SECURITIES MARKET DEVELOPMENT IN TRINIDAD AND TOBAGO: CONTEMPORARY ISSUES AND CHALLENGES

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ABSTRACT

The Trinidad and Tobago securities market has undergone fundamental change over the past two decades. Most of the institutional structures of the market are just over twenty years old and the existing regulatory regime was formalised in the latter part of the 1990s. This paper reviews the status of the Trinidad and Tobago securities market with respect to the: (i) securities market over the period 1998 to 2003, with special emphasis on the institutional framework; (ii) impediments to the development of the market; (iii) regulatory challenges arising from globalisation, regionalisation and the Free Trade Area of the Americas; and, (iv) implications for a regulatory policy framework. The paper proposes changes to the regulatory regime of the Trinidad and Tobago securities market, which are necessary to strengthen regulation, given the emerging trends identified, as well as to enhance its international competitiveness.

Introduction

The Trinidad and Tobago securities market is in a state of change. Issuers are creating new products almost daily, while market makers are becoming increasingly sophisticated in the trading of securities. These developments are occurring at a time when constituent firms are investing more in the region and product offerings from foreign jurisdictions are becoming more attractive to the local market.

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This paper briefly reviews the status of the Trinidad and Tobago securities market, focusing specifically on market activity in the period 1998 to 2003, with the intention of identifying trends and new developments, which may have implications for the regulation of the market.

Following the Introduction, Section 2 briefly describes the historical development of the Trinidad and Tobago securities market and its current institutional arrangements; Section 3 compares the market's performance with selected Caribbean and non-Caribbean markets; Section 4 describes the product offerings in the market; Section 5 discusses the regulatory challenges in the context of globalisation of the securities market; Section 6 identifies some implications for securities regulation policy; and Section 7 concludes.

2. Brief History of the Development and Nature of the Trinidad and Tobago Securities Market

Development of Institutional Structures

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 passing of the Central Bank Act which established the Central Bank of Trinidad and Tobago (CBTT), the Commercial Banking Act, the Insurance Act, the Finance Institutions (Non-banking Act) and the Financial Institutions Act, just to name a few.

In 1981, the Securities Industry Act (SIA) 1981 created the Trinidad and Tobago Stock Exchange (TTSE) as a Self-Regulatory Organisation (SRO). Another major development in this year 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) [see Forde *et. al.*, 1997]. This heralded the introduction of collective investment schemes on the financial landscape.

Given the need to harmonise the regulatory framework of the securities industry at the time, the SIA 1981 was repealed and replaced with the SIA 1995. This Act established the TTSEC, which functions as the regulator of the country's securities market.

The most recent arrangement in the institutional development of the securities market was the establishment of the Trinidad and Tobago Central Depository (TTCD), which began operations in January 2003. The TTCD was created to facilitate the smooth and efficient operation of book-entry systems. It is expected that with the introduction of the TTCD the settlement time for transactions will be reduced from the current default settlement of t+5 to t+3.

Another recent development has been the establishment of the Caribbean Credit Rating Information Service Limited (CariCRIS), the first regional credit rating agency.

The main objective of this entity is to provide information on the credit worthiness of countries, firms and debt securities across the Caribbean, which is significant to the pricing mechanisms of the securities markets.

Development of Market Breadth and Depth

Since 1981, the securities market has shown signs of increasing sophistication with the development of financial instruments, such as collective investment schemes, commercial paper, debt derivatives and employee stock options.

Another enhancement in 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 61 percent of the new shares, on the TTSE.

Indeed, the securities market has shown some evolution in the range and profile of product offerings. A major concern, however, is the ability of the regulatory regime to keep abreast of developments in the market place.

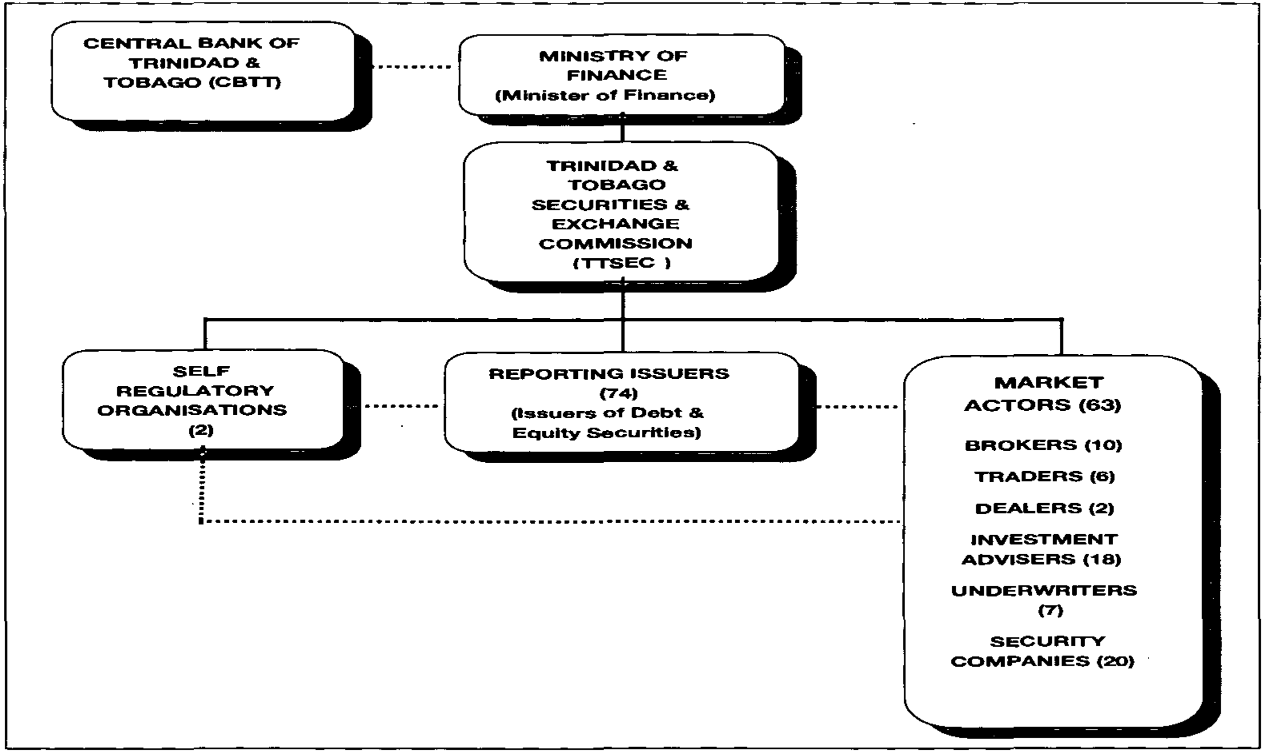
Institutional Structure of the Market

Figure 1 shows the current regulatory and institutional framework of the Trinidad and Tobago securities market. At the core of the regulatory regime is the TTSEC, which has the responsibility of ensuring that market actors comply with the provisions of the SIA 1995 and the accompanying regulations. The SIA 1995 vests the TTSEC with wide-ranging powers and is responsible for determining the broad framework under which the SRO operates.

Currently, there are two significant peculiarities that exist within the institutional framework of the Trinidad and Tobago securities market. First is the growing tendency for commercial banks to have significant interests in brokerage houses. At present, three of the six major commercial banks have majority share ownership or interests in stockbroking firms. This is important because these banks are also listed issuers on the stock exchange. Therefore, given the central role of brokerage firms in the pricing of equity securities, the possibility for conflicts of interest may arise, the result of which may be price manipulation. The other striking feature of the market is the presence of interlocking directorates among the boards of the companies listed on the TTSE. From a recent survey of 30 companies listed on the TTSE, 25 had at least one director presiding on the board of another listed company. This translates into 83 percent of the listed companies with interlocking directorates.

Furthermore, the data showed that of the 231 directors, 15 percent (35 directors) presided on at least two boards and 4 percent (10 directors) sat on three or more boards. Moreover, 45 directors presided on boards that controlled approximately

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



TT$71.4 billion in assets, representing an estimated 63 percent of the TT$113.8 billion in assets of all the firms surveyed.

With respect to regulating the market, the aforementioned peculiarities are significant, as they can result in negative perceptions about the fairness of the Trinidad and Tobago securities market and can impair the informational efficiency involved in the price setting mechanisms (see Klapper and Inessa, 2002; Hail and Christian, 2004).

3. The Trinidad and Tobago Securities Market: An International Comparison

Given the current state of development of the TTSE, it is useful to compare its performance with other securities markets. In order to assure relevance and brevity, the focus will be on a comparison of the major stock exchanges of selected developed and emerging markets. The securities exchanges compared are those of the United States of America (USA), Singapore, Norway, Jamaica, Barbados and Trinidad and Tobago over the period 1998 to 2003, using the growth in market capitalisation, market capitalisation to gross domestic product (GDP) ratios, turnover of issuers, average returns and internal liquidity.

Market capitalisation as a percentage of the Gross Domestic Product (GDP) indicates the relative significance of the respective stock exchanges in the domestic economy (see Demirgüç-Kunt and Levine, 1995). In theory, if the securities exchange accounts for all of the domestic production, the market capitalisation as a percentage of GDP will have a theoretical value of 100 percent, which is the benchmark for the securities exchange. Values above the benchmark indicate that there is input from non-domestic production on the respective exchange. Values below the benchmark indicate that some domestic production is not accounted for on the exchange.

On average, the TTSE, as well as the Jamaican and Barbados Stock Exchanges, had market capitalisation-to-GDP ratios below the 100 percent benchmark (see Table 1). However, the changes in the ratios over the period show that the regional exchanges increasingly accounted for more of domestic production. An important caveat is that an expansion in the listing of non-domestic firms might also contribute to the observed increases in the market capitalisation-to-GDP ratios, a possibility to be highlighted later.

Table 1
Market Capitalisation as Percentage of GDP at Current Market Prices: 1998 - 2003

Year	USA	Singa-pore	Nor-way	Trinidad and Tobago	Jamaica	Barba-dos
1998	149	114	32	66	28	32
1999	181	233	42	64	35	25
2000	153	168	41	57	47	88
2001	137	137	42	56	60	88
2002	86	114	31	83	72	112
2003	103	158	41	100	117	181
Average	**135**	**154**	**38**	**71**	**60**	**88**

Sources: Website www.world-exchanges.org for USA, 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).

The selected Caribbean securities exchanges had average returns higher than those of the non-Caribbean exchanges. The Jamaica Stock Exchange had the highest average return of 20.3 percent, followed by the Barbados Stock Exchange, with an average return of 19.2 percent, and the Trinidad and Tobago Stock Exchange with 11.3 percent. The average returns for the non-Caribbean securities exchanges ranged from 10.2 percent for the Singaporean Securities Exchange to –3.0 percent for the Oslo Securities Exchange (see Table 2). The higher returns of the Trinidad and Tobago and the other Caribbean exchanges, compared with those of the non-Caribbean exchanges, result from the greater appreciation in the price of equity securities in the Caribbean.

Notwithstanding the relatively better returns in the Caribbean, the stock exchanges were illiquid when compared with the other non-Caribbean selected exchanges. In fact, the non-Caribbean exchange with the lowest market value turnover was the Singapore Exchange with an average turnover ratio of 69 percent. The relative illiquidity of the other selected Caribbean exchanges can be partly explained by the relatively limited range of product offerings.

It is reasonable to suggest that the illiquidity of the stock exchanges also exists in the debt securities market. Whereas in Trinidad and Tobago there is no significant secondary market for debt issues, even more noteworthy is that there is no debt or

Table 2
Stock Market Returns of Selected Exchanges: 1998 - 2003
(Percentages)

Year	NYSE Composite Index	All sing Equities Index	Oslo Børs Benchmark Price Index	Trinidad & Tobago Composite Index	Barbados Composite Index	Jamaica Composite Index
1998	15.3	-11.3	-33	21.3	3.7	38.4
1999	8.75	55.0	37	-4.4	6.1	47.5
2000	1.0	-28.4	1	5.6	27.6	-1.6
2001	-10.8	-16.4	-18	-1.7	15.8	-3.9
2002	-22.0	-20.0	-39	22.8	29.2	21.5
2003	25.2	82.1	35	24.0	39.3	13.4
Average	**2.9**	**10.2**	**-3**	**11.3**	**20.3**	**19.2**

Sources: Website www.world-exchnages.org for USA, 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).

Table 3
Turnover Ratios of Selected Exchanges: 1998 - 2003
(Percentages)

Year	NYSE	Oslo Securities Exchange	Singapore Exchange	Trinidad & Tobago Stock Exchange	Jamaica Stock Exchange	Barbados Stock Exchange
1998	44	86	61	5	3	5
1999	52	86	102	3	2	2
2000	51	91	61	3	2	2
2001	84	63	52	3	3	0
2002	114	100	72	2	3	28
2003	95	77	64	4	3	5
Average	**73**	**84**	**69**	**3**	**3**	**7**

Sources: Website www.world-exchanges.org. 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).

fixed income issues being actively traded on the TTSE. However, there have been major policy initiatives geared at dealing with the problem of illiquidity in the securities market with the establishment of the TTCD.

4. Product Offerings of the Trinidad and Tobago Securities Market

At present the major securities issues in Trinidad and Tobago are equity securities, debt securities, debt and credit derivatives, collective investment schemes and stock options or, more specifically, employee stock options.

During the years 1998 to 2003, 8.2 billion units of equity securities, worth TT$32.5 billion, were registered with the TTSE. Mergers or acquisitions and share transfers accounted for the greatest value of the new equity issues, followed by bonus issues and cross listings.

Of note is the drastic change in the structure of the new equity issues. In 1998, bonus issues clearly dominated, representing half of the new equity issues; by 2003, cross listing was overwhelmingly the predominant form, accounting for 86.7 percent of the new equity issues (see Figures 2and 3).

Figure 2
Structure of New Equity Issues in 1998

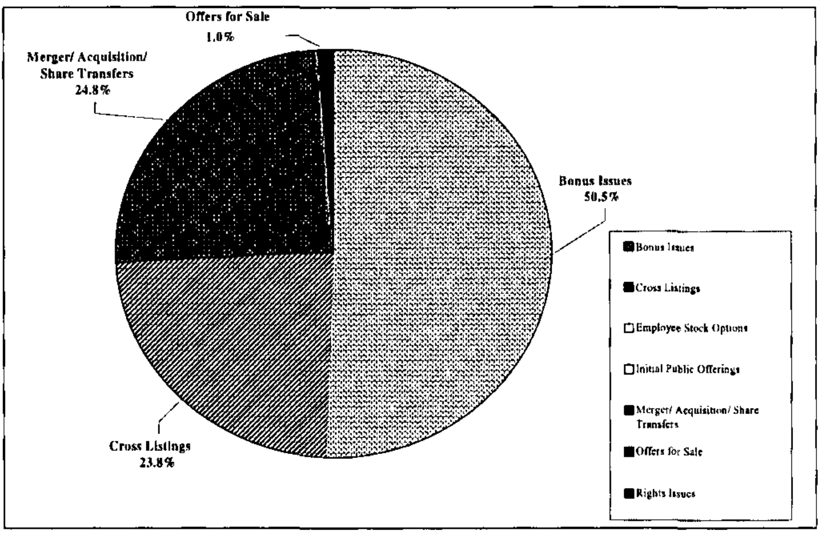
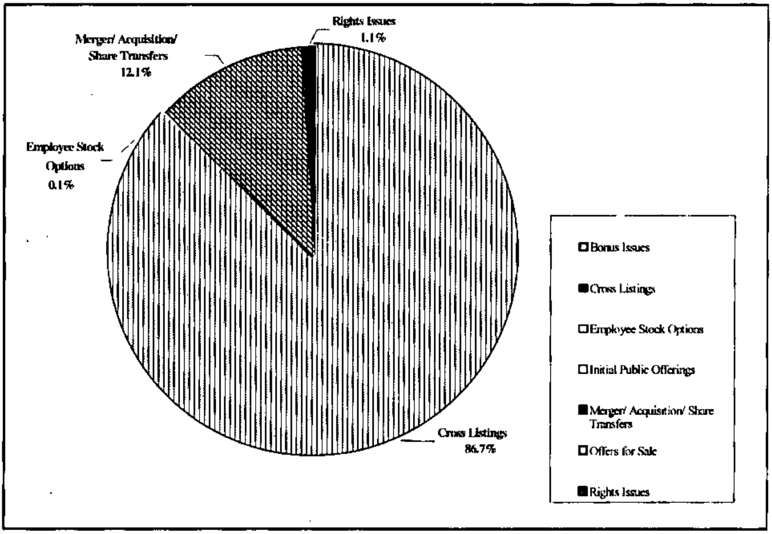


Figure 3
Structure of New Equity Issues in 2003



Since 2003, other cross-listings have occurred in the market. Indeed, the tendency towards cross listings should continue to prevail as a major form of new equity securities as regional firms seek to expand further throughout the Caribbean.

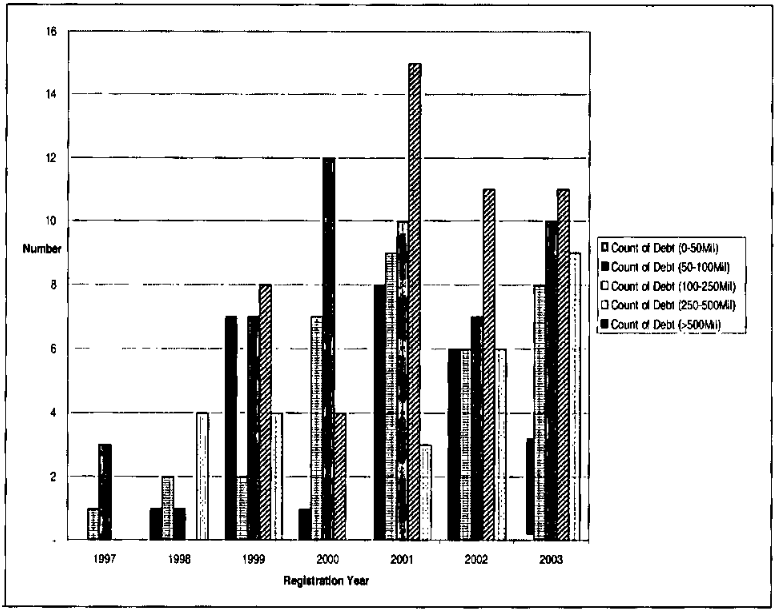
Data from the TTSEC's register reveal that a total of TT$26.3 billion or an average of TT$4.4 billion per annum of debt securities were registered between 1998 and 2003 (see Table 4).

Table 4
Value of Debt Securities Registered: 1998 - 2003

Year	Value(TTD)
1998	1,365,503,325
1999	4,312,586,557
2000	2,798,500,199
2001	8,005,144,276
2002	3,511,123,370
2003	6,254,441,165
Total	26,247,298,892
Average	**4,374,598,815**

Source: Trinidad and Tobago Securities and Exchange Commission.

Figure 4
Count of Registered Bonds by Value Category: 1997 – 2003



Of special interest is that issuers were showing more preference for larger debt security issues. Figure 4 demonstrates that there has been a preponderance of bonds in the TT$100 million to TT$500 million range with a growing occurrence of bond issues over TT$500 million. Conversely, bond issues of less than TT$50 million has occurred less frequently.

The major issuers registered on the domestic market were local government and quasi-government agencies, which respectively accounted for 25.9 percent and 30.0 percent of the total value of bonds (see Table 5). It is noteworthy that foreign government bodies accounted for 10.6 percent of the value of bonds registered, slightly less than the 10.7 percent by commercial banks. Further, if the aggregated value of the bonds registered by the foreign governments and the foreign non-banking financial institutions as a group is used, they account for 11.2 percent of the value of registered bonds, second only to the local government agencies.

Table 5
Value of Registered Bond Securities by Issuer Category: 1998 - 2003

Issuer	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	25.9
Local Quasi Governmental	7,882,173,127	30.0
Manufacturing	2,300,157,622	8.8
Non Banking Financial	1,818,482,000	6.9
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	**26,247,298,892**	**100.0**

Source: Trinidad and Tobago Securities and Exchange Commission.

Closely associated with the debt securities market is the credit or debt derivatives market. The first credit or debt derivative securities were registered in 1997 and, like debt securities, have shown somewhat consistent growth. Over the period under review, approximately TT$24.7 billion of underlying debt was issued as credit or debt derivative securities. Interestingly, the average value of underlying debt securities registered as derivatives was almost equal to the average value of new debt issues registered over the same period (see Table 6).

Table 6
Value of Underlying Debt Securities Issued as Credit or Debt Derivatives: 1998 - 2003

Year	Value of Underlying Security (TTD)
1998	5,930,906,530
1999	2,355,240,341
2000	1,108,586,880
2001	2,953,433,234
2002	7,736,389,425
2003	4,648,804,277
Total	24,733,360,687
Average	**4,122,226,781**

Source: Trinidad and Tobago Securities and Exchange Commission.

Mutual funds, or as they are more generally termed, Collective Investment Schemes (CISs), have an ever-growing presence on the financial landscape in Trinidad and Tobago. 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 substantially.

In 1997, three funds were registered with the TTSEC, all of which originated from domestic financial firms. By December 2003, there were fifty funds registered with the TTSEC,[2] with the highest number of registrations occurring in 2001. Seventy percent of the funds originated from local institutions. The remaining 30 percent was, more or less, evenly distributed among eight other jurisdictions, with the respective jurisdictions accounting for between 2 percent and 6 percent of the registered CISs (see Table 7).

Table 7
Collective Investment Schemes Registered by Jurisdiction of Origin (as at 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
Total	**50**	**100**

Source: Trinidad and Tobago Securities and Exchange Commission.

2 If the various sub-funds are included, the number totals one hundred and seventy-seven (177) funds.

The evidence suggests that CISs are increasingly becoming a preferred investment vehicle. In 1998, the value of commercial bank deposits and funds under management by mutual funds totalled TT$21.1 billion, with mutual funds accounting for TT$4.9 billion or 23 percent of the aggregate of funds and deposits (see Table 8). However, by 2003 mutual funds represented 47 percent of the aggregate, valued at TT$43 billion.

Table 8
Value of Funds Under Management of Mutual Funds Versus Commercial Bank Deposits: 1998 - 2003

Years	1998	1999	2000	2001	2002	2003
Mutual Funds ($TTD M)	4,870	4,400	6,406	9,096	14,000	20,000
Commercial Bank Deposits ($TTD M)	16,202	16,463	18,517	21,430	22,504	23,000
Total Funds	21,072	20,863	24,923	30,526	36,504	43,000
Percentages						
Mutual Funds (% of Total)	23	21	26	30	38	47
Commercial Bank Deposits (% of Total)	77	79	74	70	62	53
Difference in Contributions (%)	54	58	49	40	23	7

Source: Central Bank Annual Statistics and TTSEC Staff Estimates.

5. Impediments to Market Development

In 2004, the TTSEC surveyed market participants to ascertain perceptions of the impediments to market development. The majority of responses (56 percent) 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.

A major concern was the lack of depth and breadth of the market which, according to some of the respondents, could have two major debilitating effects on its development. *In the first case, a few powerful investors could easily control the* market, and secondly, the securities market, especially the equities side, might be unable to attract much-needed liquidity, owing to firms' unwillingness to offer their shares for fear of being easily taken over.

The responses indicate little investor confidence in the ability of the TTSEC to effectively regulate certain aspects of the market. Market participants alleged that although there were obvious indications of market collusion, because no charges of inappropriate market behaviour have been cited by the TTSEC, a few powerful entities boldly engage in price manipulation. Low level of investor education was identified as another major impediment. The retardation of the growth of the market occurs because there appears to be limited knowledge about the investment mechanisms, the regulatory framework and the rights of the investors.

There was also reference to inefficiency in the trading protocols and the lack of transparency in the pricing mechanisms. The need for the creation of proper automated systems and to increase the level of public participation in the trading process is also critical. In addition, inconsistency in financial reporting, which has a direct relationship to the pricing of issues made by firms, was viewed as a hindrance. In the long-term, this will distort the valuation mechanism of the marketplace and therefore will reduce the allocative efficiency of the market.

6. Regulatory Challenges Arising From Globalisation, the CARICOM Single Market and Economy (CSME) and the Free Trade Area of the Americas (FTAA)

Given increasing cross-border activity, regulators need to consider whether the regulatory framework should be jurisdiction-based or transaction-based. In particular, transaction-based regulations dictate that the entity offering the security in the Trinidad and Tobago market will be held liable, and culpable where necessary, whether or not the said entity is established within the jurisdiction of Trinidad and Tobago or elsewhere.

Another regulatory matter related to increased cross-border activity is how regulators can ensure that price sensitive information is released simultaneously across jurisdictions (see the International Securities Organisations website). In the case of the laws of the various jurisdictions, a regulator should be assured that the regulatory system of the jurisdiction from which the securities originate must be at least equivalent to that of the Trinidad and Tobago securities market and where such equivalence is not clearly established the areas of substantial risk should be disclosed to the respective investor. In addition, a major regulatory challenge of cross-border activity relates to performance of the registering, surveillance and enforcement processes of the regulator. At present, there are no effective information-sharing agreements among regional regulators, as some jurisdictions, like Jamaica, prevent such efforts.

The new product offerings, CISs and credit or debt derivatives, pose some unique regulatory challenges, especially the disclosure and enforcement functions of the regulator. With regards to the matter of effective disclosure, the following disclosures should be enforced (see Stromberg, 1998; and Henderson, 2003):

- disclosure of the roles and functions of the parties that manage the investment and contracts that exist between the parties, as well as continuous disclosure of the status of affairs of the custodian for the CISs and the server for the credit or debt derivatives; and

- disclosure of any risk posed by the differences in the governing laws of the jurisdictions where the underlying securities are originally registered, where the derivative or collective scheme is formed and where they are ultimately sold.

Another fundamental area of regulation is the matter of the nomenclature of funds. This is especially relevant for CISs where the fundamental convention of the various regulators is that the name of the particular fund must be related to the investment strategy being pursued by the fund (see Investment Company Institute, 2004).

As issuers of debt securities create larger debt issues in preference to smaller issues, it is conceivable that in order to ensure distribution to the wider public the issuers, or their underwriting agents, may seek to repackage them as more palatable credit or debt derivatives or strips. The risk profile of these derivatives is similar to that of the underlying security. Therefore, the regulator needs to ensure that there is full disclosure associated with the underlying security of a credit or debt derivative.

In the securities market, trading systems for equities, fixed income and foreign exchange are expected to consolidate around an electronic platform. Whatever the form of trading, the securities market will play an increasingly significant role in assuring allocative efficiencies in the capital market.

Both the FTAA and the CSME will usher in tremendous changes in Trinidad and Tobago, one of the most important of which will be an appropriate future regulatory framework for the financial sector. The regulations must be transparent and the law in keeping with international best practices to protect investors from fraud and/or manipulation. There must also be proper surveillance procedures and the ability to enforce the law where necessary.

In the context of the FTAA, some of the challenges to be faced by Caribbean countries include:

1. National treatment. Many countries prohibit foreign investors from establishing a residential commercial entity. The ability to operate competitively through a wholly-owned commercial presence or other forms

of business ownership is a fundamental element of the FTAA. It means that foreign entities like traders, jobbers, brokers, mutual fund providers and other businesses in the securities market will have to be treated like local firms. This will create competition and can result in mergers or closure of some firms in the securities market. Additionally, large firms from outside might be able to merge with small firms or firms listed on the Stock Exchange, which may further reduce the number of companies.

The implications of national treatment are that it is now necessary to review the several pieces of legislation in the financial services industry, such as the Financial Institutions Act, the Foreign Investment Act, the Securities Industry Act, the Insurance Act, among others, to ensure that there is non-discrimination as it relates to foreign investment, or restrictions on shareholding in the case of foreigners. As an example, the provision in the SIA 1995, which speaks to the incorporation of companies before they conduct business, will have to be revised to allow cross-border transactions by firms which do not have a physical presence in Trinidad and Tobago. The TTSEC, in reviewing its legislation, is now considering moving away from focusing on jurisdiction-based activity to transaction-based activity.

2. As mentioned earlier, an efficient securities market develops only if a transparent legal framework is in place to ensure that all participants have access to material information to make informed decisions. Securities markets must protect investors, assure disclosure of information by issuers, create secondary markets with an efficient pricing mechanism, and establish a process for the introduction of new products. Without these elements, it will be impossible to establish active primary and secondary markets. Article II in the FTAA text speaks in great detail to the issue of transparency.

In the case of the SIA 1995, there is provision for a system of continuous financial disclosure for reporting issuers and material changes in the business operations, assets or ownership of an issuer that will have a significant impact on the price or value of securities. The TTSEC recently published policy guidelines on Listed Companies' Handling of Material and Price Sensitive Information and a Statement of Best Disclosure Practices regarding such information. The policy guidelines deal with the importance of preventing selective disclosure, which involves the release by issuers of price sensitive information to selected persons, such as brokers or securities analysts, before that information is disclosed to the public. The practice of selective disclosure undermines the integrity of the securities market and facilitates offences such as insider trading. Areas such as take-overs, the regulation of collective investment schemes and insider trading are now available for public comment by market participants. These guidelines and best practices are designed with the FTAA in mind.

3. The use of recognised accounting standards continues to be a major issue that is handled by the appropriate accounting bodies in Trinidad and Tobago. Under the FTAA, it is expected that different jurisdictions will use different accounting standards. Given the intended cross-border activity, which will accompany the formation of the FTAA and the CSME, there is an obvious need to harmonise these standards. In Trinidad and Tobago, the International Financial Reporting Standards has been adopted; however, there are currently consultations geared at creating a universal set of accounting standards.

4. The FTAA challenges the TTSEC and the TTSE to review their listing requirements to ensure that there is harmonisation, particularly as it relates to cross-listing and cross-trading of shares. There are issues with respect to restriction of shareholdings that may affect market development in the future.

5. Finally, the issue of regulations of new financial products must be addressed. Innovative financial products and other derivative instruments provide issuers and investors around the world with products tailored to their specific needs. However, many countries stymie the ability of foreign firms to offer these products because of foreign exchange restrictions, outright regulatory prohibitions, or lengthy and difficult approval processes. In the future, legislation must take this issue into consideration, as well as how jurisdictional risk (due to relatively weaker regulatory frameworks) is treated in the disclosure, surveillance and enforcement functions of the regulator. In Trinidad and Tobago, the legislative agenda for the future envisages bringing all asset-backed securities under the purview of the TTSEC.

7. Implications for a Securities Regulation Policy

The following areas must be addressed if the TTSEC is to effectively regulate and develop the securities market in Trinidad and Tobago:

1. ***Regulation of Non-domiciled Issuers***

Given the increasing internationalisation of the Trinidad and Tobago securities market, it is important that the matters relating to reporting issuers that are not domiciled in Trinidad and Tobago are clarified. The amendments to the SIA 1995, which are currently being undertaken, suggest that foreign issuers from approved jurisdictions will be exempted from certain registration requirements. It is further recommended that the approved jurisdictions are those that have disclosure and reporting requirements that are equal to or superior to those of the TTSEC.

Further, as was earlier mentioned, there should be a change from jurisdiction-based regulation to transaction-based regulation of the market. This form of regulation depends on the ability of the TTSEC to perform surveillance and enforce the rules on those market actors who reside in foreign jurisdictions, but function in Trinidad and Tobago. In order to achieve this, the TTSEC will need to establish informal or formal relations with foreign securities regulators to facilitate information sharing.

2. ***Regulation of the Derivative Instruments***

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

3. ***Regulation of CISs***

The CISs have garnered a substantial amount of funds over the period 1998 to 2003. It is necessary that more research be undertaken in this area and that the regulation consider matters such as fund management practices, fund structures, cross-border transactions, fund nomenclature and disclosure requirements.

4. ***Review of the performance of the TTSE***

As the major 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 role of the exchange in the capital formation process. It is clear that the TTSE provides little in the way of facilitating capital formation.

5. *Enhancement of Market Offerings*

The evidence indicates that the Trinidad and Tobago securities market is relatively illiquid and alludes to the possible need to enhance the offerings of the market. One suggestion is to have the formal securities exchange more closely tied to the major economic activity of the country, while simultaneously increasing the depth and breadth of the market. This may result in two major consequences: (i) the market size will increase and there will be an accompanying reduction in the level of systemic risk; and (ii) the liquidity of the market will be enhanced if the transaction mechanisms are made more efficient.

6. *Improving Disclosure Requirements to Reflect Corporate Governance Issues*

Given the apparent preponderance of interlocking directorates in the Trinidad and Tobago securities market it is necessary to ensure that an appropriate code for corporate governance is established amongst firms, especially those which are publicly traded. It is suggested that the extent of compliance of a particular firm should form part of its corporate disclosures.

The code should follow along the lines of the imminent proposal of the Caribbean Corporate Governance Forum for a Caribbean-wide code. Some of the issues the code should address include the: (i) establishment of mechanisms to manage conflicts of interest at the level of the Board of Directors; (ii) certification of financial reports; (iii) protection for minority shareholders; and (iv) establishment of internal auditing mechanisms.

Future areas of research on the securities market should seek to clarify the structures and practices of the various sub-sectors. 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.

8. Conclusion

The general findings of the study indicate that the Trinidad and Tobago securities market is currently undergoing change in the range of product offerings and the sophistication of the market actors. However, the market is still underdeveloped, which is reflected in the insufficiency of the regulatory structures and the general allocative inefficiencies of the market.

In general, the securities market has few linkages with the major areas of economic activity. 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 the capital market in Trinidad and Tobago 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. This view is too narrow and the reason may lie in the perceived costly level of systemic risk. In addition, market participants further perceive their small number and the weak regulatory structures in the market as the main drivers of this systemic risk.

Therefore, two strategies must be used to promote the development of the market: an enhancement of the regulatory structures and an increase in the number of market participants and the range of offerings. The development of the regulatory structures must consider the vigorous enforcement of the provisions of the SIA 1995 and improvements in legislation. The improvements in the legislation should consider the following: (i) regulation of issues such as derivatives and CISs; (ii) improved disclosure requirements; (iii) regulation of cross-border securities transactions; and (iv) regulation of credit rating agencies such as CariCRIS.

The improvements in the regulatory structure must also include the timely *provision of rules 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. Also, information sharing among securities market regulators is even more important at this time. Failure to ensure the implementation of these initiatives may result in inefficient practices like insider trading and the dumping of illiquid issues.

The paper does not extensively address the issue of corporate governance and its role in the functioning of the securities markets. It highlights 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 address the issue of corporate governance practices as this issue is of profound importance to the efficiency of the market.

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