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**KEYNOTE ADDRESS BY
THE HONOURABLE KAREN NUNEZ-TESSHEIRA
MINISTER OF FINANCE**

*“Capital Market Implications of the Creation of
An International Financial Centre”*

Mr. Chairman, Dr. Terrence Farrell;

Mr. Ian Narine, ScotiaBank Trinidad and Tobago Limited;

Ms. Carole Eleuthere-JnMarie, Caribbean Money Market Brokers Limited (CMMB) St. Lucia;

Mr. Robert Le Hunte, Barbados National Bank;

Mr. Arjoon Harripaul, Caribbean Information and Credit Rating Services;

Ms. Claudette Crooks, Moneymasters Jamaica;

Members of the Media;

Distinguished Ladies and Gentlemen,
Good Morning and welcome to you all.

It is indeed my pleasure to accept Dr.. Farrell's invitation to address you today on the occasion of the 2nd Caribbean Investor Conference which is being held here in the splendid facilities of the Hyatt Regency Hotel in Port of Spain. This signature event promises to stimulate thought-provoking and innovative ideas that would help us to locate the challenge that we collectively face in terms of a common agenda to secure the development of the financial landscape of our region.

Today I have chosen the subject of Trinidad and Tobago's initiatives in the creation of the TTIFC and in particular some of the issues we will inevitably confront as we pursue this initiative. The impetus for the establishment of the Trinidad and Tobago International Financial Centre is being driven not only by consideration within our domestic economic circumstance and in

particular Trinidad & Tobago's dependence on a depleting resource but also by the unrelenting force of the globalization tsunami. No where is this more evident than in the financial and capital markets of the global economy. International capital and financial markets have been evolving exponentially over the past decade fueled in the main by a new generation of financial products and services. As financial intermediaries converge, financial products now have insurance, banking, securities and futures components. These developments while providing substantial opportunities for growth in the market place have also exposed financial markets to new challenges. The sub-prime crises, we're all familiar with that, in the United States have exposed regulatory gaps as well as redundancy in the regulatory apparatus.

The unfolding events in the United States represent valuable lessons for Trinidad and Tobago as we contemplate the development of our International Financial Centre. Notwithstanding the challenges, this government believes that there's a place for Trinidad and Tobago in this new world of increasing connectivity of global capital markets, sophisticated financial products, trading strategies and unabated competition. The financial sector is destined to play a particularly crucial role in shaping development prospects in Trinidad and Tobago. Over the past three years, the financial services sector has grown at an average rate of 8.8 %, almost 9%, while increasing its share of GDP from 13.5% to 14.5 % . The sector has been among the fastest growing of the non-energy sectors. All of us here today are well aware of the strengths of the Trinidad and Tobago Financial System. It has deep and diversified financial system with financial sector assets among the highest in the region. Financial sector assets amounted to TT 103.9 billion dollars in 2007 and have been growing at an average rate of

12.8% over the last 5 years. Asset quality, capitalization levels and profitability indicators for the banking sector are all going clearly northward. The stock market index is now trending strongly upwards after a sluggish 2 years. Trinidad and Tobago is already a Centre for regional bond issuance. Bond issues for regional sovereigns and private corporations have amounted to close to US 1 billion dollars over the last 5 years. This industry has already demonstrated a capacity for innovation as reflected in the evolving rudimentary derivative market for strips and participations that have come to accompany this trend. Investment funds are coming from savings in Trinidad and Tobago as well as from institutional investors throughout the region. The sector therefore is clearly a suitable candidate upon which to consolidate the diversification thrust of the Trinidad and Tobago economy and is a pillar for achieving long-term sustainable growths and is therefore a critical component of this government's Vision 2020. It is against this background that Trinidad and Tobago is pursuing the establishment of a TTIFC, based on a collaborative endeavour involving both the public & private sector. The establishment of the TTIFC is more than a mere economic undertaking. It is an initiative grounded in the confidence and conviction that even as a small nation comprised of a mere 1.3 million people, Trinidad and Tobago stands shoulder to shoulder with the best in the world.

Mr. Chairman, the interlocking of national policy domains and the concomitant volatility of international markets have prompted calls for managing globalization and its lengthening agenda of challenges including global food scarcities, negative cross-border spillovers and world poverty.

The International Financial Centre will provide a terrain of opportunities to local and international financial institutions specializing in investment management, international loan syndication and bank office activities. In my view it is an affirmation of Government's support for the ideals of international cooperation and exemplifies our core values of integrity, highest ethical standards and transparency.

The proposed International Financial Centre will mirror those of Dubai and Qatar which have cemented the Emirate as that region's financial hub. Prior to 2004, the region traditionally sourced their funding from domestic lenders at inefficient, expensive and illiquid cost. However, burgeoning liberalization and privatization and an enviable strategic location coupled with the rising need for secondary offerings, FDI and the expansion of regional trade subsequently prompted the region to re-orient its capital market to more effectively facilitate the changing landscape. The result of this foresight has resulted in a proliferation of business opportunities directly attributable to a myriad of benefits including 100 per cent foreign ownership, zero per cent tax rate on income and profits, double taxation treaties, and high standards of rules and regulations.

Mr. Chairman, research amply illustrates that where capital markets are large and liquid, where risks are easily traded, where balance sheets are true and transparent and where financing is varied that new technology, the division of labor, entrepreneurial acumen and political willingness can give rise to an unprecedented flow of wealth-creating opportunities.

The recent waning of American hegemony due in large part to the decline of its subprime sector bears testimony to the intricacy of capital markets and the devastating effects of financial market turbulence.

In the face of a threatening recession, the U.S. is now experiencing persistent liquidity shortages, heightened credit risks and discordant capital flows. Led by U.S. economic fallout, the IMF is forecasting that world growth will slow to 3.7 per cent in 2008 from 4.9 per cent in 2007, with little prospects for recovery in 2009.

Credit deterioration is now threatening the U.S. commercial real estate and corporate debt markets. This in turn weighs heavily on household borrowing, investment and asset prices which feed negatively into the macroeconomic variables of output, growth and employment.

Moreover, these developments in the U.S., deemed the ‘epicenter’ of our global economy, have impacted negatively on other countries with similar inadequate risk management systems and poor prudential supervision. The unfolding debacle in the U.S. presents valuable lessons for Trinidad and Tobago as we contemplate the development of our own International Financial Centre.

Since the conception of a Pan-Caribbean Financial Centre in 2004, capital markets and the effective management of their development have gathered renewed momentum. Recently in January, the Central Bank launched the secondary market for government securities, a significant milestone in the deepening of our capital market.

Mr. Chairman, the benefits of a secondary market are threefold:-

- First, it provides a mechanism that allows for government securities to move from investors in the primary market to all classes of investors;
- Second, the prospects of greater opportunities for more frequent trading will improve the pricing process for government securities; and
- Thirdly, a well-functioning secondary market will act as a primer for other fixed income securities markets.

The secondary market will also extend the menu of investment instruments available, increasing investors' field of activity and enhancing their freedom to move in and out of investments as their risk exposure and investment priorities dictate.

In the retail market, a small investor will be able to accost any Government Securities Intermediary (GSI) buying and selling bonds, fully confident of their marketability.

The Central Bank in its mandate to foster the development of a secondary market will intensify its efforts to use these securities in repurchase agreements. As such, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) is currently crafting the rules and a standard "repo" agreement that will facilitate the "repo" market.

Trinidad and Tobago has also established itself as an aspiring regional capital raising center via fixed income securities. From 2003 to 2008 some

\$US 2.4 billion and \$TT40 billion have been raised via the T&T debt market, while in regional currencies a further \$ECS260 million and \$BBD 77 million was also raised. A number of these capital raising initiatives emanated from regional corporations and governments from countries such as Barbados, Jamaica, St Vincent, Aruba and the Turks and Caicos. These investment funds are coming from savings and earnings in Trinidad and Tobago as well as from institutional investors throughout the region.

It is a known fact that investors tend to gravitate to a stable institutional environment that is governed by the rule of law, not by arbitrary bureaucratic decision-making. Cognizant of this, the strengthening of the legal framework governing the securities market is underway with a proposed draft Securities Act. Embedded in this new Securities Act are the functions and powers of the TTSEC, investors' powers, market manipulation and transparency and increased By-Law and Order Making Power of the TTSEC.

The Proposed Securities Act brings the securities regulatory regime to the level of best international practice with the ability to adapt appropriately in the evolving financial landscape. The SA is also informed by the three principles and standards set out by the International Organization of Securities Commissions (IOSCO)

- (i) the protection of investors,
- (ii) ensuring that markets are fair, efficient and transparent, and
- (iii) the reduction of systematic risk.

The new act effectively increases the powers of the regulator and provides for greater transparency through increased disclosure obligations, while providing enhanced enforcement tools in the form of increased penalties (fines and jail time), disgorgement (the repayment of ill gotten gains) and the ability of investors to take civil action against reporting issuers for misrepresentations.

To further ensure there is significant regulatory oversight over cross border financial activity the new act also provides the Commission with the power to cooperate with regulatory authorities at local and international levels not only in investigations but also in connection with prosecutions. This ensures that violators of any securities laws by local or international markets actors can be adequately prosecuted. As a further measure to advance accountability and integrity, persons entrusted with fiduciary responsibility such as directors and senior officers can be held responsible for a reporting issuer's failure to comply with disclosure obligations.

In keeping with standard international practice the new act will require insiders to report their ownership of, and transactions in securities of issuers of which they are insiders. This public reporting would provide valuable information to the market and make it less likely that an insider will trade on undisclosed price sensitive information. The failure to report trading would not only be an offence but will provide clues for instances of insider trading.

Moreover, to increase the quality and comparability of financial results financial statements must be prepared in accordance with International

Financial Reporting Standards (IFRS) and quarterly reports rather than annual reporting will also be introduced.

Ladies and Gentlemen, I wish to emphasize that even as we strengthen our regulatory structures we do so with a clear appreciation of the need for the appropriate balance between investor and consumer protection and market performers, particularly in terms of product innovation.

Further efforts aimed at deepening capital markets involve the introduction of Trinidad and Tobago Depositary Receipts (TTDRs). This is a new security- for the english-speaking Caribbean -intended to encourage greater participation by the public in the development of the capital market, mop up excess liquidity and afford retail and institutional investors greater diversification in their investment portfolios.

The benefits of TTDRs are numerous and rid the system of certain existing impediments to investment such as undependable settlements, costly currency conversions, unreliable custody services, poor data flow, unfamiliar market practices and ambiguous tax conventions.

Similarly, the bond market Depositary Receipts also provides prospects for raising capital in Trinidad and Tobago. Its introduction in Trinidad and Tobago however, must be preceded by the establishment of the appropriate regulatory framework. The TTSEC will ensure adequate disclosure and conduct among market participants in the trading of TTDRs. We expect the legislative framework to support this will be in place by the end of fiscal 2008. Depositor Receipts have already proven successful in many countries most notably in the United Kingdom and the United States.

Ladies and Gentlemen, financial stability cannot be assured without constant and unrelenting war against such abuses as money laundering, which Government perceives to be a major impediment to the efficient functioning of the Trinidad and Tobago International Financial Centre.

To this end, Government is strengthening the regulatory and legislative framework governing the financial services sector. Initiatives in this regard include the passing of the Proceeds of Crime Act, 2000 which outlines the circumstances under which the offence of money laundering is deemed to be committed and the 2004 Revision of the CBTT's Guideline on Combating Money Laundering and Terrorist Financing which embodies Forty Recommendations and Nine Special Recommendations by the Financial Action Task Force on terrorist financing as well as new and proposed legislation in Trinidad and Tobago.

Mr. Chairman, this Government unreservedly endorses the efforts of the Central Bank and the Caribbean Financial Action Task Force to collaborate in this fight and to finalize a comprehensive methodology for safe-guarding the integrity of our financial system.

Regionally, integration has long permeated the securities markets. In 1997, approximately 18 per cent of new equity issues on the Trinidad and Tobago Securities and Exchange Commission were accounted for by cross-listings of CARICOM countries. In 2003, 30 per cent of units sold on the local market were registered by local agents representing foreign issuers.

The stock exchanges of Jamaica, Barbados and Trinidad and Tobago recently agreed to an integrated platform, the Caribbean Exchange Network. The vision of the CEN is to create a common Caribbean Securities Market removing obstacles and allowing free interplay of market forces.

Regional integration may be the critical factor in helping overcome some of the natural disadvantages and limitations that small nations face with respect to the unavoidable forces of globalization. The goal is to press forward while fostering the differing levels of attributes and assets of each Caribbean nation.

The TTIFC is expected to act as a catalyst for continued economic growth and diversification. It will also consolidate Trinidad and Tobago's position as the financial hub for the Caribbean region. Over time, Trinidad and Tobago intends to serve as the financial services gateway to Latin America. In 2008, Trinidad and Tobago is expected to experience its 15th successful year of robust economic growth. Successful financial centres such as Dubai and Hong Kong have viewed the strength of their domestic financial sector as leverage for bolstering their IFCs. I am convinced that in a similar manner the economic circumstances of Trinidad and Tobago will be effectively harnessed in realizing the development of the TTIFC and propelling us towards our 2020 objective of developed nation status.

Ladies and Gentlemen, the international financial centre holds the promise of rekindling the embers of regional cooperation. The act of working together for a higher goal should be a constant reminder of our common humanity and shared world, in the context of mutual respect and collaboration between nations, cultures and faiths.

I would also like to take this opportunity to say Happy Indian Arrival Day to our Indo-Trinidadian community from both sides of the House and on behalf of the government of Trinidad and Tobago.

Let us therefore re-commit ourselves to the Promethean task of completing the structures of regional integration and cooperation.

I look forward to a fruitful and stimulating dialogue throughout this forum.

Ladies and Gentlemen, I thank you.