



THE ROLE OF THE TRINIDAD AND TOBAGO
SECURITIES AND EXCHANGE COMMISSION IN
REDUCING SYSTEMIC RISKS AND
FORMULATING MACRO PRUDENTIAL POLICY
FOR THE SECURITIES INDUSTRY.

TTSEC, POLICY, RESEARCH AND PLANNING DIVISION
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DISCLAIMER

- The views express in this presentation are those of the presenter and not necessarily those of the Trinidad and Tobago Securities and Exchange Commission (TTSEC)
- This is not an academic paper but one presented to highlight some operational issues on the topic



OUTLINE

- **Regulatory Framework: the SA 2012**
- **Twin Peaks Model**
- **SA 2012 enhanced powers**
- **Micro Prudential and Macro Prudential Regulation**
- **Potential Areas of Risks (size & Composition, SIFs, Mutual Fund Industry)**
- **Mutual Fund Industry**
- **Way Forward**



REGULATORY FRAMEWORK

- Early 1970's start of the securities industry
- Ministry of Finance: Capital Issue Committee
- CBTT: Call Exchange
- Securities Act of 1981 : Stock Exchange
- Securities Act of 1997: TTSEC
- Securities Act of 2012



TWIN PEAKS MODEL

- **Central bank of Trinidad and Tobago (CBTT): Banking, Finance, Insurance and Credit Unions**
- **The Trinidad and Tobago Securities and Exchange Commission (TTSEC): Securities Industry**
- **MoU signed**



ENHANCED SA 2012

- **Current legislation, the securities act of 2012 is a disclosure based regulatory framework with a macro prudential overlay**
- **Tool kit available**



ENHANCED SA 2012

- Part I – Preliminary
- Part II – The Securities and Exchange Commission
- Part IV- Registration of Registrants
- Part V- Disclosure Obligations of Reporting Issuers
- Part VI- Distributions
- Part VII- Market Conduct and Regulation
- Part IX – Reporting by Persons Connected with Issuers
- Part X- Civil Liability
- Part XI- General Provisions and Enforcement



SECTION 6 (E)

- Section 6 (e) now allows the TTSEC to conduct inspections, reviews and examinations of self-regulatory organizations, broker-dealers, registered representatives, underwriters, issuers and investment advisers.



SECTION 6 (1)

- Section 6 (1) now allows the TTSEC to “*assess, measure and evaluate risk exposure in the securities industry*”.



SECTION 7 (1)

- Section 7 (1) of the SA 2012 states that one of the functions of the TTSEC is to “*monitor the risk exposure of registrants and self-regulatory organizations and take measures to protect the interest of investors, clients, members and the securities industry*”.



SECTION 70 (1)

- Section 70 (1) “a reporting issuer knowingly or recklessly makes a misrepresentationcommits an offense and is liable on conviction on indictment to a fine of **one million dollars and to imprisonment of three year.**
- **Maximum fine and jail term**



SECTIONS 90, 91, 92

- Section 90, allows the TTSEC's Chief Executive Officer to make interventions into "unsafe or unsound practices" which would "be a risk of loss, or damage to a registrant or self-regulatory organization, its investors or the general public".
- Section 91 & 92 deals with market manipulations as an offense.



MACRO & MICRO PRUDENTIAL FEATURES

Fundamental Features	Macro prudential	Micro prudential
Proximate objective	Limit financial system-wide distress	Limit distress of individual institutions.
Ultimate objective	Avoid output (GDP) costs	Consumer (investor/depositor) protection
Characterisation of risk	Seen as dependent on collective behaviour ("endogenous")	Seen as independent of individual agents' behaviour ("exogenous")
Correlations and common exposures across institutions	Important	Irrelevant
Calibration of prudential controls	In terms of system-wide risk; top-down	In terms of risks of individual institutions; bottom-up. (Borio 2003)



SIZE & COMPOSITION

SEPT 2014

- The local securities industry (297.35 billion),
- the stock market capitalisation of the local equity markets; (109.06 billion)
 - the value of debt instruments issued (which are inclusive of loan notes, bonds, commercial paper and Treasury Bills); (85.84 billion)
 - Securitized Instruments; (56.59 billion) and
 - Net Funds under management of the mutual fund industry. (45.86 billion)

Figure 1 - Estimated Size of the Components of the Securities Industry of Trinidad and Tobago

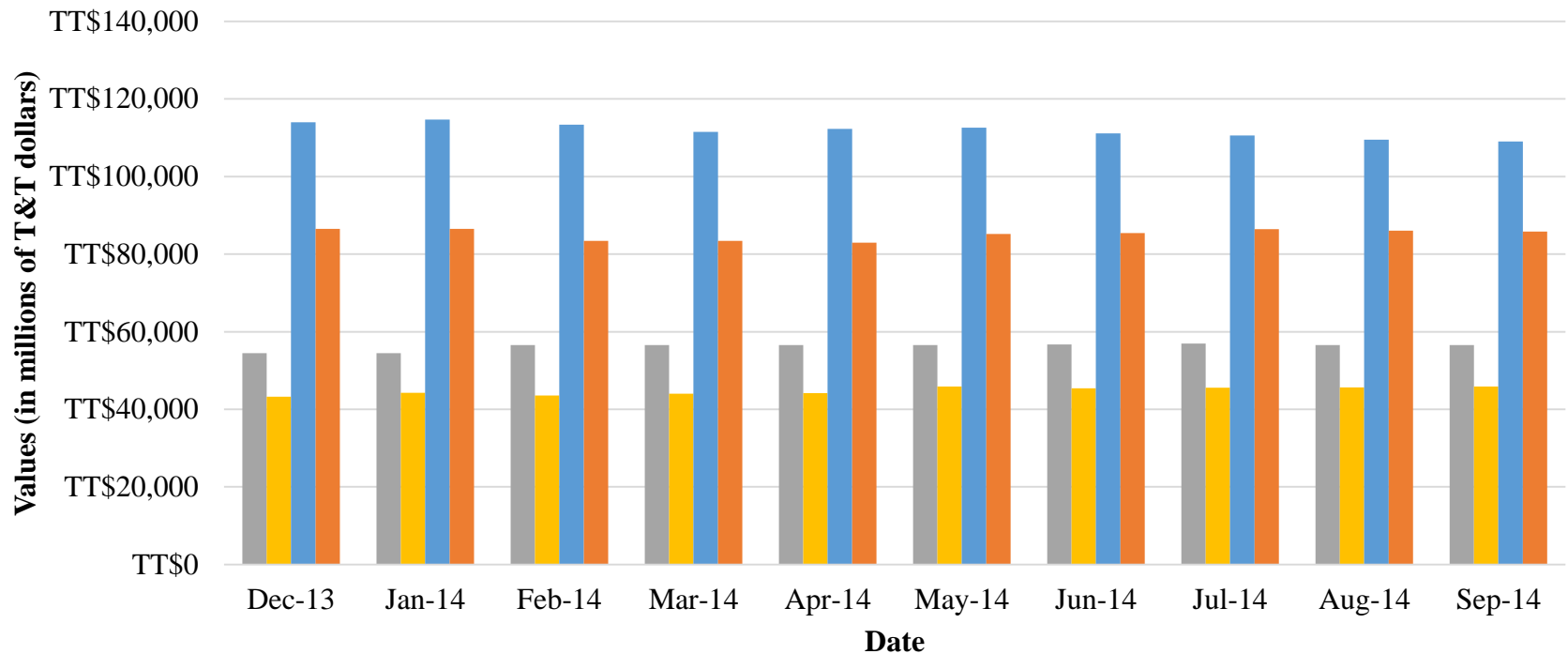
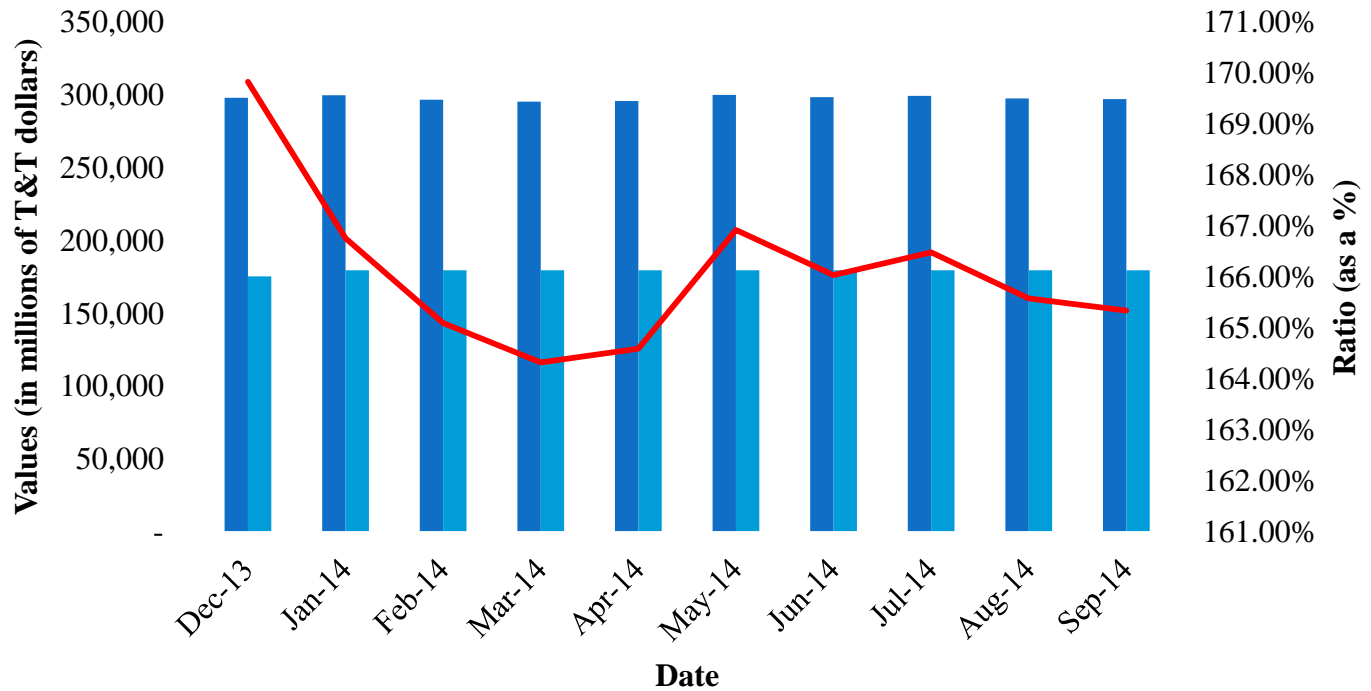


Figure 2 – Comparisons: Securities Market Size and G.D.P. (Trinidad and Tobago)

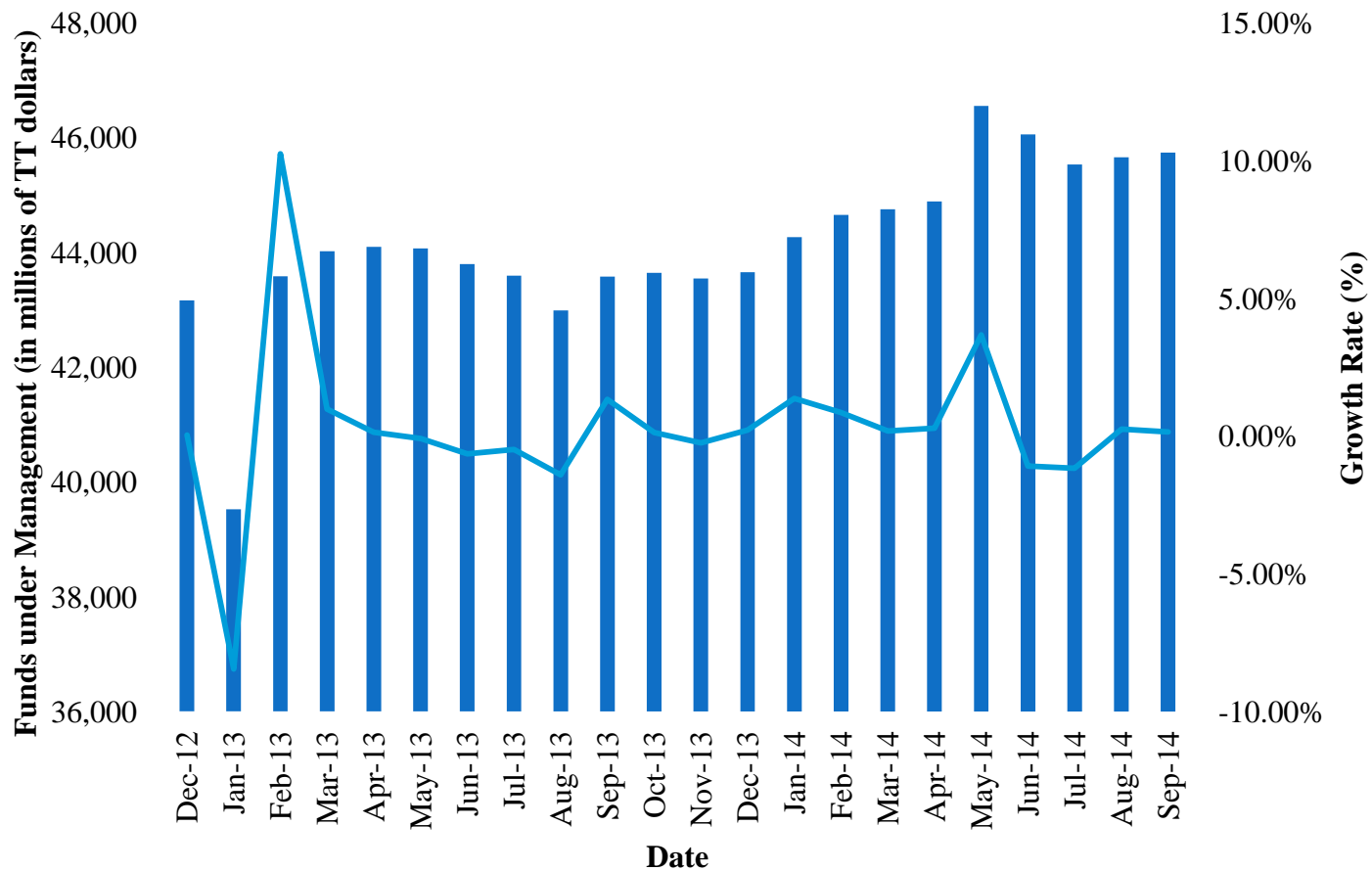




MUTUAL FUND INDUSTRY

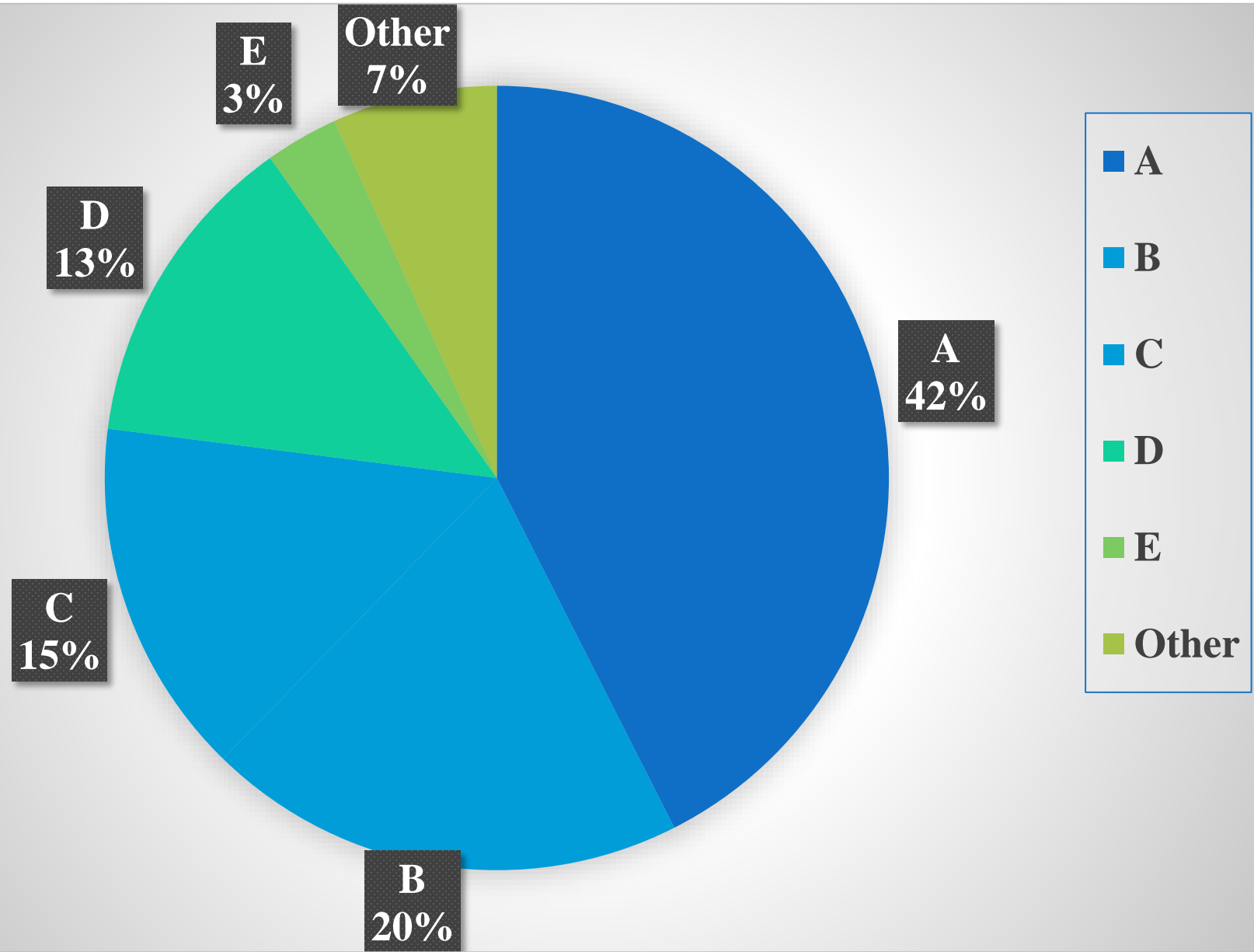
- Provide a way for millions of small investors to participate in the securities market and save for their futures
- Source of capital for firms seeking capital
- Started in 1982 with the Trinidad and Tobago Unit Trust Corporation
- Between 2000-2004, 500% growth
- September 2014 , about 4 %

Figure 3: Funds under management (FUM)



■ Funds under management (in millions of TT dollars) — Growth Rate

Figure 4: Market Share Percentage of top 5 issuers of Mutual Fund Industry





MUTUAL FUND INDUSTRY

- Funds Under Management: Sept 2014 is 25.44 % of GDP.
- Complexity of players: Contagion risks
- Prudential Regulations: Collective Investment Schemes Guidelines



WAY FORWARD

- CBTT & TTSEC collaboration , MOU
- Market Actors involvement
- Risk based Adequacy framework
- Partner in the National Financial Crisis Management Plan (NFCMP)
- Principles of International Organization of Securities Commissions (IOSCO)
- New Strategic plan 2014-2017, goals of improving operational effectiveness and efficiencies, developing a positive corporate image and fostering the development of the securities market.



THANK YOU

- Q&A