SECURITIES & EXCHANGE COMMISSION TRINIDAD AND TOBAGO

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YOU INVEST. WE PROTECT. EVERYONE BENEFITS!

The Importance of Disclosure, Registration & Corporate Governance

Pgs.9-10

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Chairman's Message

Dear Valued Stakeholder,

The Commission is pleased to present to you the 21st Issue of its Market Newsletter. In this periodical we focus on, ***'The Importance of Disclosure, Registration and Corporate Governance'.***

These significant issues are critical to the daily operations of the Commission. As such we require your continued cooperation in ensuring that our market remains fair, transparent, proper and in keeping with best international standards.

Additional topics within this publication include: Automated Advice Tools, Offerings of Cryptocurrencies, Highlights from our Third National Investor Education Month in May and much more.

I thank you for taking the time to read this publication and I hope that you find this information useful.

Douglas Mendes, SC
Chairman

DCEO's Message

Ms. Lystra Lucillio - Deputy Chief Executive Officer

Welcome to the 21st volume of our Market Newsletter. We are indeed in evolutionary times where the changing landscape of the financial sector, locally and internationally, has spurred interest in financial sector technologies and digital products. Fintechs, cryptocurrencies, Initial Coin Offerings (ICOs), digital ledgers and digital assets are some of the buzz words being bandied around by persons in, and out of, **"the know"**.

The International Organization of Securities Commissions (IOSCO) is an association of entities that regulates the world's securities, capital and futures markets. As a member of IOSCO, the Commission has adopted its objectives for securities regulation. Our approach to financial innovation will ensure that our policies encompass the three core objectives of securities regulation:

- ***The protection of investors;***
- ***Ensuring that markets are fair, efficient and transparent;***
- ***The reduction of systemic risk.***

Regulators do not view financial innovation as inherently good or bad, but rather a natural outcome of any competitive economy. Innovation has the potential to allow for efficiency in the allocation of resources, with the resultant increase in capital productivity and ultimately the economic growth of the country. As the sole regulator of the securities industry, the Trinidad and Tobago Securities and Exchange Commission will exercise a balanced regulatory approach to financial innovation.

The proliferation of innovative financial products has the potential to transform virtually every aspect of our financial markets. The advent of blockchain technology, automated investment advice or robo advisers, and crowdfunding, are making their impact on global markets and have begun to penetrate regional markets as well.

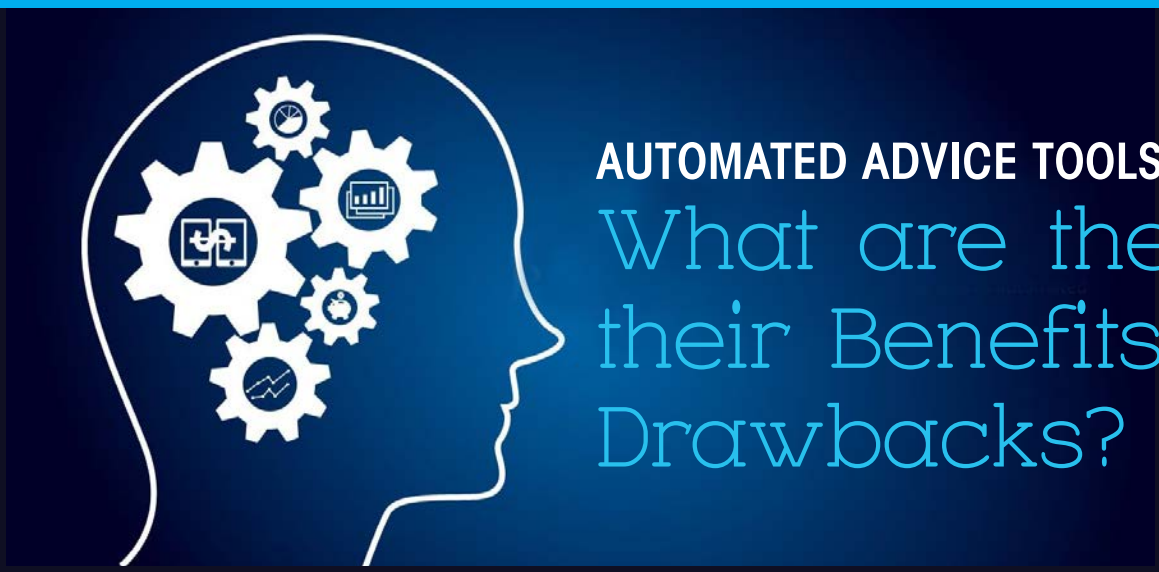
The Commission's staff continues to become engaged in diverse fora locally, regionally and internationally in our effort to evaluate how our current regulatory environment can most effectively address these new technologies. Our aim is to foster greater collaboration and understanding about Fintech Technologies among regulators, entrepreneurs and industry experts.

Regulators internationally are mindful that the advent of the blockchain revolution and the development of cryptocurrency, have not only created an entirely new asset class, but have also generated a new breed of scams. The Commission is acutely aware that members of our general public are not as financially savvy as they should be. That lack of knowledge allows them to be prime targets for scam artists whose sole intent is to separate them from their hard earned money.

Ultimately in the face of this burgeoning innovation within the financial services market, the Commission's focus will be to provide adequate protection for retail investors and other end-users of financial services, not only through our regulatory efforts, but also by providing an investor education programme to treat with the financial literacy gap.

Regards

Lystra Lucillio
Deputy Chief Executive Officer



AUTOMATED ADVICE TOOLS: What are they, their Benefits and Drawbacks?

The global financial services industry has been fundamentally impacted by rapid technological change. One of the emerging trends within the global financial landscape is the rise of automated advice tools.

Automated Advice Tools are one of the major innovations that occurred within the global financial services industry during the last decade. These include robo-advisers which are online platforms that provide investment advice driven by computer-based algorithms (i.e. a process or set of rules to be followed in calculations or other problem-solving operations). A typical robo-advisor first collects information from clients about their financial situations and future goals through an online survey. The data is then used to offer advice and/or automatically invest clients' assets. The first robo-adviser, Betterment, was launched during the Great Recession of 2008. Robo-advisers are seen as a way for investors to make buy-and-hold investments via the Internet. They are also increasingly incorporating goals-based investing, which involves the client setting a long-term goal such as saving for retirement or saving for school tuition. The client's portfolio would then be tailored for the achievement of the stated investment objectives.

The global robo-advising industry is currently expanding and is expected to experience impressive growth in the immediate future. Current estimates show that assets under management in this market segment globally was US$371,429Mn in 2018 with forecasted annual growth rates and number of users of 38% and 122 million, respectively by 2022

A report prepared by the international accounting firm, Deloitte (2016) shared the following interesting characteristics of this market segment:

i. *Google search queries for "Robo-Advisor" (at the time of the report's writing) yielded 423,000 results;*
ii. *There were close to 100 Robo-Advisors in 15 countries; and*
iii. *Future estimates for the global Robo-Advisory market put the assets under management by Robo-Advisory services between US$2.2 trillion and US$3.7 trillion in 2020 and over US$16 trillion by 2025.*

The latter figure of US$16 trillion would make Robo-Advisory services firms approximately three (3) times larger than the current value of assets managed by BlackRock, the present leading asset manager globally.

The main advantage of automated advice tools such as robo-advisers is the minimisation of costs. The use of traditional investment advisers can incur higher costs as they can actively adopt strategies to outperform market benchmarks (e.g. The Dow Jones Industrial Average and the S&P 500 Indices). This would result in more costs being passed onto the clients via the manager's fee structure. Robo-advisers engage in passive investment strategies which result in lower costs. It is because of this characteristic that they are viewed as a potentially useful tool that can benefit retirement investors.

[1] Passive investing is defined as a process where investment managers attempt to match the return and risk of an appropriate benchmark such as the S&P 500.

There is also the notion that robo advisers provide clients with access to investing at a lower cost and in smaller sizes than what was previously required. Before the advent of robo advisers, investment advisers were viewed as a service that was only available to affluent investors. The use of robo advisers has the potential to widen the pool of access to sound financial advice by individuals who were previously unable to afford such services.

Another benefit of robo advisers is that they provide investors with a standardized, mobile-enabled user experience. Clients have the same experience every time they wish to use the services of the robo advisers. They simply have to go to the website or mobile app on their phone. From there, clients can use the menu-based options to navigate and utilise the services of the robo advisers.

Despite these advantages, automated advice tools are not without their risks. The International Organization of Securities Commissions (IOSCO) highlighted a number of risks that were common to the different types of online retail trading and investment platforms, including robo advisers. These included:

1. Conflicts of interest, insufficient costs and fee transparency risks: The primary concern involves potential conflicts of interest that may emerge if the automated advice platform is programmed to direct investors towards a specific range of "preferred investment alternatives or intermediaries" for which the platform or its affiliates receive higher commissions or other forms of compensation.

2. The risk of "execution-only" platforms crossing into offering "automated advice": There is the risk that less sophisticated investors may either make decisions with insufficient knowledge, or demand tools and services that require more guidance and direction in an execution-only platform environment. The platform may then introduce tools and services in response which cross the line between "execution-only" and providing advice and recommendations." This may have different regulatory implications that the platform may not have considered such as licensing and other regulatory obligations.

3. Inadequate "Know the Client" (KYC) policies from an anti-money laundering perspective: The danger of opening an account through the Internet is that it affords individuals the opportunity to enter false information in order to mask their true identities either for privacy or for criminal reasons.

4. The risk of inadequate policies and procedures pertaining to "Suitability KYC": The main argument is that an automated profiling process may not be able to resolve inconsistencies or incorporate unusual client situations if there is only a reliance on a standard set of questions. IOSCO also observed that some robo advisory firms utilised very short questionnaires that created "a potentially greater risk of failing to know the client well enough to make suitable recommendations"

5. The risk that clients do not understand the services provided or the products offered: The main argument is that while trading and investment platforms may be able to offer services similar to traditional providers or a referral service, there is a risk that clients may not possess the investor literacy to understand the product offering. That is to say, they may not understand "the scope, risks and limitations of the services they are being provided."

6. The provision of unsuitable investment choices due to behavioural biases: It is argued that while financial decisions in an automated environment are faster and more convenient, these features may not improve the quality and the outcome of the investor's decision-making process.

Despite these risks, the staff of the Commission believes that these platforms will figure more prominently in the coming years. The public is invited to visit the Commission's corporate and Investor Education websites for future updates.

OFFERINGS OF CRYPTOCURRENCIES: SOME CONSIDERATIONS FOR THE SECURITIES SECTOR

Further to the issuance of the first cryptocurrency[1] ('Bitcoin') in 2009, the number of cryptocurrencies in existence has grown to 1,590 cryptocurrencies as at June 27, 2018[2].

Amidst the rise in the growth of cryptocurrencies, there is still much debate among regulatory bodies and governments as to the classification and formulation of appropriate frameworks to govern not only the existence of cryptocurrencies, but that of the Exchanges/Networks on which they are traded.

These debates are complicated by the fact that cryptocurrencies combine the properties of electronic payment systems, currencies, commodities[3] and/or securities. Further, the transnational and virtual nature of transacting in cryptocurrencies create opportunities for regulatory arbitrage and limit law enforcement actions where coordinated policy decisions have not been made.

In the local context of Trinidad and Tobago, there is an absence of specific legislation to govern virtual currencies. As such, the Staff of the Trinidad and Tobago Securities and Exchange Commission (the Commission) highlights some of the considerations that persons should assess if they are interested in operating in the cryptocurrency space. These considerations include the relationship between cryptocurrencies and the securities sector (by virtue of its classification) and some of the risks inherent to cryptocurrencies.

Classification as a Security

Units of cryptocurrencies (usually referenced as coins, tokens or utility tokens) are created and disseminated using distributed ledger technologies. They are generally marketed by way of a "White Paper" and in more recent times they have been initially issued by way of Initial Coin Offerings (ICOs) or Initial Token Offerings (ITOs).

Depending on the characteristics of an ICO/ITO, units of a stated cryptocurrency may be classified as a security and therefore subject to securities laws and regulations. This is because virtual organizations and/or capital raising entities making use of distributed ledger technology are not exempted from the fundamental principles of securities laws[4].

In that regard, Section 4 of the Securities Act, 2012 (the Act) states, inter alia, that a "security" includes a share, stock, unit certificate, participation certificate, share certificate, investment contract or other interest or any derivative. Further, the same section of the Act defines "derivative" and "investment contract" in the following manner:

[1] Cryptocurrency refers to a math-based, decentralized convertible virtual currency that is protected by cryptography. Source: FATF (2014) - Report: Virtual Currencies Key Definitions and Potential AML/CFT Risks.
[2] Source: www.coinmarketcap.com accessed June 27, 2018.
[3] IMF Discussion Note (January 2016)
[4] USSEC Release No. 81207/ July 25, 2017

"derivative" means an option, swap, futures contract, forward contract, or other financial or commodity contract or instrument whose market price , value, delivery obligations, payment obligations or settlement obligations are derived from reference to, or based on, underlying interest (including a value, price, rate, variable, index, event, probability or thing), but does not include any contract or instrument that is prescribed not to be a derivative or that by reason of Bye-law under section 148(1)(t t) is not a derivative".

"investment contract" includes any contract, transaction, plan, scheme, instrument or writing, whereby a person invests money or other property in a common enterprise with the expectation of profit or gain based on the expertise, management or effort of others, and such money or other property is subject to the risks of the common enterprise".

While the above definitions may be subject to legal interpretation depending on the facts surrounding the coin and ICO/ITO, they provide the key characteristics to be assessed when determining whether any specific cryptocurrency issued via an ICO/ITO may be considered to be security.

When making such an assessment, securities regulators will look at whether the tenets of an investment contract have been met and also the bundle of rights attached to a unit of a cryptocurrency. More specifically, as it pertains to the latter point, where the rights attached to such units (whether referred to as tokens or otherwise) are similar to the rights commonly attached to a share or stock, there exists a possibility that the units could also fall into the definition of a security. In a similar vein, derivative products whose underlying value is based on cryptocurrencies may also be captured.

Thus, any person who is proposing to raise capital through an offering/distribution of cryptocurrencies, should give consideration as to whether such an offering involves the distribution of a security and therefore falls within the realm of securities laws.

Readers are asked to note that although the above concepts are yet to be tested locally, there are developing precedents regarding the foregoing classification which can be gleaned and applied locally from jurisdictions such as the United States of America, Canada, Hong Kong and Australia.

Money Laundering Risks

Cryptocurrencies are susceptible to heightened money laundering risks for numerous reasons. Based on guidance from the Financial Action Task Force on Money Laundering (FATF) these include, but are not limited to, the following factors:

Anonymity - Cryptocurrency transactions via the internet are generally characterized by non-face-to-face relationships and allow for greater anonymity than traditional cash payment mechanisms. By design, some protocols such as the Bitcoin software do not require or provide identification and verification of participants or generate historical records of transactions that are usually associated with real-world transactions[5]. Accordingly, financial institutions that participate in the cryptocurrency space are challenged in verifying the identities behind various funding sources.

Anti-Money Laundering (AML) monitoring systems have not kept pace with these financial developments – There is no monitoring software currently available to monitor and identify suspicious transaction patterns, and there is an absence of a central regulatory authority with oversight for cryptocurrency transactions. Accordingly, financial institutions who participate in the cryptocurrency space are challenged in their identification of suspicious transactions.

[5] *Source FATF (2014) - Report : Virtual Currencies Key Definitions and Potential AML/CFT Risks*

Limited law enforcement actions – Cryptocurrencies can be used to make purchases, transfer funds and even make payments within their associated exchange (systems). The said exchanges operate via the internet (including mobile applications) and the transactions involve the use of various participants who may be widely dispersed across various jurisdictions. As such, the parties charged with the responsibilities for AML supervision and enforcement are in most cases unclear. Further local law enforcement agencies may be inhibited from sanctioning any central location and/or entity for investigative or asset seizure purposes.

Other Risks that Potential Investors should consider in relation to ICOs/ITOs and transacting in cryptocurrencies

Heightened potential for fraud – Recall, ICOs/ITOs are usually issued by way of a disclosure document called a "White Paper". While these documents seek to provide potential investors with information about the business model for the specific cryptocurrency, in some cases, these documents are very technical in nature and do not contain the level of detail investors may come to expect from a 'Prospectus'. Accordingly, investors may not fully understand the rights, interests in and/or the associated risks and returns applicable to an investment in cryptocurrencies.

This lack of complete information upon which to make an informed investment decision, is compounded by the fact that cryptocurrency transactions and cryptocurrency issuers, in some instances, are not subject to regulation and that the internet technologies, upon which cryptocurrency transactions take place, are susceptible to hacks and other cyber security risks. These factors increase the probability that investors in cryptocurrencies may become victims of fraud.

Cross-border distribution risks – As the issuer may also be operating the ICO from outside the investor's jurisdiction, following the money in the event of a collapse of the ICO, as well as recovering invested funds, may prove extremely difficult in practice.

Liquidity risks – The pricing mechanisms of non-regulated cryptocurrency exchanges are opaque and the prices of a given cryptocurrency usually exhibit a volatile pattern. Some analysts in the cryptocurrency space have also noted that there is insufficient liquidity to support reliable trading and market-making activities. These factors leave investors susceptible to dramatic price changes and the possibility that they may not be able to liquidate their holdings.

Additionally, in some instances there may not be a secondary market to sell or exchange your cryptocurrencies subsequent to the ICO and in others, cryptocurrencies cannot be exchanged for other commodities. In such cases, there are usually claims that the capital obtained through the sale of the ICO will be used to develop a proprietary network for the trading of the said coins or tokens and/or merchant networks at a future time.

In light of the foregoing considerations, the Staff of the Commission wishes to emphasize the fact that cryptocurrencies and derivative products whose underlying values are based on cryptocurrencies, are high-risk products with an unproven track record and high price volatility. Notwithstanding same, the Staff of the Commission is also cognizant of its role to foster development of the securities market. To that end, the Staff of the Commission has taken a consultative approach in relation to cryptocurrencies while remaining cautious in our assessments of developments in the cryptocurrency space and financial technologies in general.

Potential investors are therefore asked to note the foregoing considerations prior to making an investment decision with respect to offerings in cryptocurrencies. Similarly, persons wishing to launch ICOs/ITOs and/or operate cryptocurrency platforms within Trinidad and Tobago are encouraged to participate in open dialogue with the Staff of the Commission in order to ensure that they do not run afoul of securities laws.

Corporate Governance & INTERNAL CONTROLS

In April 2016 (Issue #13), the Division of Compliance and Inspections (the Division) highlighted the areas of corporate governance and internal controls which form part of its compliance review of registrants. In the absence of published guidance, the Division suggested standards or precedents that registrants may utilize in developing these areas. Contemporary research shows that good governance is increasingly being viewed as good business.

> *High-quality corporate governance measures can benefit all, as such measures reassure investors, lower the costs associated with investor due diligence and consequently reduce the costs otherwise associated with corporate governance measures which are not always perceived to be of individual interest*[1].

Effective corporate governance and internal control systems help registrants achieve long term success of their stakeholders by ensuring that they operate in a fair, equitable and appropriate manner. They may be viewed as key safeguards in the mitigation of risks faced by registrants, particularly the fiduciary duty owed to their clients by virtue of the products and services offered in the securities markets.

Achieving this requires firms to establish a set of internal policies, rules and procedures that cover all aspects of its operation which are consistent with prudent business practices. By-law 64 of the Securities (General) By-laws, 2015, requires that registrants document their risk management policies and internal control processes that are appropriate to the size, complexity and the inherent riskiness of their business models, and the markets in which they operate.

Staff of the Division's inspection team, has found common corporate governance and internal control deficiencies during compliance reviews across a number of the Commission's registrants thus far.

- **Board Charters or similar governing documents.** Board Charters or equivalent were non-existent in some instances, and when present, the content of Charters was found to be lacking. Board charters, inter alia, set out the roles and responsibilities and limits of authority of board, board members and board committees, as well as performance assessment criteria relating to risk and operational performance. It is important that they are periodically reviewed to ensure that they are appropriate for the registrant's current business environment and risk profile.

[1] *Tafara, E., & Peterson, R. J. (2016). The true value of corporate governance. Retrieved from http://www.globalcorporategovernance.com/n_namericas/058_062.htm (accessed on June 12, 2018)*

- **Quality of Board and Senior Management Supervision.** Merely having written board and committee charters/mandates is not sufficient for effective corporate governance. It is the responsibility of the board and senior management to breathe life into these charters/mandates and ensure, among other things, that corrective actions are taken where any performance gaps exist.

- **Outsourced Activities.** Formalised structures for outsourcing arrangements were lacking at some entities. Service level agreements (SLAs) or similar contracts, were non-existent or deficient. Registrants should ensure there are executed contracts for all functions being performed by a third party which should include, inter alia, the services to be provided as well as, the associated performance standards. SLAs should also be reviewed and updated when service arrangements have changed.

- **Inadequate Policies and Procedures.** By-law 64 of the Securities (General) By-laws, 2015 requires registrants to establish, maintain and apply a system of controls and supervision to manage the risks associated with its business. Some registrants do not have documented risk management policies or procedures for identification, measurement, mitigation, control and reporting of risks, and business continuity plans, which explore various scenarios of crises and appropriate responses to be deployed during a crisis.

- **Inconsistencies in the Organizational Chart.** Organizational charts were outdated and did not reflect the extant reporting lines and responsibilities at some registrants. The organizational chart should be reviewed to ensure that it reflects all divisions and roles, at the firm level and all subsidiaries at the group level, where applicable.

- **Board and Committee Meeting Minutes.** Minutes of meetings of the board and committees of some registrants were inadequate resulting in inspection staff's inability to fully assess the quality and effectiveness of an entity's corporate governance structure, board and senior management supervision.

- **No internal audit being conducted by some registrants.** Inspection staff examines the substance of a registrant's internal audit function rather than its form, as some registrants may not have a dedicated internal audit department and may choose to outsource the function. All registrants should have an independent review performed that assesses adherence to and effectiveness of, operational and organizational controls and governance practices. Internal audit may also evaluate compliance and risk management policies and practices.

The Commission has not at this time published corporate governance guidance to the market, but encourages registrants to adopt adequate policies that are appropriate to its size, complexity and inherent riskiness of its business model. The Commission expects to provide more specific published guidance in the near future.

DR&CF

The vision of the Trinidad and Tobago Securities and Exchange Commission (the Commission) is "to be an effective regulator fostering confidence in the securities industry". The Commission pursues this vision by ensuring that the securities markets are fair and transparent, through the disclosure of information. The Disclosure, Registration and Corporate Finance Division is responsible for registering securities and registrants, (issuers of securities, market intermediaries and self-regulatory organisations) and tracking and monitoring disclosures. In this article we will describe the different types of disclosure documents required under the Securities Act, 2012 (SA 2012) and discuss how the provision of information through these disclosure documents assists in promoting fairness and transparency in the securities market.

For investors to make informed investment decisions, they require accurate and complete material, as well as, timely and accessible information about the product in which they are investing, and the issuer of that product. The investing world may be complex and challenging for some investors, but it may be especially so for first-time investors; hence persons may seek advice from individuals or companies who are specialized in the investment field. Such market actors are required to be registered under the SA 2012, and include Investment Advisers, Broker-Dealers, Underwriters and their associated Registered Representatives. As at 31st May, 2018, the Commission's register comprised 17 Investment Advisers, 36 Broker-Dealers, 270 Registered Representatives, 81 Reporting Issuers, 2 Self-Regulatory Organisations and 6 Sponsored Broker-Dealers. These registrants are mandated to disclose information as prescribed under the SA 2012 and the Securities (General) By-Laws, 2015 (the By-laws), which are guiding documents enforced by the Commission.

THE COMMISSION'S DISCLOSURE SYSTEM

The Commission adopts a disclosure-based system of regulation. Therefore, our aim is to ensure that investors have the requisite information to help guide their investment decisions. Rather than evaluating merits of an issuer and its securities; we implement and uphold certain standards of disclosure so that the investor has the necessary information to decide whether to buy, sell or hold a particular security.

TYPES OF DISCLOSURE DOCUMENTS

There are two main types of disclosure documents regarding issues and issuers of securities that are required to be filed with the Commission and made available to investors:

i. Transaction-Based Disclosure Documents:

In its most basic sense, transaction-based disclosure documents are marketing or offering documents related to the securities that are being offered for sale. Typically, this document would be called a prospectus. The objective of these transaction-based disclosure documents is to provide information concerning the issuer and the securities to be distributed. The information must be full, true and plain disclosure of all material facts related to the security and the issuer of the security. Some basic facts that these documents include are: a description of the issuer; the issuer's business activities and its senior officers; details of the securities to be distributed; risks associated with the issue; related party transactions; (potential) conflicts of interest; and an investor's rights should they decide to invest in the security.

Exemptions from the requirement to have a prospectus accompany the distribution of securities are provided in Section 79 of the SA 2012. Generally, these exemptions are available where the persons to whom the security is being distributed are presumed to have information about the issuer and do not require the necessary protections that are afforded by disclosures in a prospectus or offering memorandum.

II. PERIODIC DISCLOSURE DOCUMENTS:

These documents are meant to keep investors or potential investors apprised of the financial health of the issuer of a security. Periodic disclosure documents also provide the investing public with updates on material events and changes that affect an issuer. While these documents are not necessarily prepared in support of a proposed new offering of securities, they provide valuable information to existing and potential investors about a company that has already issued securities. This information may impact an investor's decision to buy, hold or sell an issuer's securities.

Periodic disclosure documents are prepared within a prescribed period and are required to be filed with the Commission within a specific timeframe. The main periodic disclosure documents required to be prepared by the issuer and filed with the Commission include:

a) Financial Statements:

Issuers are required to prepare interim (quarterly) financial statements; annual audited comparative financial statements and annual reports. These financial statements are required to be prepared in accordance with financial reporting standards which include International Financial Reporting Standards (IFRS) or any other standard approved by the Commission.

b) Material Change Report:

Section 64 (1) of the SA 2012 requires reporting issuers to:

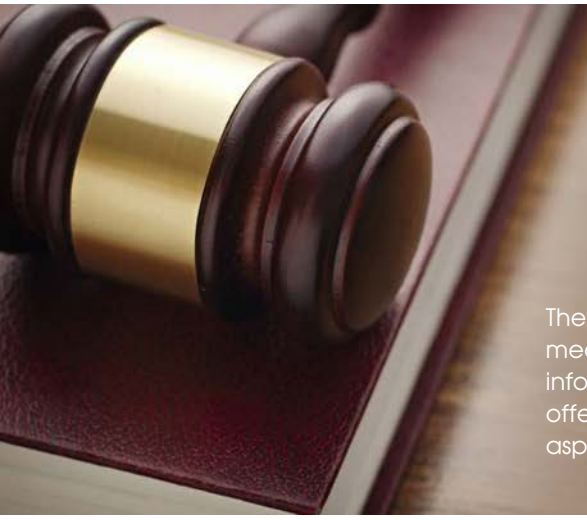
- File a report with the Commission (using the Commission's Form 10), certified by a senior officer, containing details of the substance of the material change within three (3) days of the date of the change.
- Publish a notice of the material change, authorized by a senior officer, in two daily newspapers of general circulation in this country, detailing the nature and substance of the change within seven (7) days of the change.
- File a copy of the published notice with the Commission within seven (7) days of the material change.

Material Change Reports are meant to apprise the investing public of the occurrence of a material change or fact, in an issuer's business operations, its assets or ownership structure, where that information would be considered important to a reasonable investor in determining whether to buy, hold or sell the issuer's securities.

The Commission's Role

Disclosure promotes transparency in companies' operations and protects investors from fraudulent activities. Disclosures reduce the information asymmetry in the market and enable investors to be more confident about their investment decisions. This confidence encourages investors to invest in the securities market.

The Commission, as the regulator of the securities market, plays an active role in ensuring that market actors comply with their disclosure obligations, among other requirements, under the SA 2012. Failure to disclose as specified by the SA 2012 and the By-laws, will be considered a contravention under the SA 2012 where market actors may be penalized accordingly. Registrants therefore have a responsibility to prepare appropriate disclosure documents and to make these available to investors. While investors have a right to receive these disclosure documents, it is critical that they also remember that they have a responsibility to review same before making investment decisions.



DIVISION OF LEGAL ADVISORY & ENFORCEMENT

Legal Aspects of Registration and Disclosure

IN THE SECURITIES INDUSTRY

The securities industry in Trinidad and Tobago operates under a disclosure regime. This means that persons and companies have a responsibility to release all relevant information on the company, as well as the security being offered (or intended to be offered), that would influence an investment decision. There are generally two broad aspects of disclosure, namely, registration and the need for timely and accurate disclosure of financial and material information.

Registration. Is it really that important?

REGISTRATION AS A LEGAL REQUIREMENT

Where a company seeks to embark on capital raising activities in Trinidad and Tobago by way of issuing securities, the law requires registration with the Securities and Exchange Commission (the Commission), (although exceptions are made for small issues and private placements). Similarly, for persons that pursue professional careers within the securities industry, registration with the Commission under a particular category is a mandatory requirement under the Securities Act, 2012 (the Act).

Once registered in accordance with the Act, a person or company has certain disclosure/filing obligations which are owed to both the Commission and their shareholders. Some of the more frequent disclosures relate to the registrant's annual report, disclosure of changes which are deemed to be material changes, disclosure of financial statements and the publication of various notices. All of these have been prescribed by the Commission and are set out in the Act, its subsidiary legislation and guidelines on the Commission's website.

Sections 51 and 36 of the Act outline the requirements and categories under which a person can be registered with the Commission. Such categories include a broker-dealer, an investment adviser, an underwriter and a Self-Regulated Organisation (SRO).
Additionally, section 62 of the Act also sets out the requirements necessary for the registration of any security which is intended to be distributed or listed on any securities exchange. Some of the legal implications of non-registration are outlined below.

A Disclosure Regime

TIMELY AND ACCURATE REPORTING

In most instances, privately owned companies are not legally required to disclose detailed financial and operating information. Such disclosures are discretionary and are left to those entities to decide what information they wish to have entered into the public domain. However, companies that are publicly owned have a legal obligation to their shareholders to make detailed disclosures about their financial condition, operational issues and other areas of the business.

The fundamental principle behind the disclosure regime is that each investor or potential investor should have access to all material information about the company and the investment opportunity. This would also include the risks of said investment that a reasonable person would want to know in order to make an informed investment decision. This investment decision may be to purchase the security, or whether to hold or sell.

In the case of the company/issuer, the disclosure regime places a responsibility on the company to come clean. It does not absolve the investor of their responsibility to conduct their own due diligence, but it is meant to ensure that all financial and material information is at their disposal in order to foster their ability to make informed investment decisions.

Legal Implications

The Commission aims to prevent investors from being exposed to fraudulent activity in the securities market by requiring issuers of securities to register with the Commission, and to continuously disclose important financial and other relevant information within prescribed timeframes. The continuous disclosure regime forces companies to make market-sensitive information available to all persons at the same time. This is aimed at avoiding any party having an unfair advantage over another, and allows for a level playing field for investors or prospective investors. Disclosure also allows the Commission to monitor market activity and check for any anomalies that may signal fraud or market abuse. There are various types of fraud that investors may be exposed to because of a company's failure to register with the Commission and/or disclose important financial information. These include but are not limited to: corporate fraud, internet fraud, boiler room operations, pump and dump schemes, ponzi schemes and fraudulent misappropriation of funds.

Investors and prospective investors are advised, amongst other things, to get information directly from the company itself, rather than from third parties, and then double check that information against the Commission's database. Investors should not rely solely on sales pitches and promotional material, but take the time to do their own research on the investment's potential and investigate the track record of the persons that will be responsible for managing their funds. Investors have the legal right to request written financial information, such as a prospectus, annual report, or financial statements from the company, for their review. Investors are also advised to check with a registered professional about any investments they are considering.

REGULATION, COMPLIANCE AND ENFORCEMENT BY THE COMMISSION

Whilst the Commission remains open to initiatives that will foster growth, it remains cognizant that the success of the securities industry is largely dependent on confidence. Investors and other market actors should be able to rest assured that the market is regulated effectively, so that everyone's interest is adequately protected. In the Commission's bid to execute its mandate of ensuring fair, equitable and orderly trading in securities, the "enforcement" arm of the Commission functions as the last resort in preserving the confidence that keeps the wheels of the securities industry turning. Given the severe ramifications that may arise when companies and individuals perform specific activities without first being registered or failing to adhere to their relevant disclosure obligations, the Commission has placed high emphasis on educational and informational initiatives as primary tools of effective regulation. These include but are not limited to:

- Conducting periodic meetings with representative associations of the securities industry on prudential as well as AML/CFT related matters;
- Adopting a collaborative approach with sister regulators regarding dually registered participants to promote consistency, and avoid duplication of efforts where applicable;
- Issuing Circular Letters periodically to registrants reminding them of obligations, or advising them of changes to reporting obligations;
- Posting Informational literature and updates to the Commission's website advising of changes to the regulatory requirements, recent events, AML/CFT guidance and information and proposed legislative or guideline amendments;
- The regulatory regime also utilizes its power to conduct on-site inspections, as a means of working with registrants to correct deficiencies, and implement measures to promote best practices in their operations, in the interest of clients.

The Enforcement arm works closely with the other divisions of the Commission, in actively following-up on matters where contraventions of the securities legislation occur. The Act provides a range of sanctions that may be applied, where companies or persons have failed to adhere to the registration or the disclosure obligations, imposed by the statute. These sanctions include inter alia:

- suspension or revocation of licences;
- cease trade orders;
- orders for the payment of administrative fines;
- issuance of deficiency letters;
- issuance of Compliance Directions;
- warnings and reprimands; and
- referring matters to the relevant criminal authorities where appropriate.

Particulars of enforcement actions undertaken by the Commission may be found on our website[1].
It is also noteworthy to mention that the Commission may also convene hearings under the Securities Industry (Hearings and Settlements) Practice Rules, 2008 in accordance with the provisions of the Act, where it considers it in the public interest to do so.

In conclusion the Commission has a number of important requirements and initiatives in place regarding registration and disclosure. These are crucial to the Commission's mission to protect investors; promote and enable the growth and development of the securities industry by nurturing fair, efficient and transparent securities markets; cooperate with other regulators and mitigate systemic risk.

[1] *https://ttsec.org.tt/legal-framework/?_sft_category=orders-contraventions*

Investor Education OUTREACH

The Corporate Communications, Education and Information (CCEI) Division coordinated and executed several projects and activities during this period. Some of these included:

1) Investor Education Outreach Activities

The Commission facilitated the following Investor Education Outreach Sessions:

- National Training Agency
- University of the West Indies
- Global Money Week Exhibit Tobago
- THA GMW Tour – Tobago Students visited the TTSEC office in POS.
- Global Money Week Exhibit Trinidad
- Ministry of Rural Development and Local Government
- Trinidad and Tobago Prisons Association
- Ministry of Community Development
- St. Joseph's Convent Career Fair
- First Citizen's Bank
- W.A.S.A Tobago
- Trinidad and Tobago Fire Service Tobago
- Public Exhibition at C3 Mall, San Fernando

SJC Career Fair

TTSEC & TTSE staff at C3 Mall.

2) International Women's Day 2018 - #PressforprogressTT

The Trinidad and Tobago Securities and Exchange Commission (Commission) also commemorated International Women's Day (IWD) 2018 by executing a social media and radio campaign which ran on Heartbeat Radio 104.1fm and on our Facebook Page, empowering women to secure their financial future. This year's theme was #Pressforprogress.

Staff member Arlene Stephen showing her support of financial empowerment among women.

TTSEC Staff celebrating International Women's Day 2018

MOU Signing of the National Financial Education Committee

TTSEC hands over Manual and Workbook to the Ministry of Education

3) The National Financial Education Committee and Global Money Week 2018

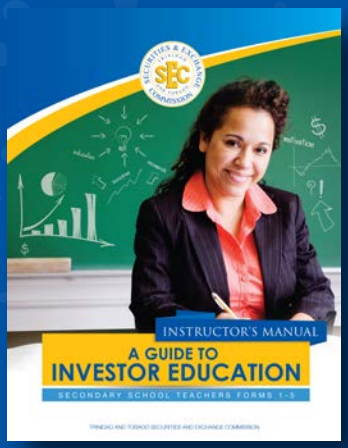
On March 12, 2018, Trinidad and Tobago joined the world in commemorating Global Money Week 2018. To kick start a series of events, the Commission signed a Memorandum of Understanding (MOU) formalizing its membership and commitment to the National Financial Education Committee (Committee). The MOU was signed between the Office of the Financial Services Ombudsman/ National Financial Literacy Programme (OFSO/NFLP), and the stakeholders (7) of the National Financial Education Committee (Committee), of which the Commission is a member. This Committee is established to develop a national strategy for financial education across Trinidad and Tobago.

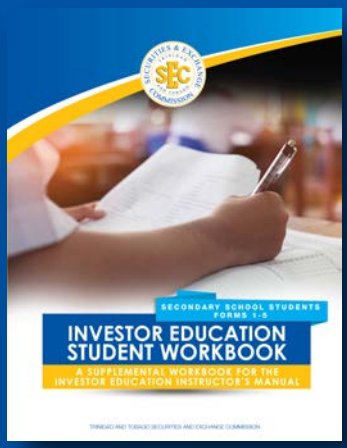
On March 13, 2018, Global Money Week 2018 was launched in Tobago during a short opening ceremony held at the Victor E. Bruce Complex, Tobago, under the auspices of the Secretary of Finance and the Economy. This was followed by an exposition hosted by the Financial Literacy Secretariat of the Tobago House of Assembly, in Tobago, where approximately 250 students engaged with and learned more about, the many financial institutions in T&T.

4) Third National Investor Education (IE) Month 2018

This year the Commission celebrated its third National Investor Education Month themed "Invest with Confidence" in May. The Commission kick-started the month with the launch of its Investor Education Instructor's Manual and Student's Workbook at the San Juan South Secondary School on May 1 and interviews on two television morning programmes on May 1 and May 2.

The Commission also partnered with the Trinidad and Tobago Stock Exchange Limited (TTSE) to execute a series of radio interviews and ads were also scheduled throughout the month, coupled with the launch of a Facebook competition on May 7 and our annual investor education public exhibit on May 19 at the C3 Centre. The team also made an appearance in Tobago to facilitate targeted investor education outreach sessions during IE Month.





Read more about our Third National Investor Education Month 2018.

57-59 Dundonald Street, Port of Spain, Trinidad, W.I.
■ Tel: (868)-624-2991 ■ Fax: (868)-624-2995 ■ E-mail: ttsec@ttsec.org.tt
■ Corporate Website: www.ttsec.org.tt ■ IE Website: www.investucatett.com

DOWNLOAD OUR MOBILE APP TTSEC
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www.ttsec.org.tt

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COMMENTS OR SUGGESTIONS CAN BE FORWARDED TO:
Editor: Arlene Stephen - arlenes@ttsec.org.tt
Associate Editor: Nicole Bachan- nicoleb@ttsec.org.tt

If you would like to receive this magazine via email, please send your email address to rachaelc@ttsec.org.tt or call 624-2991 Ext# 1307