indicators that the derivatives sub-sector is growing rapidly and as a matter of interest, more issues of derivatives are increasingly quoted in currencies of foreign origins. A major issue for TTSEC as a regulator is the careful scrutiny of registrations and disclosure of derivative securities, given the fact that such securities may require certain rules.

In respect of the equity capital, only $2.8 billion in new equity capital was secured from the market, of which Rights Issues raised 67%. The commercial banking sector raised the most capital through the use of Rights Issues with most of the financing geared towards strategic expansion of the firms.

Through the use of TTSEC administrative data we were able to estimate the start up cost of issuing equity versus debt. We found that although the initial cost of issuing equity securities is lower than that for debt securities, the maintenance cost for issuing equity was indeed higher than that for debt. We therefore concluded that in addition to the concerns of the issues related to market transparency, ownership, dilution and disclosure requirements, the maintenance costs for issuing equity made debt financing a more attractive alternative.

During the period 1997–2003 the TTSE facilitated the trade of $2.8 billion in new equity capital. However, there was no significant trading in debt and debt-equivalent issues on the TTSE. Even more interesting is the fact that during the period of the study a major development occurred on the TTSE. This was the development of the Trinidad and Tobago Central Depository (TTCD), which reportedly has attracted most of the issuers, but only 15% of the outstanding equity issues on the market.

Table 57: Estimate of the Value of Debt, Equity Issues, Venture Capital and Loans, 1997–2003

Source of Capital	Value (TTD)	Percentage of Total Capital
Debt Securities		
Bond	26,322,298,892	25.1%
Commercial Paper	1,513,584,450	1.4%
Derivative	25,184,433,526	24.0%
Total Debt Securities	**53,020,316,868**	**50.6%**
Equity Capital		
Issues of New Equity Capital		
Rights Issues	1,887,671,654	1.8%
Initial Public Offers	651,147,262	0.6%
Offers for Sale	286,801,623	0.3%
Sub-total Issue of New Equity Capital	**2,825,620,539**	***2.7%***
Issues other than New Equity Capital		
Mergers, Acquisitions, Transfers, Restructuring	15,319,515,063	14.6%
Cross Listings	2,747,430,000	2.6%
Employee Stock Option Plans	299,915,542	0.3%
Bonus Issues, Stock Splits, Stock Dividends and Capitalisation Issues	7,346,435,279	7.0%
Sub-total of Issues other than New Equity Capital	**25,713,295,884**	**24.5%**
Total Equity Issues	**28,538,916,423**	**27.2%**
Total Value of Securities	**81,559,233,291**	**77.8%**
Venture Capital	2,000,000	0.0%
Net Capital Flow into CISs omitting investment gains (Difference Between the Funds Under Management 1997 and 2003)	16,732,000,000	16.0%
Net Commercial Bank Loans	5,007,920,000	4.8%
Net Trust and Mortgage Loans	1,487,230,000	1.4%
Total Value of Capital	**104,788,383,291**	**100.0%**

Our survey of the perceived hindrances to the development of Trinidad and Tobago's securities market revealed the following:

1. lack of market depth and breadth;
2. perceived inability of the TTSEC to deal with unregistered investment advisers, insider trading and price manipulation;

3. level of interlock between price setters and company's directorates;
4. inconsistent reporting standards amongst reporting issuers; and
5. low level of investor education.

Further, with reference to the views of the market participants on the impact of the TTSEC on the market, they referred to the TTSEC as an effective registrar, but an ineffective regulator. There were four areas where market participants saw the need for improved efforts by the TTSEC. These were:

1. investor education and public awareness;
2. market surveillance and regulation of unfair trading practices;
3. regulation of the SROs; and
4. regulating the activities of unregistered investment advisers.

In sum, what is seen on the local securities market is growing activity, creativity, and a new level of dynamism, particularly in the area of debt securities. Additionally, there are emerging sectors, such as Collective Investment Schemes and Derivatives markets, which are, indeed, showing some potential to quickly dominate existing market structures. Market participants are becoming more sophisticated in their strategies, and are creating new market structures to better facilitate their respective investment requirements.

9.2 *RECOMMENDATIONS*

Notwithstanding the challenges faced in dealing with a market place with limited monitoring structures and fledgling institutions, it is necessary that the TTSEC seeks to increase its effectiveness as a regulator and a developer of the securities market of Trinidad and Tobago. In order to achieve this and based on the findings of the report the recommendations hereby provided will seek to address the need for the following:

1. policy issues; and
2. future research.

9.2.1 Policy Issues

Given some of the findings of the survey, it is clear that there is a need for the development of a policy aimed at addressing certain emerging peculiarities, these include, but are not limited to the following:

1. Regulation of non-domiciled issuers
   Given the apparent increasing internationalisation of the Trinidad and Tobago securities market, it is vitally important that the TTSEC seeks to clarify matters relating to Reporting Issuers that are non-domiciled in Trinidad and Tobago. The proposed amendments to the SIA (1995) suggest that foreign issuers from approved jurisdictions that have disclosure and reporting requirements that are equal to or superior to that of the TTSEC will be exempted from certain registration requirements.

2. Regulation of the Derivative Instruments
   The credit/debt derivatives sector of the market has shown signs of growth. It is therefore imperative that the rules related to this sector be improved to ensure effective monitoring, disclosure and regulation of the sector.

3. Regulation of Collective Investment Schemes
   The Collective Investments Schemes have garnered a substantial amount of funds over the period 1997 to 2003. It is necessary that greater research be carried out in this sector and that regulation considers matters such as fund management practices, fund structures, cross border transactions, fund nomenclature and disclosure requirements.

4. Development of the securities market

There is room for development of the Trinidad and Tobago securities market. Our survey reveals that the equity market is underdeveloped and there is a need for the creation of a secondary bond market could also be enhanced. To remedy both situations the following is recommended:

a. there is a need to have the equities market more closely linked with the major economic activity of the country, namely the energy sector; and
b. there is a need to have more debt and debt-equivalent issues traded on the SROs.

In order to enhance the equities market the government may consider divesting some more of its holdings in the energy sector on the TTSE. Measures must also be taken to allay the fears of potential issuers who see the stock market as being inherently more risky than raising debt or borrowing loans to finance their business ventures.

9.2.2 Research Issues

Future areas of research on the securities market should seek to clarify the structures and practices of the various sub-sectors of the securities market. For instance, matters such as fund management practices in the mutual funds industry should be explored. Information on the nature of the systemic risk of the Trinidad and Tobago securities market will also provide useful information for the TTSEC.

As the only SRO in the country, the TTSE is pivotal to the development of a securities market and there is a need to perform an extensive review of the performance of the exchange in the capital formation process. It is clear that the TTSE provides little in the way of facilitating capital formation; this phenomenon must be extensively studied. This study must identify the hindrances to the functioning of the TTSE in the capital formation process and identify clear strategies to enhance the TTSE. In light of the findings of the proposed review it may be necessary for the TTSE and TTSEC to collaborate on the development of a business plan that will expand the role of the TTSE in the securities market.

9.3 *CONCLUSION*

All securities markets comprise a primary and secondary market. In the primary market, the original securities are created by issuers and brought to market by underwriters and investment bankers. The created securities are then traded in the secondary market, which provides liquidity to the entire market by allowing the securities to be liquidated. This cash may be recycled in the securities market, or otherwise used by the creditor. The cycle allows financial resources of investors to fulfil the financial requirements of producers. In this process, information is critical. Based on information the investor chooses where to invest. Information therefore affects the allocative efficiency of the market.

It is with an understanding of the role of information in securities market that one will appreciate the significance of regulation to the market development. Government's most important role therefore is to ensure strict regulation and supervision of the securities market. It is with a predictable, clear, and enforced regulatory framework that the development of the securities market will occur.

The general findings of the study show that the Trinidad and Tobago securities market is currently undergoing a change in the range of product offerings and the sophistication of the market actors. However, simultaneously there exists a persistent underlying state of underdevelopment of the market. This is reflected in the perceived insufficiency of the regulatory structures and the general allocative inefficiencies of the market.

In general, the securities market has little linkage with the main economic activity of the country. The firms are reluctant to use the securities markets, especially the equity markets, as a means of obtaining growth financing. However, this reluctance is changing in some sectors.

Past studies on the development of Trinidad and Tobago's capital markets have cited the need for control by the owners of businesses as the major reason why firms are not willing to participate in the securities market. We believe that this view is too narrow and that the reason may lie in the costly level of systemic risk in the market. In addition, market participants perceive that the small number of market participants and the weak regulatory structures in the market are the main drivers of this systemic risk.

Therefore, two strategies must be used to achieve development of the market. First of all, there should be an enhancement of the regulatory structures of the market, and secondly, an increase in the number of market participants and the range of offerings is necessary.

The development of the regulatory structures of the market must consider the vigorous enforcement of the provisions of the SIA (1995) and improvements in the legislation. These improvements in the legislation should consider the following:

1. regulation of issues such as derivatives and CISs;
2. improved disclosure requirements;
3. regulation of cross-border securities transactions; and
4. regulation of credit rating agencies such as CariCRIS.

The improvements in the regulatory structure must also include the timely provision of rules as related to emerging market practices. Given the rate of increase of cross-border transactions and the growing sophistication of the actors, rule making must seek to increase market efficiency to a level similar to that of the more developed markets. Failure to ensure that this happens may result in the securities market becoming a haven for inefficient practices like insider trading.

The paper does not extensively address the issue of corporate governance and its role in the functioning of the securities markets. We did highlight that the market actors perceived that inconsistency in financial reporting, an issue of concern identified under the area of corporate governance, is a hindrance to market development. Future reviews of the market must seek to survey corporate governance practices, as this issue is of profound importance in the efficiency of the market.

In sum, in developing the securities market of Trinidad and Tobago, there is an immediate need to intensify the regulation of the market and thereby reduce the systemic risks. The improvements in the regulatory structures will seek to clarify rules and to provide aggressive enforcement. The Trinidad and Tobago Securities and Exchange Commission has just completed a review of the Securities and Industry Act (1995) (SIA (1995)) to treat with most of the aforementioned issues. The revised SIA (1995), when passed, should instil greater confidence in the market place and establish a TTSEC with the presence and the legal power to undertake enforcement action, when necessary.

In the medium to long-term, the market's development should be tied to the major growth sectors of the economy, which are the energy and finance sectors.

APPENDICES

APPENDIX I: *DEBT TO EQUITY RATIOS OF TRINIDAD AND TOBAGO DOMICILED FIRMS ON 1ST TIER TTSE*

Table A. 1: Debt to Equity Ratios of First Tier Firms of TTSE 1997–2003

Debt to Equity Ratios for Trinidad and Tobago Corporations (1997-2003)								
COMPANY		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
FIRST TIER MARKET		(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)
Commercial Banks								
RBTT Financial Holdings Limited	Total Liabilities	$ 8,417,752	$ 10,913,330	$ 10,458,813	$ 11,811,193	$ 17,229,178	$ 25,526,561	$ 26,725,664
	Long Term Liabilities	$ 1,170,296	$ 1,455,185	$ 1,486,314	$ 1,550,104	$ 2,130,057	$ 2,422,255	$ 2,677,862
	Total Shareholders' Equity	$ 777,283	$ 871,823	$ 1,363,043	$ 1,602,030	$ 1,836,802	$ 2,212,623	$ 2,605,660
	D/E Ratio	1.51	1.67	1.09	0.97	1.16	1.09	1.03
Republic Bank Limited	Total Liabilities	$ 10,741,069	$ 12,725,062	$ 13,824,543	$ 14,253,271	$ 15,224,296	$ 16,118,409	22,159,864
	Long Term Liabilities	$ 858,020	$ 720,835	$ 1,148,133	$ 1,915,060	$ 2,793,754	$ 1,821,884	$ 1,933,946
	Total Shareholders' Equity	$ 1,213,061	$ 1,210,928	$ 1,365,370	$ 2,022,673	$ 2,251,229	3,035,978	3,304,827
	D/E Ratio	0.71	0.60	0.84	0.95	1.24	0.60	0.59
Scotia Bank of Trinidad and Tobago	Total Liabilities	$ 4,260,859	$ 5,142,170	$ 5,642,703	$ 5,963,048	$ 6,390,209	$ 6,569,690	$ 6,544,071
	Long Term Liabilities	$ 1,241,812	$ 1,473,514	$ 1,936,662	$ 1,679,113	$ 1,481,535	$ 1,207,465	$ 1,116,219
	Total Shareholders' Equity	$ 295,541	$ 353,017	$ 428,842	$ 554,208	$ 661,976	$ 798,826	$ 912,127
	D/E Ratio	4.20	4.17	4.52	3.03	2.24	1.51	1.22
	AVERAGE D/E All Commercial Banks	***2.14***	***2.15***	***2.15***	***1.65***	***1.55***	***1.07***	***0.95***
Conglomerates								
ANSA McAL Limited	Total Liabilities	$ 1,836,724	$ 1,885,435	$ 2,074,300	$ 2,278,305	$ 2,799,419	$ 2,845,084	$ 3,110,259
	Long Term Liabilities	$ 1,078,773	$ 1,174,334	$ 1,214,467	$ 1,185,962	$ 1,743,762	$ 1,620,040	$ 1,757,404
	Total Shareholders' Equity	$ 764,556	$ 962,687	$ 912,126	$ 1,065,233	$ 1,244,292	$ 1,464,837	$ 1,772,124
	D/E Ratio	1.41	1.22	1.33	1.11	1.40	1.11	0.99
Neal & Massy Holdings	Total Liabilities	$ 1,613,376	$ 1,646,087	$ 1,289,680	$ 1,496,352	$ 1,553,524	$ 1,230,111	$ 1,078,624
	Long Term Liabilities	$ 292,957	$ 502,445	$ 349,477	$ 364,634	$ 443,484	$ 403,769	$ 364,031
	Total Shareholders' Equity	$ 693,410	$ 810,495	$ 860,247	$ 976,200	$ 1,043,282	$ 967,914	$ 1,040,776
	D/E Ratio	0.42	0.62	0.41	0.37	0.43	0.42	0.35
	AVERAGE D/E All Conglomerates	***0.92***	***0.92***	***0.87***	***0.74***	***0.91***	***0.76***	***0.67***

Table A. 2: Debt to Equity Ratios of First Tier Firms of TTSE 1997–2003, cont'd.

Debt to Equity Ratios for Trinidad and Tobago Corporations (1997–2003)								
COMPANY		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
FIRST TIER		(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)
Manufacturing I								
Angostura Limited	Total Liabilities	$ 151,601	$ 160,703	$ 455,857	$ 1,132,149	$ 1,132,149	$ 1,538,769	$ 1,675,405
	Long Term Liabilities	$ 65,005	$ 61,107	$ 66,982	$ 630,315	$ 628,853	$ 1,011,555	$ 994,268
	Total Shareholders' Equity	$ 364,095	$ 533,896	$ 549,843	$ 730,525	$ 713,757	$ 788,607	$ 678,785
	D/E Ratio	0.18	0.11	0.12	0.86	0.88	1.28	1.46
Caribbean Communications Network Limited	Total Liabilities	$ 60,200	$ 82,348	$ 95,454	$ 56,774	$ 103,731	$ 77,048	$ 61,576
	Long Term Liabilities	$ 24,088	$ 43,238	$ 52,068	$ 16,043	$ 67,658	$ 36,653	$ 12,845
	Total Shareholders' Equity	$ 64,630	$ 71,769	$ 81,243	$ 98,072	$ 98,072	$ 97,022	$ 123,861
	D/E Ratio	0.37	0.60	0.64	0.16	0.69	0.38	0.10
Lever Brothers West Indies Limited	Total Liabilities	$ 108,697	$ 121,675	$ 141,527	$ 108,584	$ 107,617	$ 126,195	$ 150,124
	Long Term Liabilities	$ 27,886	$ 29,506	$ 42,637	$ 45,786	$ 47,782	$ 45,593	$ 48,102
	Total Shareholders' Equity	$ 68,230	$ 68,556	$ 87,997	$ 96,807	$ 97,973	$ 99,551	$ 83,014
	D/E Ratio	0.41	0.43	0.48	0.47	0.49	0.46	0.58
National Flour Mills	Total Liabilities	$ 208,179	$ 202,454	$ 192,834	$ 158,286	$ 157,744	$ 196,007	$ 158,545
	Long Term Liabilities	$ 22,649	$ 39,886	$ 53,592	$ 51,950	$ 51,307	$ 62,027	$ 53,614
	Total Shareholders' Equity	$ 411,307	$ 201,280	$ 239,354	$ 262,082	$ 260,826	$ 273,719	$ 292,854
	D/E Ratio	0.06	0.20	0.22	0.20	0.20	0.23	0.18
Trinidad Publishing Company	Total Liabilities	$ 15,118	$ 10,730	$ 16,937	$ 35,693	$ 14,204	$ 16,595	N/A
	Long Term Liabilities	$ 8,655	$ 2,614	$ 4,430	$ 4,831	$ 7,610	$ 6,202	
	Total Shareholders' Equity	$ 52,593	$ 75,529	$ 75,824	$ 77,871	$ 87,004	$ 90,125	
	D/E Ratio	0.16	0.03	0.06	0.06	0.09	0.07	

Table A. 3: Debt to Equity Ratios of First Tier Firms of TTSE 1997–2003, cont'd.

Debt to Equity Ratios for Trinidad and Tobago Corporations (1997–2003)								
COMPANY		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
FIRST TIER		(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)
West Indian Tobacco Company Limited	Total Liabilities	$ 46,180	$ 44,512	$ 92,254	$ 77,665	$ 72,539	$ 74,179	N/A
	Long Term Liabilities	$ 6,860	$ 7,227	$ 14,075	$ 16,098	$ 17,883	$ 18,450	
	Total Shareholders' Equity	$ 81,514	$ 94,623	$ 103,693	$ 130,851	$ 115,530	$ 117,651	
	D/E Ratio	0.08	0.08	0.14	0.12	0.15	0.16	
	AVERAGE D/E All Manufacturing I	***0.21***	***0.24***	***0.28***	***0.31***	***0.42***	***0.43***	***0.58***
Manufacturing II								
Berger Paints Trinidad Limited	Total Liabilities	$ 10,739	$ 11,908	$ 16,692	$ 16,957	$ 13,834	$ 13,179	$ 12,300
	Long Term Liabilities	$ 2,349	$ 5,134	$ 3,683	$ 6,316	$ 7,484	$ 4,286	$ 3,809
	Total Shareholders' Equity	$ 17,947	$ 23,543	$ 27,489	$ 30,397	$ 29,694	$ 31,375	$ 29,489
	D/E Ratio	0.13	0.22	0.13	0.21	0.25	0.14	0.13
Flavorite Foods Limited	Total Liabilities	$ 5,517	$ 6,221	$ 7,076	$ 8,760	$ 12,635	$ 11,157	N/A
	Long Term Liabilities	$ -	$ -	$ 3,175	$ 3,240	$ 3,761	$ 4,018	
	Total Shareholders' Equity	$ 9,514	$ 10,466	$ 11,709	$ 19,243	$ 20,320	$ 22,081	
	D/E Ratio	0.00	0.00	0.27	0.17	0.19	0.18	
Readymix (West Indies) Limited	Total Liabilities	$ 28,050	$ 31,438	$ 47,688	$ 51,080	$ 42,784	$ 51,698	$ 67,645
	Long Term Liabilities	$ 898	$ 4,817	$ 21,883	$ 20,626	$ 16,965	$ 18,059	$ 17,855
	Total Shareholders' Equity	$ 14,441	$ 17,542	$ 20,268	$ 27,633	$ 33,054	$ 36,360	$ 38,284
	D/E Ratio	0.06	0.27	1.08	0.75	0.51	0.50	0.47
Trinidad Cement Limited	Total Liabilities	$ 426,181	$ 547,109	$ 1,747,639	$ 1,456,328	$ 1,442,503	$ 1,356,211	$ 1,333,829
	Long Term Liabilities	$ 354,268	$ 436,601	$ 1,397,852	$ 1,089,421	$ 1,095,553	$ 1,022,231	$ 965,379
	Total Shareholders' Equity	$ 434,444	$ 435,937	$ 729,871	$ 953,345	$ 913,521	$ 967,825	$ 905,602
	D/E Ratio	0.82	1.00	1.92	1.14	1.20	1.06	1.07
	AVERAGE D/E All Manufacturing II	***0.25***	***0.37***	***0.85***	***0.57***	***0.54***	***0.47***	***0.55***

Table A. 4: Debt to Equity Ratios of First Tier Firms of TTSE 1997–2003, cont'd.

Debt to Equity Ratios for Trinidad and Tobago Corporations (1997–2003)								
COMPANY		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
FIRST TIER		(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)
Property								
PLIPDECO Limited	Total Liabilities	$ 113,522	$ 124,987	$ 160,048	$ 192,521	$ 302,199	$ 344,715	$ 322,771
	Long Term Liabilities	$ 38,839	$ 54,003	$ 89,494	$ 122,392	$ 231,637	$ 270,329	$ 249,019
	Total Shareholders' Equity	$ 200,324	$ 212,335	$ 221,876	$ 231,594	$ 675,076	$ 711,693	$ 862,065
	D/E Ratio	0.19	0.25	0.40	0.53	0.34	0.38	0.29
Valpark Shopping Plaza Limited	Total Liabilities	$ 6,052	$ 13,023	$ 17,481	$ 16,647	$ 14,510	$ 15,490	N/A
	Long Term Liabilities	$ -	$ -	$ 1,350	$ 305	$ 2,361	$ 2,052	
	Total Shareholders' Equity	$ 36,624	$ 36,856	$ 38,147	$ 41,327	$ 43,287	$ 48,701	
	D/E Ratio	0.00	0.00	0.04	0.01	0.05	0.04	
	AVERAGE D/E All Property	**0.10**	**0.13**	**0.22**	**0.27**	**0.20**	**0.21**	**0.29**
Trading								
Agostini's Holdings Ltd	Total Liabilities	$ 76,806	$ 94,593	$ 75,871	$ 117,005	$ 106,343	$ 110,707	$ 121,698
	Long Term Liabilities	$ 41,633	$ 33,232	$ 31,809	$ 34,198	$ 38,936	$ 33,421	$ 28,405
	Shareholder's Equity	$ 44,853	$ 51,495	$ 88,119	$ 97,949	$ 103,251	$ 105,992	$ 111,446
	D/E Ratio	0.93	0.65	0.36	0.35	0.38	0.32	0.25
BWIA (West Indies) Airways Limited	Total Liabilities	N/A	$ 640,963	$ 254,217	$ 179,427	$ 333,878	$ 255,944	$ 1,184,774
	Long Term Liabilities		$ 95,055	$ 254,217	$ 179,427	$ 333,878	$ 255,944	$ 166,632
	Total Shareholders' Equity		$ 38,255	$ 61,523	$ 160,858	$ 161,058	$ (58,412)	$ (193,229)
	D/E Ratio		2.48	4.13	1.12	2.07	4.38	0.86
Furness Trinidad Limited	Total Liabilities	$ 2,906	$ 3,778	$ 18,323	$ 11,387	$ 10,322	$ 13,129	$ 15,282
	Long Term Liabilities	$ 1,279	$ 581	$ 619	$ 475	$ 952	$ 1,120	$ 1,432
	Total Shareholders' Equity	$ 47,106	$ 46,470	$ 45,854	$ 46,129	$ 81,970	$ 85,003	$ 86,111
	D/E Ratio	0.03	0.01	0.01	0.01	0.01	0.01	0.02

Table A. 5: Debt to Equity Ratios of First Tier Firms of TTSE 1997–2003, cont'd.

Debt to Equity Ratios for Trinidad and Tobago Corporations (1997–2003)								
COMPANY		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
FIRST TIER		(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)	(TTD'000)
Prestige Holdings Limited	Total Liabilities	$ 64,082	$ 18,968	$ 28,721	$ 30,195	$ 148,272	$ 179,799	$ 142,097
	Long Term Liabilities	$ 51,451	$ 53,898	$ 53,376	$ 69,630	$ 106,050	$ 130,990	$ 86,454
	Total Shareholders' Equity	$ 15,876	$ 17,421	$ 19,544	$ 36,329	$ 39,451	$ 42,510	$ 52,753
	D/E Ratio	3.24	3.09	2.73	1.92	2.69	3.08	1.64
L.J. Williams Limited	Total Liabilities	$ 75,969	$ 109,267	$ 124,765	$ 63,226	$ 40,035	$ 42,593	N/A
	Long Term Liabilities	$ 21,280	$ 33,790	$ 40,909	$ -	$ 1,377	$ 1,419	
	Total Shareholders' Equity	$ 62,432	$ 64,316	$ 58,818	$ 64,567	$ 59,779	$ 57,541	
	D/E Ratio	0.34	0.53	0.70	0.00	0.02	0.02	
	AVERAGE D/E All Trading	**1.13**	**1.35**	**1.59**	**0.68**	**1.03**	**1.56**	**0.69**
Non-Banking Finance								
ANSA Finance Merchant Bank Limited	Total Liabilities	$ 151,874	$ 302,414	$ 337,859	$ 628,710	$ 730,215	$ 676,428	N/A
	Long Term Liabilities	$ 3,217	$ 3,817	$ 824	$ 251	$ 87,763	$ 88,002	
	Total Shareholders' Equity	$ 8,000	$ 44,774	$ 44,773	$ 44,773	$ 44,774	$ 44,774	
	D/E Ratio	0.40	0.09	0.02	0.01	1.96	1.97	
Guardian Holdings Limited	Total Liabilities	$ 186,543	$ 1,770,862	$ 2,023,319	$ 4,477,896	$ 6,340,732	$ 7,308,317	$ 9,050,676
	Long Term Liabilities	$ 1,340,470	$ 1,494,768	$ 1,744,273	$ 3,507,133	$ 4,322,381	$ 4,735,092	$ 7,386,330
	Total Shareholders' Equity	$ 434,754	$ 562,306	$ 688,669	$ 1,268,617	$ 1,509,231	$ 1,695,633	$ 1,661,293
	D/E Ratio	3.08	2.66	2.53	2.76	2.86	2.79	4.45
National Enterprises Limited	Total Liabilities	N/A	N/A	N/A	N/A	$ 932,000	$ 3,362,000	$ 1,023,000
	Long Term Liabilities					$ -	$ -	$ -
	Total Shareholders' Equity					$ 1,588,521	$ 1,844,380	$ 1,931,580
	D/E Ratio					0.00	0.00	0.00
	AVERAGE D/E All Non Banking Finance	**1.74**	**1.37**	**1.28**	**1.39**	**1.61**	**1.59**	***2.22***

APPENDIX II: *CAPITAL GENERATED BY LOANS 1997– 2003*

Table B. 1: Total Loans Outstanding by Purpose – Private Sector
(Commercial Banks, Finance Companies and Merchant Banks)
1997–2003

Year Ending	Agriculture			Petroleum			Manufacturing			Construction			Services			All Sectors		
	Amount $Mn.	**% Change**	**Net Loans Issued $Mn**	**Amount $Mn.**	**% Change**	**Net Loans Issued $Mn**	**Amount $Mn.**	**% Change**	**Net Loans Issued $Mn**	**Amount $Mn.**	**% Change**	**Net Loans Issued $Mn**	**Amount $Mn.**	**% Change**	**Net Loans Issued $Mn**	**Amount $Mn**	**% Change**	**Net Loans Issued $Mn**
1997	129.06			95.16			1,326.00			393.15			3,074.30			5,017.67		
1998	146.61	13.60%	17.55	172.97	81.80%	77.81	1,643.17	23.90%	317.17	440.28	12.00%	47.13	3,225.60	4.90%	151.30	5,628.63	12.20%	610.96
1999	311.14	112.20%	164.53	163.4	-5.50%	(9.57)	1,558.73	-5.10%	(84.44)	696.37	58.20%	256.09	3,220.90	-0.20%	(4.70)	5,950.54	5.70%	321.91
2000	112.54	-63.80%	(198.60)	345.77	111.60%	182.37	1,774.34	13.80%	215.61	660.14	-5.20%	(36.23)	3,959.10	22.90%	738.20	6,851.89	15.20%	901.35
2001	141.4	25.60%	28.86	283.26	-18.10%	(62.51)	1,643.85	-7.40%	(130.49)	696.98	5.60%	36.84	4,729.70	19.50%	770.60	7,495.20	9.40%	643.31
2002	89.07	-37.00%	(52.33)	275.25	-2.80%	(8.01)	2,233.59	35.90%	589.74	821.23	17.80%	124.25	4,070.90	-13.90%	(658.80)	7,490.03	-0.10%	(5.17)
2003	111.25	24.90%	22.18	466.13	69.40%	190.88	1,812.53	-18.90%	(421.06)	1,287.71	56.80%	466.48	6,347.98	55.90%	2,277.08	10,025.59	33.90%	2,535.56
Total Capital Generated			**(17.81)**			**370.97**			**486.53**			**894.56**			**3,273.68**			**5,007.92**
Percentage of Total New Capital Generated	**-0.4%**			**7.4%**			**9.7%**			**17.9%**			**65.7%**			**100.0%**		

SOURCE: **Central Bank of Trinidad and Tobago and TTSEC Research Staff Estimates**

Table B. 2: Capital Generated by Trust and Mortgage Companies 1997–2003

Year Ended	Loans Outstanding ($TTD Mn.)
1997	802.51
1998	906.34
1999	1,235.03
2000	1,882.58
2001	1,768.66
2002	1,927.61
2003	2,289.75
Total Capital Generated 1997–2003	**1,487.23**

Source: Central Bank of Trinidad and Tobago and TTSEC Research Staff Estimates

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Flavorite Foods Limited
Furness Trinidad Limited
Guardian Holdings Limited
Lever Brothers W.I. Limited
Life of Barbados Limited
National Enterprises Limited
National Flour Mills Limited
Neal & Massy Holdings Limited
PLIPDECO Limited
Prestige Holdings Limited
RBTT Financial Holdings Limited
Readymix (West Indies) Limited
Republic Bank Limited
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Trinidad Cement Limited
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Valpark Shopping Plaza Limited
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