



**MINISTRY OF FINANCE & THE ECONOMY  
GOVERNMENT OF THE REPUBLIC OF TRINIDAD & TOBAGO**

**SPEAKING NOTES FOR  
SENATOR THE HONOURABLE LARRY HOWAI  
MINISTER OF FINANCE & THE ECONOMY**

**AT THE LAUNCH OF THE TRINIDAD & TOBAGO CORPORATE  
GOVERNANCE CODE**

**TUESDAY 26 NOVEMBER 2013**

**HYATT REGENCY, PORT OF SPAIN**

Good evening.

Today's launch of the first Trinidad and Tobago Corporate Governance Code represents a very important turning point in our nation's advancement towards becoming the region's premier business destination.

I am therefore very pleased, and honoured to join you this evening to be part of this momentous occasion.

And I congratulate those who were instrumental in delivering this very useful guide. The Code is the result of many months of hard work by the Working Group established in January 2013. As I understand it, the Group comprised representatives from the law association, accounting fraternity, securities regulator and the business

community. Specific mention must be made of the coordinating efforts in this exercise by the Caribbean Corporate Governance Institute, the Trinidad & Tobago Chamber of Industry and Commerce and the Trinidad & Tobago Stock Exchange.

Your inspired action and initiative have delivered an extremely important benchmark for the local corporate landscape.

Apart from casting in words the absolute need for ethics in the conduct of business, what you have been able to achieve is the framework that will form an important pillar in promoting business dynamism, competitiveness and world class consumer and business standards.

As business leaders, you will no doubt appreciate the significance of a robust framework of codes and guidelines in the conduct of all forms of business activities.

In the past five years, this need has been dramatically played out on the international stage.

Millions of ordinary people were severely impacted by the global financial crisis and even today, many economies are struggling to fully recover and return to stability and growth.

At home, we have had the unfortunate experience of the CL Financial debacle which serves as an example of what happens when there is a lack of sound risk management and corporate governance practices. This experience was one where ethics and corporate governance came sharply into focus for us.

The intense scrutiny of the financial world that came following the global financial crisis has been able to force deep introspection and today, the hallmark of excellence for successful players in the business sector is no longer simply profit, but also integrity and adherence to the highest standards of corporate governance.

In fact what the world has come to learn is that there can be no profit in either the social or commercial sense where ethical norms do not exist. Indeed, to paraphrase another saying, it is easier for a camel to pass through the eye of a needle than for us to build lasting, durable and prosperous societies where governance based on ethical principles do not exist.

A deep analysis of the financial crisis finds that it was a dangerous level of misconduct by a few leading market participants that created a shocking and contagious collapse. We saw the significant influence which resided in the hands of a few individuals being unethically used, and this resulted in the world's financial system being brought to its knees.

This is not to say that guidelines and codes of corporate conduct were not in force before. Rather, it is to underscore the fact that the best rules amount to nothing unless they are adhered to and appropriately enforced.

While it is critically important that guidelines and codes of conduct do not leave too many grey areas and too much latitude for subjective interpretation without explanation, what is also important is the cultivation of a culture of ethical standards by leaders in every organization as well as strong enforcement capability in the hands of regulators.

The absence of this led to was opaque derivative products being inflated into an asset bubble which was popped by the sub-prime mortgage sector.

Today, vulnerability still persists in a shape and size that was not anticipated earlier. Few would have thought that the effects of the sub-prime crisis would put at risk the survival of the Euro Currency, and would threaten the existence of the entire European region.

Internationally, prevailing corporate governance practices failed to safeguard against excessive risks taken by leading financial institutions. Market players exhibited herd behavior and deviated from ethical norms by engaging in speculative activities for self-gain.

This has bolstered the argument for efficient and well-functioning markets, as well as responsible and ethical behavior of the participants.



We have to understand that the system of capitalism, while it has shown itself to be better than any other, given the current state of development of our civilization, also has deep flaws and contains inherent contradictions that can bring down entire economies. It is for this reason that we cannot leave regulation to the marketplace. A strong regulatory capability, a vibrant media and, most importantly, a culture based on agreed ethical norms are essential support mechanisms for ensuring the dynamism of our economic system.

Here in Trinidad & Tobago, the Ministry of Finance and the Economy has taken the view that every possible action must be pursued to create an environment that is competitive,

sustainable and focused on promoting sufficient protection for private and corporate investors.

We must ensure that economic recovery, growth and development policies are closely aligned to strategies for the strengthening of corporate governance practices.

Given the small size of our economy and the paucity of resources, it is our view that the theory and practice of corporate ethics and governance in our context has to be comprehensively rethought, in an environment of co-operative partnerships. And so, for us, civil society is an important ingredient in any formula for strong corporate governance.

Our aim must be to lift our economy into a new phase of growth and development using institutionalized ethics and transparency standards. In doing so, we shall promote competitiveness, while underlining progress with appropriate regulatory regimes, improved market transparency and corporate disclosure.

This is one of the reasons why the Government has placed such an emphasis on strengthening the legislative infrastructure which supports the financial sector. Over the past year, we have strengthened the Financial Intelligence Unit Act and the organizational capability of the Financial Intelligence Unit and we have worked assiduously to be removed from the Financial Action Task Force grey list,

although more needs to be done as far as enforcement is concerned.

We have also introduced the new Securities legislation and have laid a new Insurance Bill before the Senate and the House.

For this reason, this occasion of the launch of the Trinidad & Tobago Corporate Governance Code is both timely and important to how we continue moving from recovery, further into growth and sustainable development.

I noted the five core principles upon which the Corporate Governance Code is based:

1. Establishing a framework for effective governance;

2. Strengthening the composition and performance of Boards and Committees;
3. Reinforcing loyalty and independence;
4. Fostering accountability, and
5. Strengthening relationships with shareholders

Each of these principles carry clear guidelines and recommendations which will be critical to the ease of implementation, especially for companies which must report on their operations.

And I am of the firm conviction that these codes, when converged with existing and evolving rules and guidelines, will become an essential plank for progress.

An important aspect of these codes is that it has been developed by the business sector for the business sector with the key principle of enabling the business community to achieve the highest standards of governance in the operations of their business. It has been designed to be user-friendly for all organizations no matter the size or stage of their development.

It is also important to note that the Trinidad & Tobago Corporate Governance Code is being promoted on an “apply or explain” basis which provides a degree of flexibility in the application of the codes. Moreover, it encourages Boards to explain and clarify the positions that have been taken.

The Boards and management of financial institutions especially, are being encouraged to improve their governance practices and eliminate knowledge gaps.

Boards are also required to develop their capacity to assess the nature of risks keeping in view the size and complexity of their institutions on an ongoing basis.

And greater attention has also been paid to the rationalization of compensation practices in the financial sector, with a focus on medium to longer term goals to avoid undue risk-taking and promoting transparency and meeting proper disclosure requirements.

Though corporate governance is important for every institution and business, I consider it even more critical for the financial institutions as they are the custodians of household and business sector deposits.

Such an intermediary role must be safeguarded and appropriately governed if confidence is to be maintained in the financial system. And it is here in particular that the role of the Central Bank and other regulators of the financial system come in.

In 2007, the Central Bank of Trinidad and Tobago issued Corporate Governance Guidelines to ensure that firms operating within the financial system are fully cognizant of



the need to adopt sound principles and practices for the internal governance of their respective organizations.

Taking the Government's strategies, as well as the clear principles of the Trinidad & Tobago Corporate Governance Code, you will be pleased to know that in my capacity as Corporation Sole, I have initiated a comprehensive review of the corporate governance policies in the State Enterprise Sector.

Although I should add that the State Enterprise Sector already has a fairly comprehensive set of guidelines designed to ensure good governance.

One mechanism is the *Performance Monitoring System* which is the framework for the oversight of State Enterprises by the Corporation Sole. It outlines the relationship that should prevail between the shareholder, the directors and management of the State enterprises.

Within this monitoring system are the monitoring agents - Line Ministries, Boards of Directors, the Audit and Investment Committees, various Chief Executive Officers, and of course, the Corporation Sole.

Also of significance is the Internal Audit Manual prepared by the Treasury Division of the Ministry. Internal Auditors within Ministries/Departments and State Enterprises must examine the records to ascertain the extent of compliance with established policies and procedures as established by

the Treasury Division and, where applicable, approved by Parliament.

The legal provisions which govern and support the internal audit framework includes:

- The Constitution of the Republic of Trinidad & Tobago;
- The Exchequer and Audit Act and related financial regulations; and
- The Ministry's Comptroller of Accounts Circulars.

This framework is bolstered by the Auditor General, the Freedom of Information Act, the Public Accounts Committee of Parliament the Prevention of Corruption Act and the Integrity in Public Life Act, to name a few.

Notwithstanding this comprehensive framework, there are instances where the system breaks down, although I would add that this happens in the minority of cases. Of the 60 state enterprises, less than 20 percent have experienced problems. I suppose it is similar to our view that all state enterprises lose money when, in aggregate, the sector is actually profitable, returning a net profit of \$5.3 billion in 2012.

Having said that, though, I would emphasize that we need to make more state enterprises profitable as we need to ensure that the corporate governance framework is not flouted by even one state enterprise.

But with the Trinidad & Tobago Corporate Governance Code, I believe that we have gained partners in the business

community for encouraging enforcement and monitoring. Here In Trinidad and Tobago we have tended, in the past, to take the view that the private sector cannot be held to the same level of accountability as the state sector. After all, we think, it is private money.

The experience of 2008 where private sector institutions in the developed world melted down because of the unacceptable levels of risk taking and breaches of corporate governance and our own experience here in Trinidad & Tobago, with CL Financial have taught us differently. We all suffer when any of us flout the rules of good ethical conduct.

Through this Code, Trinidad & Tobago can more effectively achieve the Government's objectives of enhancing

governance and performance in both the public and private sector, strengthening efficiency and transparency in the market place, and improving the investment culture.

Ladies and gentlemen, the Government of Trinidad & Tobago takes a very strong view where it comes to the operations of State and private sector companies.

In the 21<sup>st</sup> century Trinidad & Tobago, it can no longer be 'business as usual'. Organisations must adhere to the highest standards, or risk being responsible for our country falling short of investor expectations.

Organisations also have an enforceable responsibility to ensure that every reasonable precaution is taken to protect the interests of shareholders and the population at large.

Our vast potential for strength and influence in the region can only be effectively tapped by a firm commitment and adherence to globally benchmarked codes of ethics and guidelines for transparency.

For the success of this initiative, there must be compliance with the principles that have been set out in this Code. Therefore, I commit to you and to the people of Trinidad & Tobago that you have a partner in this Ministry especially with this initiative.

And in moving forward, I expect that the transformation of the domestic environment will continue towards one that is

hallmarked by integrity, high standards of conduct and transparency.

I thank you.