

trade will occur when two independent parties have each entered corresponding buy and sell orders for the same bond.

Orders are first matched on the basis of price; i.e. where there is a buy and a sell order for the bond at the same price, the orders will be matched and a trade confirmed. If there are competing orders that can be matched at one particular price, the order which was entered earliest will be matched first, followed by other orders in time priority. If these competing orders were entered at the same time, the smaller order volume will be allocated first.

The quantity of a bond that will be the subject of a trade is frozen when a sell order is entered into the trading system of the Stock Exchange. When a bondholding is frozen it cannot be otherwise sold or moved from where it is located, until the order is either matched or cancelled.

- 4) On settlement date, the transaction is settled, that is, the payment is made and the depository is updated simultaneously with the change in ownership. The Exchange Member completes the transaction with his customer.

INSTITUTIONS AUTHORISED TO TRADE IN GORTT BONDS EXCHANGE MEMBERS

STOCKBROKERS -

- West Indies Stockbrokers Limited
- Caribbean Stockbrokers Limited
- AIC Securities Limited
- Republic Securities Limited
- Bourse Securities Limited
- CMMB Securities Limited

GOVERNMENT SECURITIES INTERMEDIARIES (GSIs) -

- ANSA Merchant Bank Limited
- Citicorp Merchant Bank Limited
- First Citizens Bank Limited
- Intercommercial Trust & Merchant Bank Limited
- Republic Finance and Merchant Bank Limited (FINCOR)
- RBTT Merchant Bank Limited
- Scotiatrust and Merchant Bank Limited
- Trinidad and Tobago Unit Trust Corporation
- FirstCaribbean International Bank Limited
- Caribbean Money Market Brokers Limited



SECONDARY MARKET BOND TRADING

GOVERNMENT BONDS New Electronic System for Secondary Market Trading



GOVERNMENT BONDS

New Electronic System for Secondary Market Trading

Difference between the Primary and Secondary Bond Market

The first-time issue of a Government bond is known as the *primary issue* and the institutions and arrangements involved in this issue are referred to as the *primary market*.

Once the bond has been issued, an investor may decide to hold this asset until it is finally repaid (*matures*) or to sell it. In the case where a decision is made to sell the bond, the individual investor goes to an institution that is authorised to trade this bond. The institutions that perform this function are the licensed stockbrokers and the Government Securities Intermediaries (GSIs), collectively termed *Exchange Members*. These Exchange Members take orders to buy or sell and execute these transactions with other Exchange Members, either for themselves or the accounts of their clients. The institutions and arrangements involved in this trading comprise the *secondary market* for these bonds and each time a bond changes hands, it is referred to as a secondary issue of this asset.

In essence, the secondary bond market facilitates the transfer of ownership of an investment and its conversion to cash prior to its *maturity* (promised repayment) date.

Trading System Operation

The Trinidad and Tobago Stock Exchange (TTSE) introduced an electronic system for secondary market bond trading from November 2007. This system allows Exchange Members to enter their orders, and those of their clients, directly from their desks to the TTSE. These buy or sell orders are automatically matched and trades completed at the TTSE. The trading system at the TTSE is linked to an electronic depository at the Central Bank. Once a trade is completed at the TTSE, an instruction is sent to the depository which records the changes in ownership on settlement date at the same time with the transfer of funds from the buying Exchange Member to the selling Exchange Member. To accommodate the latter, all Exchange Members must maintain trading accounts at the Central Bank.

How to Buy or Sell a Bond on the Secondary Market

Holders of certificates for Government bonds must first deposit their certificates with the depository at the Central Bank in order to sell their bonds on the electronic platform. This means that these bonds must be de-materialised, that

is, paper certificates would be replaced by the electronic database at the Central Bank and the bond certificate cancelled. Investors will receive regular statements from the depository on their holdings.

In order to trade a Government bond on the TTSE, the bond must be recorded at the electronic depository at the Central Bank. Bondholders wishing to sell their bonds must therefore ensure that these are registered in electronic form at the Central Bank. The arrangements for trading are as follows:

- 1) The investor goes to an Exchange Member and completes the client account documents and gives written instructions to the institution by way of a standard form.
- 2) The Exchange Member then enters the order (the instruction to either buy or sell bonds) from its office into the electronic trading system at the TTSE. For a buy order, the Exchange Member will verify the source and amount of the client's funds required for the transaction. For a sell order, the client's holdings in that bond will be verified.
- 3) A trade takes place when independent buy and sell orders are matched on the TTSE. This means that a