Address

by

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At the

Inaugural Conference of the

Securities Dealers Association of Trinidad and Tobago

Capital Market Development and the Role of Self Regulatory Organizations

Trinidad and Tobago Chamber of Commerce

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Senator Subash Ramkelawan,
Governor, and Deputy Governor Central Bank of Trinidad and Tobago,
Chairman, Trinidad & Tobago Securities and Exchange Commission,
Other Distinguished Members of our Discussion Panel,
Directors of the Securities Dealers Association of Trinidad and Tobago,
Members of the Securities Dealers Association of Trinidad and Tobago,
Specially invited guests,
Members of the media
Distinguished ladies and gentlemen.

I would like to thank the Securities Dealers Association of Trinidad and Tobago (SDATT) for inviting me to address this inaugural Conference on Capital Market Development.

Indeed, Ladies and Gentlemen, I welcome this opportunity to discuss some of the major issues to be considered in achieving a fully developed capital market in Trinidad and Tobago.

This Conference provides a unique opportunity for the sharing of information among the financial and capital market oversight institutions, representative agencies of the various market participants, and the Ministry of Finance.

I must applaud the selection of “Capital Market Development and the role of Self-Regulatory Organizations” as today’s theme; it is not only most appropriate in light of Government’s current thrust to establish Trinidad and Tobago as an International Financial Centre, but it also reflects the considerable thought that SDATT has given to ensuring that this conference adds value to the **policy debate on the future of capital market regulation** and more specifically regulation of the Securities Industry.

I certainly look forward to the very rich discussions that will provide much food for thought as **we work together** in developing an even-handed approach to addressing the challenges of getting the regulation equation right.

Even in its relative infancy, the Securities Dealers Association of Trinidad and Tobago (SDATT), is already proving itself a valuable partner in achieving our collective aspirations for a robust, efficient and competitive capital market not only here in Trinidad and Tobago but also from a regional perspective.

Ladies and Gentlemen, this morning, I have elected to speak to you on the topic "**Capital Market Development in Trinidad and Tobago: The Reform Agenda**". In this address, I hope to highlight some of the key dimensions of capital market development in Trinidad and Tobago and provide some insight on current government initiatives being undertaken by this Government to expand activity in the sector and to improve its efficiency.

From the outset, this administration has always recognized the important contribution that a well-regulated capital

market makes to the growth and development of the financial services industry and to the diversification of the country’s economic base.
Over the period, 1996 to 2007, the financial services industry in Trinidad and Tobago has been growing at a relatively robust pace.

In fact, Ladies and Gentlemen, the financial services sector grew at an **average rate of 9.2 per cent** per annum over this period. Moreover, the sector increased its contribution to GDP from 12.5 percent in 1996 to 13.5 percent per cent in 2007.

Government’s sees its role clearly as a facilitator of development and in the particular case of the capital market this role is essentially to ensure the deepening and strengthening of all of the various components of the domestic capital market.

This is a shared agenda to which we are all committed and to which we give our best efforts as we pursue our respective but complementary roles and responsibilities.

Ladies and Gentlemen, in recent years, the financial landscape has been changing more rapidly than at any time in history.

These changes are driven largely by financial liberalization, increased assimilation of technology into the financial services sector; a substantial redirection of capital flows across borders; the evolution of new generations of financial instruments, and the emergence of global financial conglomerates as mergers and acquisitions become increasingly commonplace.

There is ample evidence from the experience of emerging market economies to provide us with an appreciation of the pre-requisites for successful capital market development.

Fundamentally, these requirements relate to ensuring macro-economic stability, liberalizing the external capital account, modernizing the legal and regulatory framework and upgrading the technological platform of our financial infrastructure.

In the 1980s, for example, the Trinidad and Tobago Stock Exchange and the Trinidad and Tobago Unit Trust Corporation were established. These are **pioneering institutions** which have played critical roles in capital market development by enhancing long term savings and widening the investor base of the market.

The structural reforms of the early 1990s involved interest rate, exchange rate, current and capital account liberalization and were complemented by the upgrading of the regulatory framework for the financial sector. These **bold initiatives** signaled Trinidad and Tobago's readiness to engage the international economy on a competitive basis. The results of these initiatives are reflected in the performance of the manufacturing sector in the intervening period.

The Securities and Exchange Commission established in 1995 represented a milestone development as it provided for the regulatory oversight of the securities industry.

Since then, the collaborative efforts of the Ministry of Finance, the Central Bank of Trinidad and Tobago, the Securities and Exchange Commission, the Trinidad and Tobago Stock Exchange and private sector stakeholders have resulted in further progress in the implementation of other major elements of this policy agenda and some of the associated infrastructure.

Ladies and Gentlemen, the more recent infrastructure improvements were based on the intensive application of modern technology. These developments include the establishment of the Real Time Gross Settlement System (RTGS), a Government Securities and Settlement System (GSS) and the upgrade of the Inter-bank Payment System in line with international best practices.

Additionally, **Electronic Trading of securities** on the Stock Exchange was introduced in 2005.

This feature not only involved the use of a modern technological platform but was also a major step in promoting transparent price discovery.

Similarly, the creation of a **Central Depositary** has significantly improved efficiency in the operations of the Stock Exchange.

Institutional strengthening efforts involved the establishment of the **Office of the Financial Services Ombudsman** as well as that of an **Insurance Supervisor** within the Central Bank.

In the case of the government securities market, **a market-based auction system** has served to increase competition and transparency.

Government is also strengthening the **secondary market for government securities** so as to provide alternative investment opportunities for investors, to facilitate the development of the wider capital market and to contribute to the conduct of monetary policy.

In terms of the substantive legislative reforms, Government is currently finalizing critical amendments to the **Financial Institutions Act 1993, the Securities Industries Act, and the Central Bank Act**. At the same time Government is working together with the credit union sector to create a new enabling environment for the continued development of credit unions. Indeed, credit unions are a significant component of the financial services sector comprising over 400,000 members with assets in excess of **$4 Billion**.

Going forward, Government will continue to focus on increasing liquidity in the stock market, diversifying the investor base and broadening product offerings in the market.

All of these factors are being addressed in order to ensure a sustainable domestic capital market.

One of the requirements for enhancing liquidity in the Stock Exchange is the need for greater transparency particularly in the area of share price determination.

In this regard, Government is exploring mechanisms for improving price discovery including taking a closer look at building capacity to expand the options for directorships among firms in the market.

With respect to broadening product offerings, we are especially excited regarding the prospects for the introduction of **Depositary Receipts** as a new trading option for investors.

Depositary Receipts, or DRs, are a common way for public companies to offer their shares in jurisdictions other than their country of listing. DRs will therefore expand the options available to investors on the Trinidad and Tobago Stock Exchange.

Globally, there are over 2,000 Depositary Receipt Programs for companies in over 70 countries. A Depositary Receipt Program in Trinidad and Tobago will allow local investors to achieve the benefits of global diversification.

Currently, Government is working through the operational and logistical requirements to implement this program.

Going forward, Government will also continue to collaborate with regional governments with a view to building on the current arrangements for **regional trading of securities** even as it recognizes the challenges embedded in this effort.

These challenges are wide-ranging and include harmonizing audit and accounting standards, oversight arrangements, and creating an efficient and cost-effective clearing and settlement system.

The implementation of the **Trinidad and Tobago International Financial Centre (TTIFC)** is at the heart of Government's agenda to promote economic diversification by establishing the financial sector as another pillar for sustainable economic growth.

The TTIFC will consolidate Trinidad and Tobago's position as the financial centre for the Pan Caribbean region.

Already, Trinidad and Tobago is a major source of financing for regional governments and corporations which have raised over US$1.1 Billion through foreign currency bond placements.

The implementation of the International Financial Centre is progressing smoothly as Government is currently exploring the advantages associated with the accumulation of financial **resources in the Heritage and Stabilization Fund** and the potential to leverage **pension funds** to stimulate further diversification of investment instruments**.**

Underpinning all of these transformative elements, however, is a requirement for a supportive regulatory regime.

Indeed, Government's aggressive agenda for strengthening the regulatory framework for the financial sector reflects our appreciation of the importance of appropriate, effective and efficient regulation and its commitment to installing a regulatory regime that best fits Trinidad and Tobago's requirements at this time.

Beyond the contextual considerations emanating from recent developments in the international marketplace is the matter of achieving our shared aspirations for Trinidad and Tobago as the leader in the regional financial landscape.

Ladies and Gentlemen, the wider national community, and in particular the business and financial community, also has a critical role to play in advancing this shared agenda for the securities market. And it is in this context that I applaud today's initiative by SDATT.

It is clear, however, that **regulatory failures are costly** and in many instances this cost extends way beyond the initial area of impact.

Recent experiences provide stark reminders of the **importance of getting the regulatory equation correct**.

The crisis currently being experienced by international financial markets originated in US mortgage markets **as both issuers and lenders breached the boundaries of prudence**.

But what is of even more concern is the fact that so many conservative institutional lenders came to acquire such substantial **exposure to these high risk securities**.

Clearly the regulatory apparatus failed to ensure adequate transparency and price discovery in critical transactions.

That these transactions involved international financial institutions with cross border accessibility exacerbated the fall out and facilitated the contagion consequences that we are only now coming to appreciate fully.

The recent case of Societe Generale, a major French banking institution that suffered the **largest trading loss in banking history of US$7.2 Billion** also highlights the possible consequences of regulatory failure.

The consequences have been significant. Projections for global growth for 2008 continue to be revised downwards particularly in the United States, the Euro area and Japan.

The sub prime fall out in emerging countries is perhaps more ambiguous.

The IMF has also responded by launching a number of initiatives with the aim of developing policy proposals to deal with both the present crisis and the need to improve the Fund's capacity to spot potential trouble spots.

I do hope that these initiatives are pursued diligently and expeditiously as **every effort is required to stymie the advance of systemic risks** wherever they may arise.

Ladies and Gentlemen, this Government is committed to the **prudent management** of the country’s resources and is, therefore, taking every possible step to ensure that **the growth of our financial services sector continues on its expansive trajectory** and is not compromised by regulatory deficits.

While it may not be possible to legislate away every possible loophole we have framed amendments to the main items of legislation so as to bring them to **international best practice standards**. But, this is not a one-off situation and therefore, Government plans to monitor and review the efficacy of these regulatory arrangements on a continuous basis,

Government’s prudent management of the economy has led to the **accumulation of foreign reserves** that now provide approximately **10 months of import cover**. Additionally, **the balance in the Heritage and Stabilization Fund amounts to approximately 10 percent of GDP**, and **Government External Debt has been reduced to a mere 7 percent of GDP**.

These positions represent some measure of insulation from the current turbulence in the global marketplace. The adjustments unfolding in the international economy point to a rebalancing of global trade and capital flows. Within these developments there are opportunities for new markets, new sources of investment inflows, and new alliances.

Ladies and Gentlemen, the Government is mindful of the evolving downside risks to growth prospects in the global economy but we remain optimistic that recent developments in the global economy reflect adjustments to inherent risks involving the United States and the major emerging economies.

Let me quote from the reputable Economist magazine of November 17th 2007 as follows- "**Of course, a recession in America would reduce emerging economies' export, but they are less vulnerable than they used to be. America's importance as an engine of global growth has been exaggerated. Since 2000 its share of world imports has dropped from 19% to 14%.**"

The impact of the **slowdown** of the US economy on Trinidad and Tobago depends on both the magnitude of the slowing as well as the duration for which it continues.

The current economic circumstances of Trinidad and Tobago are such that a temporary slowing of the US economy does not impose a requirement for immediate adjustment- fiscal or other wise.

As of now, there is yet to be a formal determination from authoritative sources, such as the IMF, that the US economy is, in fact, in a recession.

With respect to the risks to the energy market, Government does not consider it likely that a slowing of the US economy would cause oil markets to collapse. In fact, I quote again from the November 17th 2007 issue of the Economist – '**America's importance as a source of global growth has been exaggerated. Since 2000, its share of world imports has dropped from 19% to 14%. Its vast current-account deficit has started to shrink which means that America is no longer pulling along the rest of the world"**

We expect that oil prices will continue to be relatively buoyant even in the face of declining US growth as demand from China, India and other Asian countries continue to increase.

We are satisfied that there has not been any significant impact of the slowdown in US growth and of the volatility in the US stock market on the Trinidad and Tobago Stock Exchange (TTSE). This is hardly surprising given the limited integration of the domestic market to US and emerging market economies.

In the longer term, we are confident that Trinidad and Tobago will begin to reap the benefits of our intensified diversification efforts. Essentially, we expect that the overall resilience of the Trinidad and Tobago economy will improve considerably as we seek to strengthen and deepen capital market development in the context of an appropriate and well defined regulatory framework, comprising a judicious mix of self-regulation and statutory intervention.

The outlook for the future, therefore, is a bright one as we make tangible and consistent progress towards achieving our aspirations embodied in **'Vision 2020',** and in particular, to the establishment of Trinidad and Tobago International Financial Centre.

Thank you