

The Central Bank and the Securities & Exchange Commission in Trinidad and Tobago: Strategic Issues



CENTRAL BANK OF
TRINIDAD & TOBAGO

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Meeting of Stakeholders on TTSEC Strategic Direction, Courtyard Marriot, Trinidad, October 11, 2013

Background and Issues

This presentation provides ideas to inform the strategic direction of the TTSEC from the perspective of the Central Bank of Trinidad & Tobago.

I. Key features of Trinidad & Tobago's capital market.

II. Existing areas of interaction between the TTSEC and CBTT.

III. Elements of CBTT's own strategic plan 2012-14.

IV. Strategic partnership on capital market analysis.

V. Further streamlining of issue of public sector bonds.

VI. Coordination on supervision and regulation.

I. Key features of Trinidad & Tobago's capital market

- a. Dominance by commercial banks, with limited stock market activity.
- b. Several regulators/supervisors/overseers in a context of a legislative framework that still has some gaps.
- c. Most private business financing still comes from banks and own resources.
- d. Private bond market activity has not taken off.
- e. The current macroeconomic climate is marked by high liquidity, low interest rates and slow business credit.

a. Banks dominate, with limited capital market activity

Table 1: Trinidad and Tobago: Structure of the Financial System

	2008	2009	2010	2011	2012
<i>% of Total Financial System Assets</i>					
Commercial Banks	40.1	45.5	46.3	46.3	46.2
Nonbank Financial Institutions	12.3	6.1	5.0	4.1	3.5
Credit Unions	3.2	3.5	4.1	4.0	2.9
Life Insurance Companies	14.5	13.2	11.6	12.0	14.1
Occupational Pension Funds	11.2	11.7	12.7	13.1	13.3
Development Banks	1.7	1.6	1.7	1.6	1.6
National Insurance Board	7.3	7.8	8.6	9.0	8.9
Unit Trust Corporation	9.1	9.9	9.4	9.0	8.7
Deposit Insurance Corporation	0.6	0.7	0.7	0.8	0.8
Stock Market					
Number of Listed Companies	34	32	31	31	28
Market Capitalization (TT\$b)	76.4	70.6	77.8	94.5	97.4
Market Value of Shares Traded (TT\$m)	2,191	1,474	865	1,029	747

Source: Central Bank of Trinidad and Tobago.

b. There are several regulators/supervisors/overseers

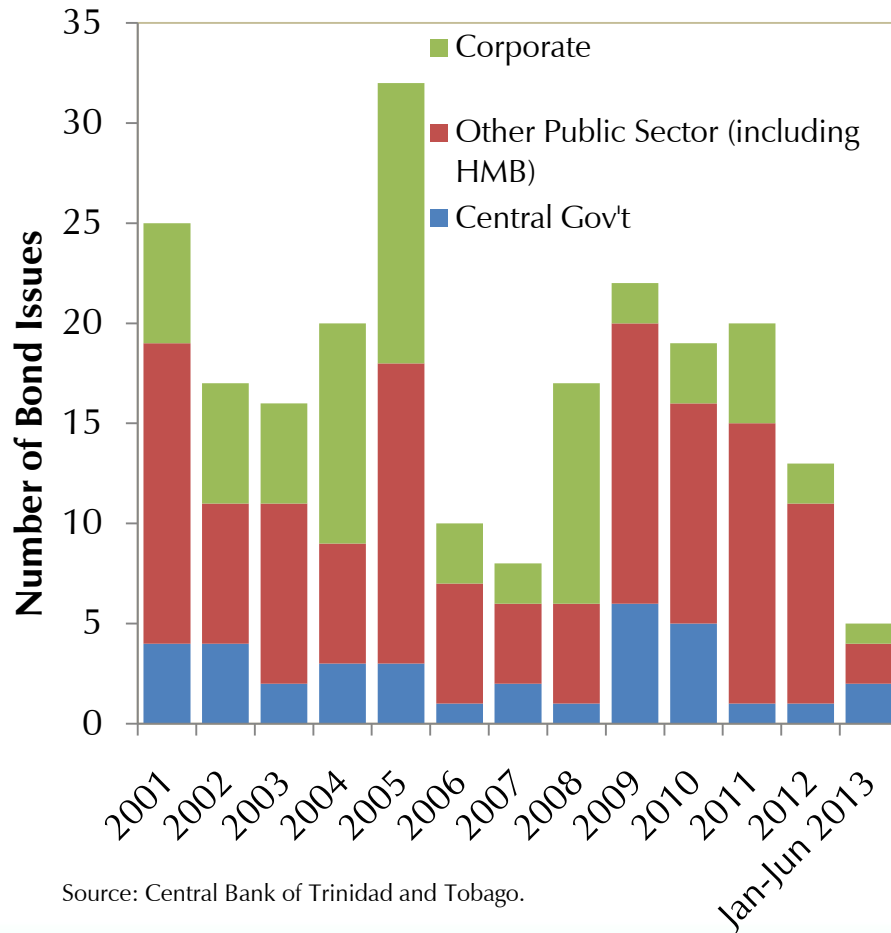
- These include: CBTT, TTSEC, Ministry of Finance, Stock Exchange, Financial Intelligence Unit, Supervisor of Credit Unions etc. as well as standard setting bodies such as ICATT.
- However, the various laws governing financial institutions and companies are at different stages of modernization, such as:
 - Insurance Act (1980); Companies Act (1995); Financial Institutions Act (2008); Financial Intelligence Unit of Trinidad & Tobago Act (2009); Securities Act (2012).
- Coordination among regulators as well as up to date and cohesive legislation are indispensable to avoid regulatory arbitrage.

c. Businesses mainly get outside funding from banks

- a. There has been a long tradition in Trinidad and Tobago to rely on banks for credit.
- b. Many companies have concerns about losing control of their business direction if they have a public offering of their shares.
- c. There is unfamiliarity with the process, and capacity constraints in preparing financial statements to make companies attractive to the public.
- d. SMEs in particular face major challenges in getting financing, sometimes even from banks.
- e. Equity offerings have been limited and in recent years, the floating of corporate bonds has been relatively infrequent.

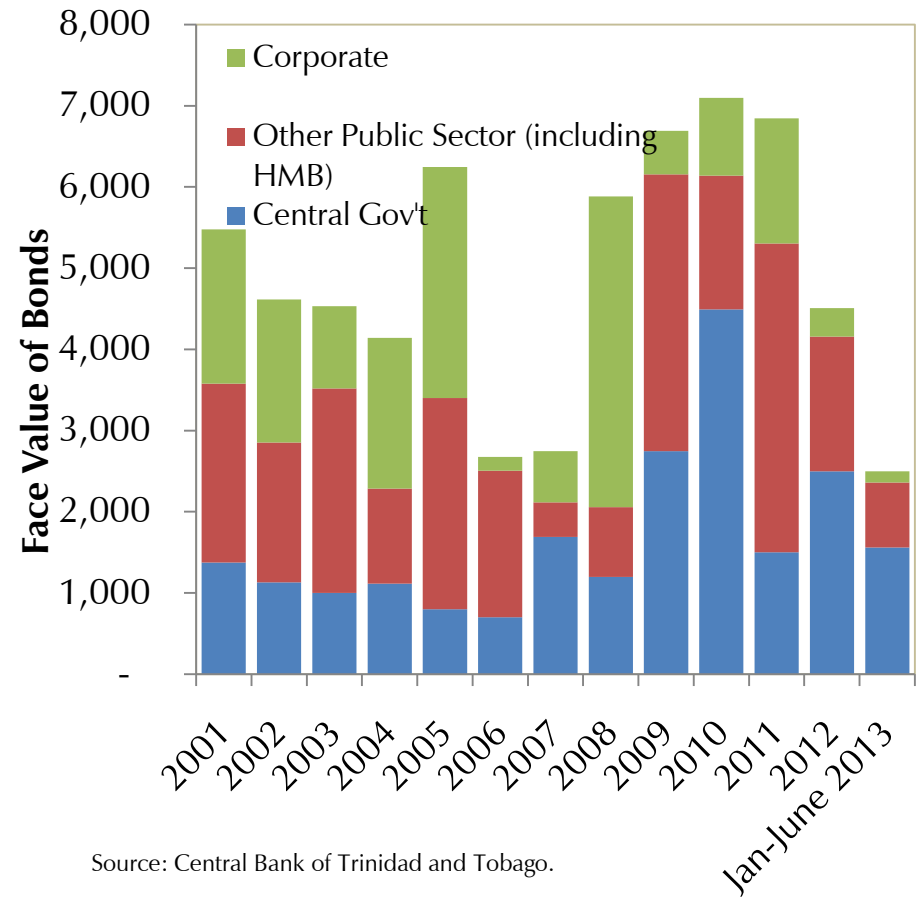
d. Primary bond market activity has not taken off

Domestic Primary Bond Issues (number)



Source: Central Bank of Trinidad and Tobago.

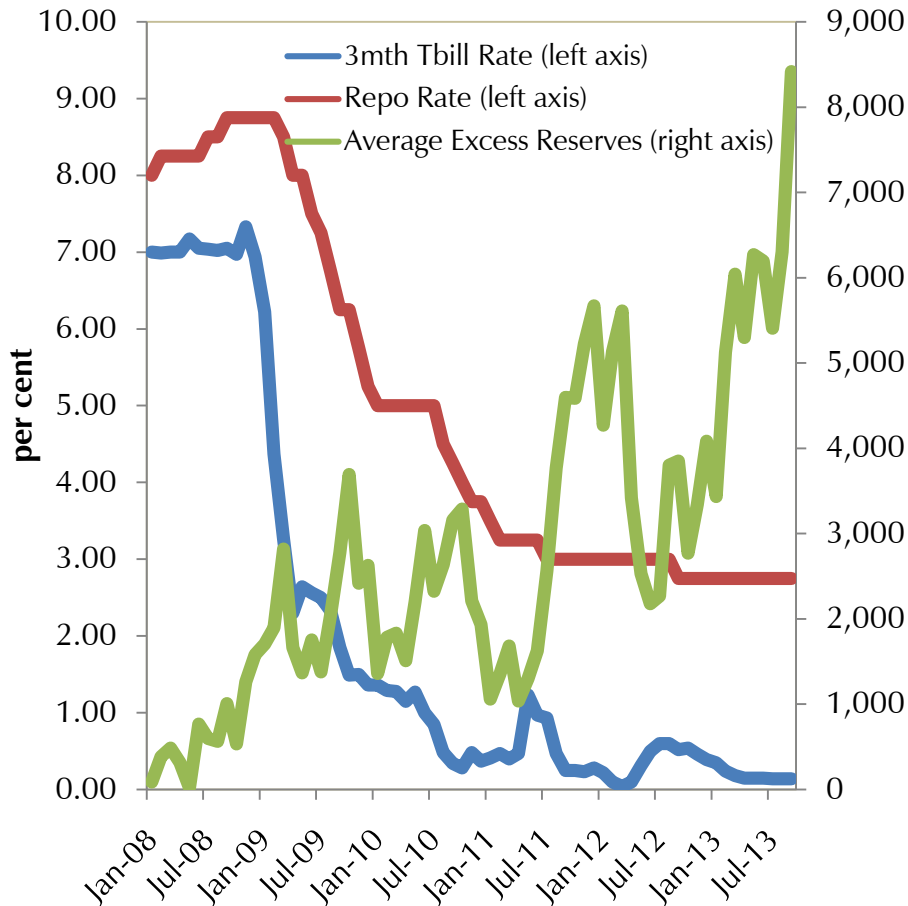
Domestic Primary Bond Issues (TT\$m)



Source: Central Bank of Trinidad and Tobago.

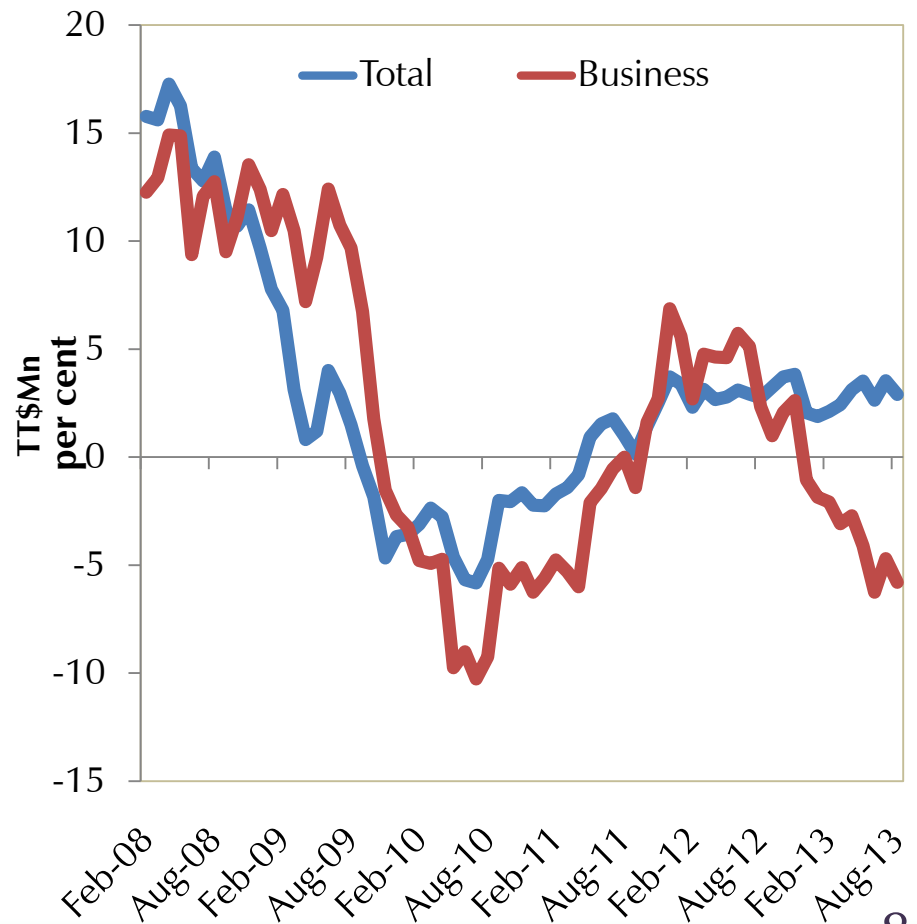
e. Currently, business credit is slow despite high liquidity and record low interest rates

3-Mth Tbill & Repo Rates, Excess Reserves



Source: Central Bank of Trinidad and Tobago.

Private Sector Credit (12 month % change)



Source: Central Bank of Trinidad and Tobago.

II. Interaction with TTSEC evident in 4 of CBTT's capacities

i. CBTT as **agent for Government bonds**:

- At the operational level, we interact with TTSEC in placing the instruments.

ii. CBTT as promoter of **capital market developments**:

- We work closely with other agencies in stimulating the capital market;
- Our Research/Statistics Departments report on happenings in the capital market.

iii. CBTT as maker of **monetary policy**:

- SEC actions affect the timing of bond placements and hence liquidity.

iv. CBTT as financial system **regulator**:

- Individual banks, insurance companies etc. should be in good graces with TTSEC;
- Similarly for financial groups and financial holding companies which include banks, insurance companies and securities companies (broker-dealers);
- Cross-institutional issues of governance /controls /anti-money laundering etc. in financial institutions.

III. The 9 priorities in CBTT's strategic plan 2012-14

- 1) Promotion of **monetary stability**.
- 2) Enhancement of **financial stability**.
- 3) Upgrade of the **payments system**.
- 4) **Capital market** development.
- 5) **Research and information** management.
- 6) Enhancement of the **governance** framework.
- 7) **Human resource** management.
- 8) Improving **operational efficiency**.
- 9) Enhancing **public education and communication**.

Strategic coordination between CBTT & TTSEC is essential

- TTSEC is more ‘product’ focused while CBTT is more ‘institution focused’.
- But significant areas of overlap allow for rich areas for strategic coordination with mutual benefits including:
 - I. More comprehensive, complete and timely information on financial market products and developments.
 - II. Greater transparency, efficiency and effectiveness in regulation.
 - III. The lessening of avenues for regulatory arbitrage.
 - IV. Potential stimulus to the capital market.

Apart from TTSEC/CBTT other relevant agencies must also be involved.

IV. Strategic partnership on capital market analysis

- At present, there are gaps in understanding the dynamics of the domestic capital market and information is often scattered.
- CBTT publishes capital market data in its Statistical and other publications (*Economic Bulletin* , *Monetary Policy Report* etc.)
- CBTT recently established a stand-alone Statistics Department and there are avenues for further partnering with TTSEC in data compilation.
- The institutions can also do joint work/publications on selected issues.; CBTT hosted a “Capital Markets Development Initiative” Workshop in Sept.
- Sharing of personnel, secondments should continue.
- Participation by CBTT and TTSEC staff on various (local and regional) interagency committees e.g. Payments System Council can be broadened.¹²

V. Further streamlining of issue of public sector bonds

- The fixed income market will benefit from enhanced coordination between the CBTT (acting agent of the Government) and TTSEC in the registration of Government debt issuance.
- Shorter processing could assist the Government in taking advantage of dynamic market conditions, potentially reducing debt servicing costs while more efficiently dealing with short term cash flow needs.
- Some practical suggestions include:
 - Agreement on an MOU that deals with agreed/approved standard legal documents for the Government issues (for example Trust deed , Paying agency agreement).
 - Establishment of a Government bond calendar to increase predictability of issues.
 - Assignment of some dedicated TTSEC staff to deal with Government credit.

VI. Coordination on supervision and regulation

- Formalization of supervisory cooperation and information sharing via a Memorandum of Understanding.
- On-going regulatory meetings to deal with issues such as anti-money laundering, identification of financial crimes, the process to be followed when change in ownership of our licensees trigger the Take Over Code etc.
- Mutual assistance in the enforcement of laws and matters of litigation.
- Ascertaining that key personnel in financial institutions are fit and proper.
- Cooperating in the harmonization of laws, regulations etc. to avoid regulatory arbitrage.
- Cooperating in matters regarding acquisition, mergers etc. of financial institutions.

**Thank you for
your attention**