



# NEWSLETTER

JAN - JUNE 2019

ISSUE #23

YOU INVEST. WE PROTECT. EVERYONE BENEFITS!



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***TTSEC's Approach to Fintech***

## ***SEC News and Updates***

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## Message from the Chief Executive Officer

### Dear Valued Stakeholder,

We are pleased to present to you the 23rd Issue of our Market Newsletter. In this Issue, we focus on key initiatives undertaken by the Commission that continue to help us in developing our capacity to execute our mandate.

Significant areas of focus include: Record Keeping and Compliance Reviews, The Micro-Macro Prudential Reporting Framework (MMRF), Ethics and Regulation, and much more.

The Commission also prides itself on establishing and sustaining several initiatives related to investor education including, but not limited to: Global Money Week, National Investor Education Month and other programmes geared toward improving our online presence and connectivity with the market. Some highlights from these ongoing initiatives are featured in this Issue of our newsletter.

I wish to thank you for taking the time to peruse this publication and also for providing your feedback in response to our last survey. Wherever possible, we will implement some of the very useful suggestions submitted.

We look forward, to your continued support of the work of the Commission.

*Adryn Litten*  
Chief Executive Officer





# RECORD KEEPING & COMPLIANCE REVIEWS

Record keeping is very important to the securities industry, from internal documents to contracts with external parties. Every time a broker-dealer or investment manager places an order and purchases a security on behalf of clients or for proprietary purposes, a number of documents are developed to record the activity.

Proper record keeping ensures documentary evidence is retained on how companies operate, interact internally and externally, and deliver their services. Documentation varies across the securities industry and across companies in the financial industry, but the general rules, structure, and logic of internal and external documentation/record keeping apply to all.

This article explores the legislative mandate of registrants regulated by the Trinidad and Tobago Securities and Exchange Commission (the Commission), the importance of record keeping and the record keeping expectations of the Commission's inspection team regarding a simple trading process.

## LEGISLATIVE MANDATE

### Securities Act 2012 ("SA 2012")

Section 87(1) of the Securities Act 2012 (SA 2012) states, inter alia, every market actor shall (a) make and keep such books, records and other documents in such form and for such periods as-

- (i) are reasonably necessary in the conduct of its business and operations, including documentation of compliance with this Act and the proper recording of its business transactions, financial affairs and the transactions that it executes on behalf of others;
- (ii) are required by this Act;
- (iii) are required by the Proceeds of Crime Act, any other written law in relation to the prevention of money laundering and combating the financing of terrorism or any other written law that is administered or supervised by the Commission, which may be in force from time to time; and
- (iv) otherwise prescribed;

### Securities (General) by-Laws 2015

By-law 29 of the Securities (General) by-Laws 2015 states, inter alia, a registrant or self-regulatory organization shall, where applicable, maintain records in a manner that permits it to be provided promptly to the Commission and such records shall-

- (a) clearly record all of its business transactions and financial affairs that are conducted in Trinidad and Tobago;
- (b) permit the timely creation and audit of financial statements and other financial information required to be filed or delivered to the Commission;
- (c) permit the determination of the registrant's capital position;
- (d) demonstrate compliance with the registrant's capital and insurance requirements;
- (e) demonstrate compliance with the registrant's policies and procedures, including internal control procedures;
- (f) permit the identification and segregation of client assets, cash, securities and other property;
- (g) identify all transactions conducted on behalf of the registrant and each of its clients, including the parties to the transaction and the terms of purchase or sale;
- (h) provide an audit trail for- (i) client instructions and orders; and (ii) each trade transmitted or executed for the account of a client or the registrant
- (i) permit the creation of account activity reports for clients;
- (j) demonstrate compliance with client account opening requirements;
- (k) document correspondence and other communication with clients;
- (l) document complaints and disciplinary matters;
- (m) document compliance and supervisory actions taken by the registrant; and
- (n) demonstrate compliance with the registrant's obligations under the Act and these By-laws.



## IMPORTANCE OF RECORD KEEPING

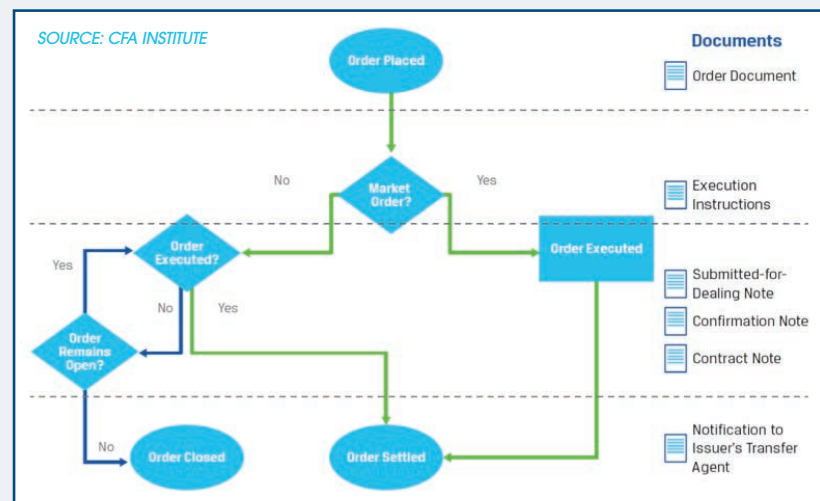
- **Proper record keeping removes ambiguity.** Policies, procedures, and processes are essential in the securities industry to ensure successful outcomes for clients. When policies, procedures, and processes are undocumented or poorly documented, there is room for doubt because these may be subject to interpretation.
- **Financial institutions have a legal obligation to verify the identity of a potential client** by means of a 'Know-Your-Client' (KYC) process before commencing a relationship with the potential client. Client on-boarding is the process by which a registrant accepts a new client and inputs the client's details into its records to enable the company to conduct transactions with and on behalf of the client. These records ensure that all transactions conducted on behalf of the client are suitable for the client's purposes.  
A typical KYC process requires the client to:
  - Provide personal background information, including documentary proof of identity, addresses, and other personal details.
  - Be screened against various global databases to ascertain whether the client is known or wanted by local or international law enforcement agencies.
  - Submit to anti money laundering (AML) checks at on-boarding and thereafter the company is required to identify any potential suspicious transactions and report same to a regulator.
  - Provide proof of the source of funds to verify that the money does not originate from an illegal or criminal source.

- According to the Certified Financial Analysis Institute (CFA Institute) record keeping and documentation in the context of the investment/securities industry does the following:
  - **Educates** - informs or provides instruction
  - **Communicates** - conveys ideas, concepts, or information
  - **Authorises** - provides the basis, and often the authority for action
  - **Formalises** - establishes roles, deliverables, and obligations
  - **Organises** - ensures thoroughness and consistency of action, allowing the company to function more efficiently and effectively
  - **Measures** - provides a benchmark for measurement and audit
  - **Records** - preserves learning within the company (also known as institutional memory)
  - **Protects** - provides assurance of a system to safeguard interests and manage risks



## Expectations of Inspection Team (Trading Process)

Within the securities industry many different types of records must be maintained according to the type of business activity. The diagram below displays a simplified version of a trading process. It illustrates some of the records that may be produced.



When an order is placed, a document is sent to the exchange/trading venue, specifying what security to trade, whether to buy or sell, and how much should be bought or sold. Once the order has been received, a number of documents record the progress of the trade until execution. These include:

- **A submitted-for-dealing note**
- **Confirmation of dealing**
- **A contract note once the trade is complete**

Once the trade has been settled, the settlement agent reports the trade to the issuing company's transfer agent. This generates yet another document. Documents will also be produced by accounting and other departments. Whatever your role in the securities industry, you will have to incorporate record keeping into your operations. This will ensure legislative obligations are met, assist the organisation in performing its role and help protect the industry, the organisation and clients against unethical behaviour.

# ETHICS & REGULATION

MARKET REGULATIONS AND SURVEILLANCE DIVISION

## FOSTERING THE PRACTICE OF ETHICAL BEHAVIOUR IN THE SECURITIES MARKET

Securities markets across the globe are plagued with ethical issues stemming from market misconduct offences such as insider trading, price rigging and other securities-related fraud. This topic has been one of increasing prominence since the 2008 financial crisis, which perpetuated a number of financial fraud-related cases. In Trinidad and Tobago the securities market is governed by the Securities Act, 2012 (“the Act”), the Securities (General) By-Laws, 2015 (“the By-Laws”) and various other subsidiary legislation. Locally and abroad, it can be seen that legislation alone cannot mitigate against the occurrence of unscrupulous behaviour by investment professionals or registrants<sup>1</sup> in the industry, as there is always a “grey” area that no explicit set of rules or laws can address. This article seeks to identify the need for the inclusion of ethical practices in the securities industry, highlights the benefits of the existence of both legislative safeguards and ethical practices in the industry and outlines ways in which these elements can be incorporated into the operations of registrants for a safer and more efficient securities market.

The law can be described as a set of rules and regulations created by the government to govern the society and the actions of its individual members. It is created with the purpose of maintaining social order, peace and justice as well as to provide protection to the public and safeguard its interest. Whereas ethics can be defined as a set of moral principles or shared ideas and beliefs regarding the type of behaviour an individual or firm should or should not engage in.

Ethical or moral principles include integrity, diligence, accountability, honesty, fairness, concern and respect for others. Although most industries have legislation or a specific set of rules founded on shared beliefs that entities within those industries are required to follow, legislative rules are not always a guide to ethical behaviour and it should be supplemented with standards for ethical conduct. Standards for ethical conduct seek to guide persons in areas where laws are silent or deficient.



It goes beyond the prescription of the law as it assists in decision-making and it can provide guidance on acceptable behaviour when faced with difficult situations. Further, persons or entities who behave in an ethical manner are more inclined to comply with the legislation, thus reducing the risk of misconduct in the market.

Ethical behaviour is particularly important in the investment industry because this industry is built on trust. However, legislative requirements and enforcement efforts alone cannot reinforce trust and reliability in the industry. Trust is a moral principle that is fostered through the practice of ethical behaviour. In that regard, the following outlines some of the benefits derived when both the law and ethical behaviour are reinforced in the market:

- **Investors become more risk-tolerant** – An investor will have the confidence or trust in a registrant and its employees to handle his/her investments professionally and in a manner that would at least meet expectations. If investors trust their broker-dealers, investment advisors or the financial markets as a whole, they would be more likely to invest their money and may have a higher appetite for risk.
- **Stronger client relationship** – Registrants and their employees have a responsibility to their clients to safeguard and protect clients' assets. When firms and their employees are reliable and fulfil these responsibilities, clients have peace of mind knowing that their money or assets are being handled in a responsible manner and in line with expectations.

<sup>1</sup> A registrant means a person registered or required to be registered under Part IV of the Securities Act, 2012. (Securities Act, 2012:25). However, this article pays particular attention to Broker-dealers and Investment Advisers.

- **Confidence in the advice from the investment professional** – Investors will be able to trust that the professionals they hire will not use their knowledge or any information in their possession to take advantage of clients. They would be able to rely on the investment professional to use his or her specialized knowledge to serve the clients' interest. Those who work in the investment industry have specialized knowledge and sometimes better access to information. Specialized knowledge and better access to information on the part of investment professional can place the client at a disadvantage if the investment professional is untrustworthy.
- **Boarder participation in the financial markets** – A higher level of trust would result in an increased number of persons willing to participate in the financial markets. Entrepreneurs or other borrowers are more likely to accept the risk of expanding their businesses or other venture, if they believe that they are able to attract investors with the funds needed for expansion. This will also foster the development and expansion of the capital market.
- **The nature of products and services** – Investors would be able to rely on the investment professional to supply accurate and complete information as it relates to their investments and to ensure that their interests are protected. Most often, persons can judge whether they want a product based on the features of said product, such as the colour, size, durability, how well it performs or even on the product's appeal. However, securities products are intangible and therefore cannot be held or inspected by an investor. Hence, there is a higher level of reliance on the investment professional when assessing securities products.
- **Reputation of the company** – When firms maintain its promises to its clients and act in the clients' best interest, it is building a sound relationship with its clients and forging a reputation in the industry. Unethical behaviour and non-compliance with the legislation may damage a firm's reputation and make it less appealing to stakeholders. A good reputation is important as this may result in an increased clientele and revenue for the company.

A lack of trust in individual firms and/or their employees has the potential to cripple the growth and development of the investment industry. When a firm or its employees act in an unethical manner or engages in activities that result in a breach of the law, it not only affects its clients but also its employees, the company itself, other market actors, the profession, the industry as a whole and the financial market in which they operate. The following are some ways in which a registrant can incorporate both legislative rules and ethical behaviour in its operations with a view to fostering a safe and efficient securities market:

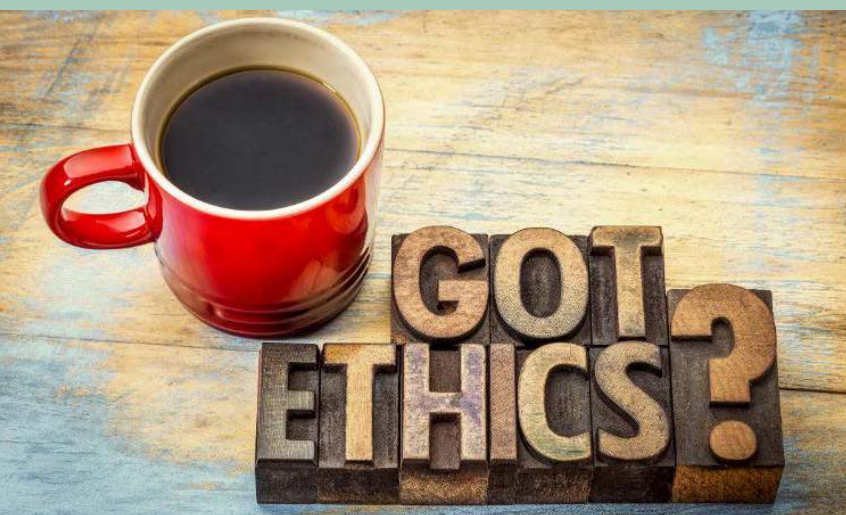


**1. Develop and implement a code of ethics** – A code of ethics is a set of principles designed to help professionals conduct business with honesty and integrity. It is a written set of principles that provides guidance for the firm's employees on what is considered the right way to conduct its duties as opposed to what is unacceptable. This document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values, and the standards to which the professional is held (Haynes, 2019). It would also serve as a guide to decision-making when professionals are faced with ethical dilemmas in the conduct of their duties. Most importantly, the code of ethics should be aligned with and be reflective of the governing securities legislation.

**2. Provide ethics education and training for employees** – An organisation that does not have a culture of ethical behaviour should take action to raise employees' awareness of ethical issues. This can be done through providing training for employees in this area. The provision of education and training can assist in advancing ethical behaviour in the company since employees would be better equipped to identify as well as handle situations that are unethical and proactively make ethical decisions when faced with work-place issues.

In the local context, this point is substantiated in By-law 42 of the By-Laws, which speaks to education and training of the employees of registrants. This provision states that registrants "shall ensure that its employees, senior officers and other agents have such education and training as are reasonably necessary to ensure that its business as a registrant is conducted ethically and in accordance with industry practice".





### 3. Exposure to and acting on material non-public information

– Employees of registrants may be exposed to or have access to material non-public information<sup>2</sup>. For instance, a broker-dealer may be contracted to assist in an issuer's primary offering to the market or the investment professionals of a registrant may be exposed to material non-public information through research of a particular security or through its networks and its clients. For this reason, registrants can implement procedures for the non-disclosure and prohibition of the use of material non-public information by its employees.

Registrants can develop written rules to treat with these issues. They may also implement a system to monitoring of staff and proprietary trading as well as policies to guide the review of investment recommendations. Further, procedures can be designed to curb the flow of confidential information within the organisation. Investment advisors can also ensure that recommendations based on new and updated research or information concerning a particular security or company is clearly communicated to its clients equitably and fairly.

From a local standpoint, the Act speaks to the prohibition of the use and disclosure of material non-public information by persons or entities. Section 100 of the Act states that connected persons<sup>3</sup> to a reporting issuer are barred from trading or from advising any person to trade in the securities of said issuer while in possession of material non-public information until such information has been published. Further, Section 101 prohibits connected persons from

communicating or disclosing any material non-public information until such information has been published, unless it is in the necessary course of business.

**4. Firms can develop a written policy or framework for dealing with clients** – this document can contain the firm's responsibility to and procedures for dealing with its clients. Specifically, this document can highlight industry best practices to be adopted in the furtherance of clients' interest, such as:

a) Systematic provision of client account statements – clients should be provided with a clear outline of transactions, charges, debit or credits to his/her account during the statement period.

Section 109 of the Act and By-Law 54 of the By-Laws provide for the confirmation of trades or a periodic statement to be sent by firms to their clients outlining their securities transactions. Specifically, By-Law 54 outlines what said statement should contain, which includes the price of the security, all charges incurred regarding the transaction including the commission fee and the date of the transaction.

b) Clients trading instructions – an investment professional who is entrusted with the role of executing client transactions should always seek to work in the client's best interest. The client's orders should be executed in the most favourable terms and executed within the parameters set by the clients trading instructions. There should be clear written guidelines for the receipt and recording of clients trading instructions.

Legislative guidance provides for the protection of investors through the provision set out under By-Law 59. This provision states that a registrant shall not "make improper use of a client's securities or funds; or borrow, lend, pledge or otherwise use a client's funds or securities without the client's written authorization". However, there are gaps in the legislation regarding the procedure for receiving and recording clients instructions, particularly as it relates to instructions received via telephone.

<sup>2</sup> Material non-public information means in relation to the securities of a reporting issuer, any material fact or material change that has not been published. (Securities Act, 2012:22)

<sup>3</sup> The definition of Connected Person is contained in Section 4(3) (a) to (g) of the Securities Act, 2012

c) Equitable treatment of all clients – Investment professionals should not place one client's needs over another; all clients should be treated equally. In other words, a firm should establish clear policies that deal with the fair execution of trades and the equitable dissemination of investment recommendations. Further, in order to ensure compliance with said policies, the firm can conduct periodic audit reviews into the treatment of clients' accounts by staff, that is, to ensure the proper execution of orders, timing of dissemination of information or advice and other client-related services.

By-Law 43 of the By-Laws states that a registrant shall develop written policies that maintain standards ensuring fairness in the allocation of investment opportunities to its clients.

d) Clients' needs and objectives – Investment advisers and broker-dealers should consider the client's particular investment needs or goals. They should give advice or handle the client's investments in accordance with those objectives. In determining the suitability of an investment product or strategy for an investor, the investment adviser should consider the investors risk tolerance, financial situation, investment needs and objectives and personal information that may have an impact on the investment decisions such as age and occupation.

e) Independence and objectivity – registrants should establish a set of written procedures that are designed to guide the conduct of its employees as it relates to remaining independent. This can be included in the company's code of ethics. Employees should not be swayed by any external forces that may influence its judgement when dealing with clients' assets or influence its ability to research and report the factual results of a security or a particular investment. For instance, market actors or external entities may seek to influence investment professionals in an attempt to further its agenda or accomplish a goal. This may be done through the offering of gifts or other perceived benefits to bribe advisors for the provision of a favourable recommendation. Advisors must act independently and exercise fairness and its recommendation must be based on independent and objective research of the company and its securities. It is also recommended that registrants seek to conduct periodic reviews of the research and reports or recommendation its employees render to clients.

## **5. Compliance with local and international laws and standards of conduct**

– registrants and its employees must comply with the laws and regulations governing its activities and which are aimed to protect the interest of investors. Registrants can ensure that their internal policies are reflective of these laws and regulations and should review to update said policies regularly in the event the laws and regulations change. Registrants can also sensitize its employees of the applicable legislation that governs the profession and the industry as a whole. Locally, registrants are required to comply with the Securities Act, 2012, the Securities (General) By-Laws, 2015 and other subsidiary legislation. In addition, investment advisers and broker-dealers may take guidance from the Global Investment Professional Standards. This is a set of principles created to guide investment managers on how to calculate investment results and returns. This fosters greater transparency as it provides for a consistent method of calculating and presenting investment results by investment professionals in the industry.

Further, professionals in the financial sector who hold certain designations are most often guided by a code of ethics or standard of conduct that contain shared beliefs of ethical behaviour and acceptable ways of operating in said field of expertise. Professionals should be guided by the standards of conduct once it does not conflict with the governing securities legislation.

**6. Registrant's handling of misconduct** – Registrants are required to implement clearly defined procedures for the reporting and treatment of ethical misconduct and legislative breaches within its organisation. This is a requirement of the law as contained in By-Law 65 of the By-Laws. This mechanism is designed to encourage employees to comply with the rules and regulations since they would be held accountable for unethical behaviour. One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously. It also can be seen that the lack of an anonymous reporting regime can result in employees' unwillingness to report misconduct because they fear that no corrective action will be taken or that their report will not remain confidential (Eluka et al, 2015).



Further, the Trinidad and Tobago Securities and Exchange Commission is mandated with the role of investigating complaints relating to the securities industry. As such, persons or entities who are victims of or have knowledge relating to securities fraud, market misconduct or any other type of unscrupulous behaviour of a securities nature can lodge a complaint with the Commission.

#### **7. Communication and full disclosure to clients -**

Registrants should develop open and transparent business practices. They should develop clear procedures for the communication of information and advice to their clients. For instance, firms should provide complete information regarding an investment product or service to its clients, including the features of, returns and any significant risks of said investment. Investment reports or recommendations to clients should be based on extensive research and analysis and must be supported by readily available reference or additional material, in the event clients request same. When informing clients of the status of their investment, the investment professionals should provide a fair representation of the investments made, results achieved, expenses incurred and risks taken (Edelman, 2013).

Registrants can also include in its policies, the full disclosure of fees to clients with respect to their investment as well as the method used for the calculation of said fees and the impact on the client's portfolio from the payment of said fees.

**8. Conflict of interest -** Registrants should provide clear written guidelines regarding the disclosure to its clients of any and all conflicts of interest. A conflict of interest occurs when a firm or an investment professional's personal interest coincide with that of the client. In such a case, the firm or investment professional should act responsibly and put the interest of the client first. For instance, professionals should disclose their participation in any investment product on which they are rendering advice or recommendations to clients.

Legislative guidance that speaks to conflicts of interest involving registrants are contained in Section 97 of the Act and By-Law 67 of the By-Laws. Section 97(1) states that "the Commission may prescribe standards for the conduct of a registrant in relation to a client or investor to prevent a conflict of interest; or any other conduct that would enable

a registrant to treat a client or investor unfairly" Additionally, By-Law 67 prescribes that a registrant should file a conflict of interest statement annually and at the same time files its audited financial statements with the Commission.

**9. Ethical leadership -** Ethical leaders are stakeholders in an organisation that strive to achieve the purpose, vision and values of the organisation without compromising self-interest (Bello, 2012). Their actions set a standard or example of what is considered the right or wrong way to act or behave. Some common traits of an ethical leader are integrity, honesty, trust and the respect for the rights of others. Therefore, it is imperative that the executive management or leaders of an organisation embody these characteristics or traits. Ethical leaders have the ability to impact the employees and processes of an organisation and therefore can foster an ethical culture.

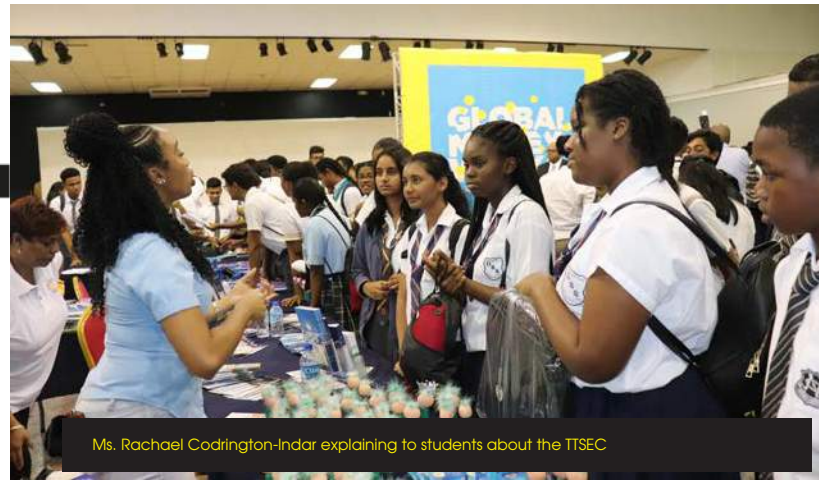
In addition to ethics training and education, registrants can incorporate particular requirements or an ethics quiz or test in its hiring process to assist in its ability to hire persons with good ethical standards. The human resources department can also ensure that background checks on prospective employees are completed in order to evaluate whether said persons have committed any breaches of the law or have engaged in any ethical misconduct.

The existence of a culture that embodies ethical conduct and adherence to legislative requirements within the investment industry fosters trust by investors and results in the efficient and safe operations of the market. The investment industry is founded on trust, thus it is imperative that market actors and more specifically registrants, proactively seek to align its operations to achieve a culture based on defined ethical behaviour, values and adherence to the law. A lack of trust in the investment industry can stunt the growth and development of the industry and the financial market as a whole.

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# GLOBAL MONEY WEEK®



Ms. Rachael Codrington-Indar explaining to students about the TTSEC

## NFEC Celebrates its 2nd Global Money Week



A member from Drama Making a Difference setting the stage for an interesting performance.

“Spend less than you earn, seek financial advice from the relevant persons or experts and invest in an activity that will bring returns” – These were some of the key financial tips shared by the Financial Services Ombudsman, Central Bank of Trinidad and Tobago, Mr. Dominic Stoddard, to a roomful of secondary school students during Trinidad and Tobago’s Global Money Week (GMW) celebrations, March 26-29, 2019.

More than 500 primary and secondary school students from across Trinidad and Tobago participated in GMW 2019, hosted by the National Financial Education Committee (NFEC), of which the Trinidad and Tobago Securities and Exchange Commission is a part. Trinidad and Tobago joined over 160 countries in recognising this very important and exciting international event. Global Money Week aims to raise awareness and educate the youth about the importance of financial management, budgeting, saving, investing, as well as entrepreneurship.

The National Financial Education Committee held three exciting days of celebration. The first day kicked off in Tobago on Tuesday 26th March 2019 at the Cultural Complex, Shaw Park Tobago from 10.00 a.m to 2.00p.m.





Ms. Nicole Bachan interacting with some of the students at our booth in Tobago



Secondary School Students in Tobago for the GMW Exhibit in Tobago

On Thursday 28th March 2019, the Committee hosted 200 Primary School children from along the East-West corridor. These students had the opportunity to experience a fun interactive tour of the Central Bank's Money Museum. The museum exhibit comprised various displays and activities geared towards teaching the students about the creation of money, and the instruments used to make the money, as well as the history of T&T's money. One of the key displays included a grocery store, which demonstrated how the cost of food items had increased over a 30-year period.

The grand finale of the celebrations took place at the Naparima College Auditorium, San Fernando on Friday 28th March 2019 from 9.00a.m to 1.00p.m. Mr. Stoddard, through storytelling, gave the students sound advice on wise financial management and investments. The students were also encouraged to think about becoming entrepreneurs as an alternative to seeking employment. Similarly to the celebrations in Tobago, the students enjoyed, as well as participated in, the drama presentation by DMAD Company where they were given real life scenarios that prompted them to make wise financial decisions. This was followed by an exposition where the 200 secondary students from South and Central participated in financial and educational games and interactive activities.



# WE'RE MOVING!

TTSEC IS RELOCATING ITS OFFICES



We are pleased to inform that the  
TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION  
will be relocating its offices of operation, effective **July 31, 2019.**

Our new premises will be located at

**Levels 22 - 23, Tower D, International Waterfront Centre,  
1 Wrightson Road, Port of Spain, Trinidad and Tobago.**

Further information will be communicated via email correspondence to all registrants.  
You may also visit our website, **[www.ttsec.org.tt](http://www.ttsec.org.tt)**, for additional updates accordingly.  
Should you require any further information regarding our new location or services,  
please contact us at **[ttsec@ttsec.org.tt](mailto:ttsec@ttsec.org.tt)**.

We look forward to continuing our work with you at our new office.

# The Trinidad and Tobago Securities and Exchange Approach to Financial Technology (Fintech)

The increased emergence of Fintechs and other innovations in the financial sector have the potential to transform the securities industry in Trinidad and Tobago. This transformation can be beneficial as it has the potential to improve the efficiency of securities transactions, provide cost effectiveness and encourage growth of Trinidad and Tobago's securities industry. While such potential exists, however, innovation without proper safeguards can also pose a grave risk to investors and to the stability of the financial markets. The Commission therefore, must be prepared to implement safeguards where necessary to protect investors and the securities industry.

As the regulator of the securities industry in Trinidad and Tobago, the Commission has a responsibility to understand, monitor, and where appropriate encourage innovative developments as it relates to the Securities Industry. This responsibility is derived from the Securities Act, Chap. 83:02 (the Act) and the functions of the Commission as legislated in section 6 of the Act.

## What is Fintech?

Financial technology or "Fintech" is a combination of financial services and information technology. The International Organisation of Securities Organisations (IOSCO) has used the term to describe a variety of innovative business models and emerging technologies that have the potential to transform the financial services industry.

These innovative products and/or systems can compete with or enhance traditional financial services. Examples of such products and/or services which concern the Securities Sector include:

- **Automated Advice Tools (i.e. Robo-advisers)**
- **Debt Crowdfunding**
- **Equity Crowdfunding**
- **Digital Currency Exchange**
- **Initial Coin Offerings/Tokens**
- **Blockchain Securities**

## APPROACH

The first step in the Commission's approach to the constructive regulation of the Fintech sector included the release of a public statement seeking to advise the public on the potential advantages of Fintechs to the securities industry. While Fintechs open many opportunities for the sector they may pose risks to the investor, therefore, the Commission is welcoming discussions/dialogue with Fintech companies.



This public statement was necessary as many companies purporting to deal in Fintech and/or crypto assets have come into the Trinidad and Tobago financial arena. Such companies have created apprehension in potential investors who have begun to regard Fintech related products in a negative light. The Commission has observed some unsafe investment practices as many of these companies promised high returns on investment in their products, but do not make full disclosure to their investors.

The release of the statement was also an information gathering exercise whereby potential Fintech providers were given the opportunity to approach the Commission and determine if their products/services were regulated activities. Any current and future Fintech providers can contact the Commission via the following email address [fintech@ttsec.org.tt](mailto:fintech@ttsec.org.tt).

Overall, the Commission intends to create a holistic long-term approach to stimulate innovation and growth of the securities industry of Trinidad and Tobago, whilst ensuring robust investor protection, market integrity and financial soundness. The Commission will be establishing its Fintech policy in the future, the policy will be established on four (4) pillars which include Shareholder Collaboration, Knowledge, Regulatory Supervision and Security as seen in the diagram below. The market can look forward to future information being released by the Commission related to Fintech.



### STAKEHOLDER COLLABORATION

Collaboration with stakeholders to implement regulations to facilitate development of the Fintech Industry.



### KNOWLEDGE

Cultivate talent pools and stimulate research.



### REGULATORY SUPERVISION

Adopt regulatory and supervisory initiatives to support innovation and regulatory efficiency.



### SECURITY

Establish an environment that is resilient to cybersecurity threats.





Staff in support of World Autism Awareness Day



#BALANCEFORBETTER  
Happy International Women's Day 2019!  
FROM ALL OF US AT THE TSEC



Staff celebrating World Down Syndrome Day



WOMEN'S DAY 2019  
"Empowering women isn't the right thing to do.  
It's the smart thing to do" - Barack Obama  
#BALANCEFORBETTER

# Commemorating International Days

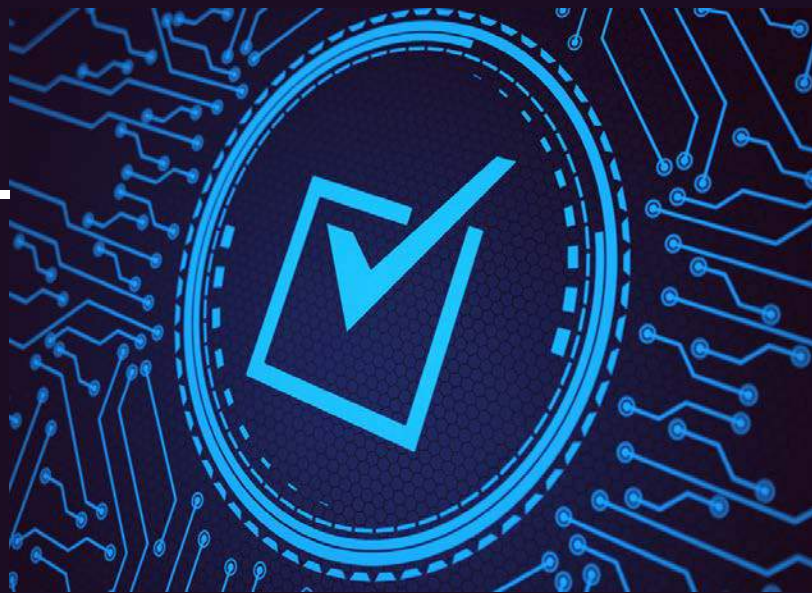
Throughout the first half of the year, the Commission was heavily involved in and committed to, recognizing significant international days.

Here are some highlights of some activities that were held internally to raise awareness about key issues impacting on some of our daily lives.



# VIRTUAL ASSET REGULATION

*Virtual Assets have been around for nearly a decade in the form of cryptocurrencies such as Bitcoin, Ethereum and Ripple, as well as investment products or tokens which companies have been using as vehicles to grow their businesses and fund product development. Considered a new alternative asset class, the acceptance of virtual assets within society represents a paradigm shift; not just because it is a novel technological development, but also because of the scale, scope of application, and speed of adoption of these assets. Despite the highly speculative and volatile markets for this new asset class, it appears that Virtual Assets may be here to stay, at least into the near future.*



Defined by the Financial Action Task Force (FATF), Virtual Assets are **“a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes.”** While investment in these products seemingly provide a faster and more readily available opportunity for entities and individuals to make a profit, the risks to the investor are far higher than traditional investment products. This is particularly so because they also create new opportunities for criminals to perpetrate fraudulent schemes against investors and to launder their proceeds. However, with recent developments in Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) put forward by the FATF, this may soon change.

Recognising that virtual assets are taking root, the FATF understands that there is a need for regulation and has called upon countries to urgently take legal and practical steps to prevent their misuse. In order to do this, FATF believes that countries should consider virtual assets as **“property,” “proceeds,” “funds”, “funds or other assets,”** or other **“corresponding value”** and apply the FATF Standards appropriately.

FATF solidified this call with an amendment to its Recommendation 15 in October 2018 and is well on its way to finalising its interpretive note to the recommendation. If the interpretive note is adopted at FATF’s June 2019 plenary, countries would now be required to register or license Virtual Asset Service Providers (VASPs)<sup>1</sup> while taking

steps to confirm the identities of the natural or legal persons carrying out the service, and to ensure that they are being monitored by a competent supervisory authority.

Additionally, to ensure that the monitoring and registration of VASPs are effective to mitigate money laundering and terrorist financing risks, countries are called upon to ensure that there is a range of effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, available to deal with VASPs that fail to comply with AML/CFT requirements.

As an observer organisation to the FATF, the International Organisation of Securities Commissions (IOSCO) has a commitment to endorse the FATF Recommendations, guidance and other policies for combating money laundering and the financing of terrorism and proliferation. Therefore, IOSCO has also considered the need to regulate virtual assets that are securities and Cryptoasset Trading Platforms for money laundering and terrorist financing risks, pointing to Key Issue 11(a) of Principle 31 of the IOSCO Principles which require a **“market intermediary...to mitigate the risk of being implicated in fraud, money laundering, or terrorist financing.”**

While many countries have not yet implemented such regulatory requirements, investors can rest assured that virtual asset regulation is on the horizon, at least for money laundering and terrorist financing risks.

<sup>1</sup> Virtual asset service provider means any natural or legal person who is not covered elsewhere under the Recommendations, and as a business conducts one or more of the following activities or operations for or on behalf of another natural or legal person: i. exchange between virtual assets and fiat currencies; ii. exchange between one or more forms of virtual assets; iii. transfer of virtual assets; iv. safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and v. participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

# UPDATE

## MICRO-MACRO PRUDENTIAL REPORTING FRAMEWORK (MMRF)



The International Organization of Securities Commissions (IOSCO), in 2011,<sup>1</sup> noted that the Global Financial Crisis of 2008 – 2009 (the Crisis) led securities regulators to place greater emphasis on financial stability and systemic risk. The traditional disclosure regulation, practices and business conduct oversight function of securities regulators, at the time, were not tailored to mitigate the emerging systemic risk, which threatened the stability of the evolving global financial system.

In response, IOSCO revised its Principles, in particular, Principles 6 and 7<sup>2</sup> to ensure regulators **have or contribute to a process to monitor, mitigate and manage systemic risk and to review the perimeter of regulation on a regular basis**. The Trinidad and Tobago Securities and Exchange Commission (TTSEC or the Commission) has since adopted the **assessment, measurement and evaluation of risk exposure in the securities industry** as one of its functions outlined at **Section 6(1) of Securities Act, 2012 (SA 2012)**.

The Commission, in an effort to gather the essential financial data to monitor key indicators of financial health, soundness and stability, within the securities sector, particularly key vulnerabilities and pressure points, developed a Micro and Macro Prudential Reporting Framework (MMRF or the Framework). MMRF is applicable to persons under **Sections 36** (Self-Regulatory Organisations) and **51(1)** (Broker-Dealers, Investment Advisers and Underwriters) of **the SA 2012** (Registrants).

By Order, effective 21st July, 2016,<sup>3</sup> the Board of Commissioners approved the implementation of MMRF and its associated eleven (11) forms with accompanying instructions.

Since the latest MMRF update in Market Newsletter Issue #16 of 2016, there has been significant progress in the establishment and development of the Framework. To date, the Commission has collected and validated data from Registrants for two quarters of 2016 (01st July, 2016 - 30th September, 2016 and 01st October, 2016 - 31st December, 2016) and all quarters for the years 2017 and 2018. The Commission subsequently published two issues of its Securities Market Bulletin which focused on information for the periods 2016 and 2017. We continue to work diligently towards publishing the third issue.



<sup>1</sup>IOSCO. 2011. "Mitigating Systemic Risk: A Role for Securities Regulators." Accessed 06th May, 2019. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD347.pdf>

<sup>2</sup>IOSCO. 2010. "Objectives and Principles of Securities Regulation." Accessed 06th May, 2019. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>

<sup>3</sup>TTSEC. 2016. "Order Re: Development of a Micro and Macro Prudential Reporting Framework." Accessed 06th May, 2019. <https://ttsec.org.tt/order-re-development-of-a-micro-and-macro-prudential-reporting-framework/>





Although significant strides were made throughout the years, data collection challenges have negatively impacted the content and timing of the publication of the Bulletins. The most prominent challenges include:

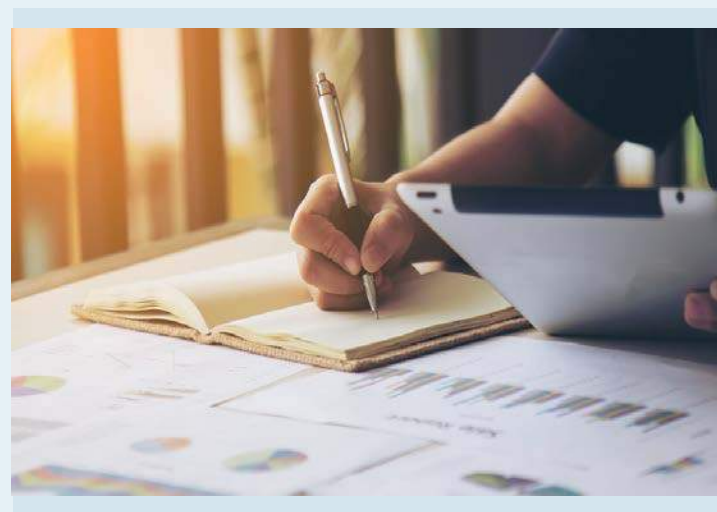
1. Tardy submission of MMRF submissions.
2. Misclassification of Securities – Recurring errors of misclassification of securities typically occur in the following forms:
  - i. MMRF03 – Collective Investment Scheme (CIS) Portfolio;
  - ii. MMRF04 – Securities Held by Firm Not Assigned to Repos; and
  - iii. MMRF05 – Broker-Dealers Repo Portfolio Composition – Assets and Liabilities.
3. Poor compliance with form completion instructions.

IOSCO (2014)<sup>4</sup> indicated that securities regulators have made substantial progress in the institutionalization of methods to identify and analyze the risks in the securities market, since the Crisis. TTSEC has also made tremendous advancement in its mandate to assess, measure and evaluate risk exposures in the securities market.

The Commission appreciates the continued support of the Registrants to provide the data required under the Framework. The Commission acknowledges that the market has become more familiar with the requirements of the Framework, which has resulted in the receipt of more accurate and comprehensive MMRF submissions.

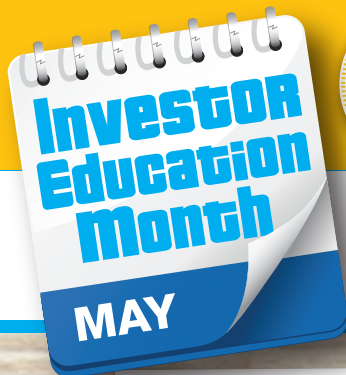
However, we continue to work with Registrants to rectify issues, not limited to the above-mentioned. As the enhancement of the Framework continues, we emphasize that the input of high quality data is crucial; as it allows the Commission to conduct a more accurate and in-depth analysis of the market. We therefore encourage Registrants to submit complete, consistent, valid and accurate data on a timely basis.

The Commission looks forward to sharing with the market, its third Issue of the Securities Market Bulletin in the near future.



<sup>4</sup>IOSCO. 2014. "Risk Identification and Assessment Methodologies for Securities Regulators." Accessed 06th May, 2019.  
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD443.pdf>





# Improving Investment Knowledge in T&T

## Fourth National IE Month, 2019



Staff members in teams competing for the grand prize in the Online Course competition



Students from the MILAT programme dropped by at the Trincity exhibit



Students at the Barrackpore ASJA Secondary school pose for a photo after winning the Spin the Wheel competition at the South IE Session.



Ms. Rachael Codrington-Indar at the Spin the Wheel at the South IE Session.

The **Trinidad and Tobago Securities and Exchange Commission (TTSEC)** is mandated to educate and empower investors, in order to facilitate a greater participation in the securities market. The TTSEC, through its vibrant Investor Education Outreach Programme, recognizes that many persons are already investors and simply are not aware that they are.

To help increase our education thrust, every year since 2016, the TTSEC celebrated National Investor Education (IE) Month in May. This annual event has become the TTSEC's signature event aimed at raising awareness about our investing industry and its potential for wealth creation and financial security among citizens. This year, for the fourth IE month, the TTSEC collaborated with key stakeholders in the securities industry: the **Trinidad and Tobago Stock Exchange Limited (TTSE)**, the **Mutual Fund Association of Trinidad and Tobago (MFATT)** and the **Securities Dealers Association of Trinidad and Tobago (SDATT)**, to encourage a more holistic approach to understanding investments.

The theme for this year's Investor Education (IE) month, **'Investing 360° Investing for Life Stages'**, focused on raising awareness about investing as a feasible option for financial growth and well-being, among teenagers, young adults, those in their middle years and retirees.

This year we were able to engage approximately 1000 individuals via our outreach programme and over 8,000 via our online platforms. We were also able to develop and launch the Nation's first Investor Education Online Course (available via [www.investucate.tt.com](http://www.investucate.tt.com)), and will soon be launching an Investing Game and a new social media platform.





A full house at the TTARP session for the Corals in Tobago

Mr. Hadyn Gittens, Chief Executive Officer, TTSEC, fully supports this online approach saying that, while we operate with limited resources, we also aim to be resourceful and 'au courant' with technology, which enable our investor education programme to reach and engage with the right audiences, across different platforms. He also acknowledged our partners, saying that, ***"Collaborating with SDATT, MFATT and TTSE, was a welcomed approach and aided in bringing all the pieces together, to make this year a bigger success than in previous years, and we look forward to their continued support."***

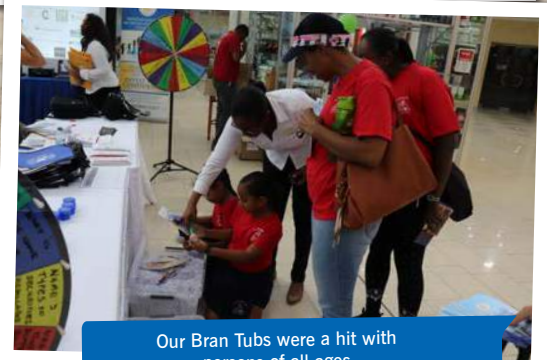
He added that, "Every year, particularly in May, during our IE Month initiatives, we are seeing more and more individuals reaching out to us for Investor Education Outreach sessions, which are offered free to the public. We are here to protect investors and one way in which we do so is by increasing access to education about the industry. We encourage everyone to grasp the knowledge and be informed citizens; empowered to make smart investment decisions for you and your families."



SDATT's booth was full of activity at the Trincity Exhibit



Ms. Nicole Bachan having a chat with some of the boys from the MILAT Programme



Our Bran Tubs were a hit with persons of all ages



Ms. Arlene Stephen presenting at the Secondary Schools IE Session



Mr. Travis Joseph (TTSEC) having some fun on the Spin the Wheel at the Trincity Exhibit



MFATT at the Trincity Exhibit



# THE CORPORATE COMMUNICATIONS, EDUCATION AND INFORMATION (CCEI)

JAN – JUNE 2019



## Investor Education OUTREACH

*The Commission continued its outreach programme targeting several audiences ranging from secondary school students to retirees. These included the following:*

1. Ministry of Labour and Small Business Enterprise - OJT Trainees
  - a. Sessions with over 300 persons per session, were held on February, March and April
2. GMW Exhibit (Tobago)
3. GMW Exhibit (Trinidad)
4. IE month secondary school exhibit
  - a. Presentation College
  - b. Chaguanas North Secondary School
  - c. St. Benedict's College
  - d. ASJA Girls College - Chaguanas
  - e. ASJA Girls College - Barrackpore
5. Trinidad and Tobago Mortgage Finance Company
6. TTARP Tobago - Corals and Pembroke
7. HDC-Retirees
8. T&T Fire Service, Tobago



Presentation College Students at the IE Presentation and Exhibit in San Fernando



Ms. Arlene Stephen interacting with the members of the Fire Service in Tobago



Ms. Sheena Parkinson engaging persons at our Spin the Wheel feature



## FEEDBACK.....

Our next publication, for the period **July to December 2019 (Issue #24)**, will be disseminated in December 2019. Thank you for perusing and please share your feedback with us at [ccei@ttsec.org.tt](mailto:ccei@ttsec.org.tt).

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