



CENTRAL BANK OF
TRINIDAD & TOBAGO

safe-tt

safe-tt is a newsletter on developments in the Payments System in Trinidad and Tobago

Volume 3. Issue 2

June 2006

Inside this issue:

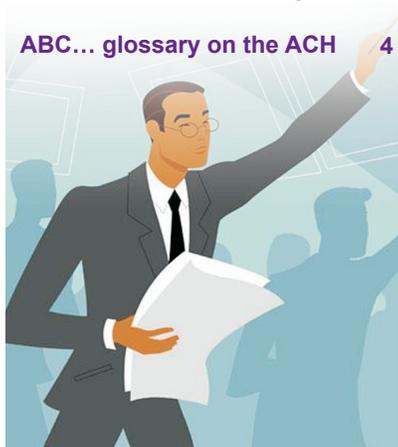
Trading Developments at the
Trinidad and Tobago Stock
Exchange 1

The *safe-tt*, GSS & ACH
Volume Meter 2

Update on the Government
Securities Settlement System 3

Q & A: What is Skimming? 3

ABC... glossary on the ACH 4



**safe-tt is published
quarterly by the Central Bank
of Trinidad and Tobago**

If you require any further details or
would like to offer any suggestions,
please contact the Payments
System Department at the Central
Bank of Trinidad and Tobago.

Published by:
Payments System Department
Central Bank of Trinidad and Tobago
Eric Williams Plaza, Independence Sq.
Port-of-Spain, Trinidad and Tobago

**If you would like to see any additional
feature in this publication, please
send us an e-mail.**

Phone: +1 (868) 625-4835 ext. 2719
e-mail: rtgs@central-bank.org.tt

Trading Developments at the Trinidad and Tobago Stock Exchange¹

On March 18, 2005 the Trinidad and Tobago Stock Exchange (TTSE) launched a new electronic trading system called Horizon. The Horizon system is a complete internet-enabled, market automated system that supports electronic trading and price reporting, based on the trading rules and requirements of the securities market. Trading days are Tuesdays, Wednesdays and Fridays, commencing at 9:30 am. Each trading day is characterized by specific trading sessions.

Pre-Open Market State

Prior to the start of each trading day, the market goes into a 'pre-open' state during which orders are entered into the system. These orders are not executed at the time of entry, but are queued. Orders are not matched and traded until the market is in open state (i.e. after the final opening price is calculated and a formal market state change has occurred). Pre-open market activity determines the opening trade price for each security, based on

sequential price calculation rules.

Open Market State

At the end of the Pre-Open session the market is open for continuous trading. Orders existing in the system are matched and traded, during a process called 'open volume allocation'. New orders for the purchase or sale of securities can be entered into the system during this time by the stockbrokers or traders. All new orders are queued before they are traded.

Orders are queued in the market in descending order of priority by the following criteria:

1. Best price
2. Regular Terms before Special Terms
3. Source
4. Earliest timestamp (First In First Out system - FIFO)

During the Open Market state, stockbrokers or traders may also make adjustments to clients' orders already queued in the trading engine.



Pre-Close Market State

Trading activity ends when the market goes into its pre-close state. The Exchange statistics for the day (i.e. traded volume, traded value, closing prices, price changes, index values and index changes) are generated. No orders are entered during the pre-close state.

Close Market State

The closure of the market brings all trading related activities to an end for the day. Once the market closes nothing can be done until the next trading day.

Settlement Cycle

On January 17th 2006, the settlement period was reduced from T+5 to T+3. The benefits of this shorter settlement cycle include the following.

(a) Reduction of settlement risks, credit risks and market risks faced by all market participants:

The compressing of the trade settlement cycle reduces the exposure to risk in the local securities market in that, if time equals risk then less time between the

¹ Trading at the Stock Exchange is currently done primarily in equities. Special thanks to the Trinidad and Tobago Stock Exchange for providing this article.

continued...Trading Developments at the Trinidad and Tobago Stock Exchange

actual execution of a transaction and its completion reduces risk. T+3 has had the effect of "locking trades in" earlier, causing investors to benefit from the industry's move. In addition, because of the faster turnover, investors are now less exposed to credit risk. Credit risk is essentially the risk of counterparty default, with respect to non-delivery of payment which can affect the delivery of funds to the investor. T+3 settlement has also reduced market risk faced by investors; in that, the shorter settlement cycle means less time for potential losses to be incurred from price changes in trading activities.

(b) Higher Level of Liquidity in the market

The T+3 settlement cycle generates a higher level of liquidity in the market whereby the buyer can receive shares and the seller can receive cash earlier. The flow of funds to and from investors to brokers has also been expedited. Therefore, all participants in the investment process benefit from the accelerated payments and prompt settlement.

(c) Enhancing the efficiency of the local securities market

The current trade cycle has now brought the Trinidad & Tobago securities market in line with other major regional and international stock exchanges. This standardization of the settlement system has enhanced operational familiarity with respect to

the movement of investments between markets, thus allowing the local industry to maintain its global competitiveness as well as enhance investor confidence in the market.

The Way Forward

In light of the foregoing, the Trinidad & Tobago Stock Exchange Limited is desirous of incorporating the following best practices found in other jurisdictions, in order to constantly improve the safety and soundness of the existing market place.

● The implementation of a T+1 settlement cycle /Straight Thru or Same Day Processing

Stock exchanges in the international arena have already transitioned from a T+3 environment to that of T+1, and subsequently from T+1 to that of straight thru or same day processing. In the future, these practices may be adopted in our local environment as well as other initiatives in line with international standards.

● The Introduction of new products – Margin Trading

One of the strategies to be deployed for expanding the TTSE's product portfolio is the development of margin trading. Margin Trading consists of buying securities with funds partially provided by the broker or selling securities partially provided by the broker. When buying securities on margin, the client pays only a part of the cost of

the transaction with his own funds, while the rest of the money is lent by the broker. When selling securities (sale "without coverage" or short sale), the client borrows securities from the broker and sells them in the market. Then, he pays the loan with these securities, which he buys later. The implementation of such a product necessitates the formalizing of rules which will address the following issues:

- Establish criteria to determine which stocks can be margined
- Allowable interest rates
- Maximum lending percentage
- Procedures for margin calls
- Maintenance margins
- Capital requirements to be met by brokers
- Credit requirements that customers must meet
- Issues of title and transfer of title
- Design and set up of "circuit breakers" and other protections to minimize the costs and consequences of market meltdowns

The general vision for the TTSE is to facilitate the efficient mobilization and allocation of capital, fair and orderly secondary market trading in securities and the efficient clearing and settlement of transactions within a dynamic legal and regulatory framework that instills confidence in the integrity of the Exchange and related institutions. ■

The *safe-tt*, GSS and ACH Volume Meter

Date	<i>safe-tt</i>	GSS	ACH
January 2006	1889	372	2753
February 2006	1819	683	4116
March 2006	2321	578	8071
April 2006	1959	401	8201
May 2006	2313	438	11581
June 2006	2137	466	11787



Update on the Government Securities and Settlement System



The Government Securities and Settlement (GSS) system was introduced by the Central Bank (the Bank) to provide an electronic registry for all government securities. It also features an Auction system and facilitates delivery versus payment in the settlement of government securities transactions through an automated link with the Bank's large value settlement system. Operations of the GSS began in December 2004 and it continues to perform satisfactorily. The system is the primary means of issuing government bonds, treasury bills and treasury notes. It allows participants electronic access from their offices.

There has been modest

growth in the level of activity on the GSS. For the period January to May 2006, a ten percent rise in the number of GSS transactions was recorded when compared to the same period in 2005. The average number of monthly transactions on the GSS for the period January to May 2006 was 494 transactions, up from 449 for the same period in 2005. For the year January to December 2005 the monthly average was 417 transactions.

In mid 2005, the Bank implemented a system of fees. Each participant on the GSS pays an annual membership fee and a transaction fee related to the number of transactions settled on the GSS. Commercial

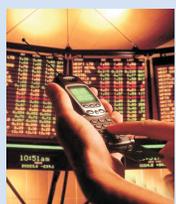
banks, members of both the GSS and the Real Time Gross Settlement (RTGS) systems, pay a combined fee for the use of the RTGS and GSS. Non Financial Institutions (NFI's), which use the GSS only, pay a smaller annual membership fee. Membership fees contribute to offsetting a portion of the fixed developmental costs incurred in implementing the GSS.

The Central Bank continues to work with the Ministry of Finance to further develop the government bond market. The Bank is in the process of putting the necessary steps in place to assume the function of Registrar for all outstanding government bond issues. This will allow the

Bank to begin the process of dematerializing government bonds in order to bring all bonds into the electronic registry and promote market efficiency.

Simultaneously, the Bank is working with market participants to develop a Master Repurchase Agreement which will standardize the arrangements for repurchase transactions thereby facilitating the efficiency of the market.

These institutional arrangements will go a long way towards the development of the capital market and more particularly the government securities market. ■



Q&A

What is Skimming?

...continuing the series: Detering Fraudulent Activities

What is skimming?

Skimming is generally defined as capturing magnetic stripe data by swiping a legitimate Card through a small hand held device. The captured data is then used to emboss and/or re-encode fraudulent Cards with the genuine data.

Who may be Involved?

Anyone in business that handles Card transactions.

What does a skimming device look like?

Skimming devices record and store card account information. Most skimming devices are small and portable – not much bigger than a pager.

Where does skimming usually occur?

Skimming is most often performed at restaurants and gas stations; however, it is

by no means limited to these businesses. Any situation where the Card is out of the cardholder's sight offers the potential for skimming.

How can I identify skimmed fraudulent transactions?

- The name of the customer often does not match the name on the card and on the transaction receipt.
- The card security features may not always be

authentic or the embossing appears to be tampered with.

- The customer is in possession of the valid card.
- Multiple transactions on the account in vastly separated geographic locations e.g. A Cardholder is using the card in Port of Spain and transactions are also being done in San Fernando the same time.

continued...Q&A: What is Skimming?

What are some fraud preventative measures for Cardholders?

Cardholders should:

- Never let the card out of their sight at a Merchant. After making a purchase, ensure that the card is retrieved.
- Ensure their right to privacy – when using the ATM; ensure that other customers in line maintain their distance. Be discreet when entering the PIN and withdrawing cash.
- Verify their statements

and promptly report any discrepancies.

- Report the loss of the card immediately.
- Not disclose the PIN to anyone. Commit it to memory. Never give it out over the telephone.
- Never leave their wallets or purses with their cards unattended or out of sight.

What are some fraud preventative measures for Merchants?

Merchants should:

- Look out for any 'strange'

devices being used.

- Report any offers of monetary reward for providing cardholder information to the Fraud Squad and to their Bankers.
- Contact their Bankers immediately, if suspicious of a transaction.
- Follow all proper card acceptance procedures at all times.
- Ensure that all terminals are kept where they can be seen by the cardholders at all times.
- Not allow any



unauthorized personnel to service their terminal. If in doubt contact their Bankers.

- Know their employees. Do background checks on employees where possible.
- Educate new employees on proper card acceptance practices. ■

Provided by the Bankers Association of Trinidad and Tobago

ABC.. Glossary on the ACH

ACH Operator

An organization that provides processing services for the ACH Network. TTIPS, the Federal Reserve Bank, Electronic Payment Network, and VisaNet are examples of ACH Operators

ACH Return

A dollar item not accepted by the receiving bank and returned to the originator.

Authorization (ACH context)

A written agreement with the originating company signed or similarly authenticated by an employee, customer or member to allow payments processed through the ACH Network to be deposited in or withdrawn from his or her account at a financial institution. Can also define the terms, conditions and legal relationship between trading partners. For ACH credit entries, authorization may also be by verbal or other non-written means.

Automated Clearing House (ACH)

A payment system for electronic funds transfer between institutions.

Batch

A group of records or documents considered as a single unit for the purpose of data processing.

CCD

The Standard Entry Class Code for Cash Concentration and Disbursement. Generally refers to corporate transactions.

Depository Financial Institution

A financial institution able to receive deposits from its customers or credits from the Central Bank.

PPD

The Standard Entry Class Code for Prearranged Payment or Deposit. Generally refers to personal account transactions.

Special thanks to the Trinidad and Tobago Stock Exchange and the Bankers Association of Trinidad and Tobago for their contributions to this edition of the safe-tt newsletter.



Errata

Please note that the person highlighted is Mr. David Peterson, Executive Vice-President, Goldleaf Technology and not Mr. Larry (Les) E. Smith, President Product Services as stated in the March 2006 edition of *safe-tt*.

(front row L-R)

Robert Boopsingh – General Manager Infolink Services Ltd., Craig Balance - e-finity consultant, Caramae Farmer – Manager Payments System Central Bank, Robert Soverall- Chairman of TTIPS, Ms. Marsha McKell-Suite - Manager TTIPS.

(back row L-R)

Randy Khan - e-finity consultant, Andy Mc Eachrane - e-finity consultant, David Peterson Executive Vice-President, Goldleaf Technology.