



TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION

**In the matter of section 45 of the Securities Industry Act, 1995
and**

In the matter of an application by the Trinidad and Tobago Stock Exchange Limited for a change in its rules with the institution of a Trinidad and Tobago Depository Receipts (TTDRs) Framework for trading in the local market

ORDER OF THE COMMISSION

Dated this 1st day of July 2010

WHEREAS on November 17, 2009 the Trinidad and Tobago Stock Exchange Limited (the "Stock Exchange" or "TTSE") deemed to be duly registered as a Self-Regulatory Organization under section 34 of the Securities Industry Act, 1995 ("the SIA") filed an application for the implementation of TTDRs to the local market;

AND WHEREAS, under section 40(1) of the SIA, where a self-regulatory organization proposes to amend its rules, it shall file with the Trinidad and Tobago Securities and Exchange Commission ("the Commission") a copy of the new rules and a concise statement of substance and purpose;

AND WHEREAS, under section 40(2) of the SIA, the Commission shall, after receipt of the new rules under section 40(1), publish in a daily newspaper a notice inviting any interested person to submit written comments on the said rules, unless the Commission determines that these rules make no material substantive changes in the existing rules or relate exclusively to the administration of the organization in keeping with section 40(5) of the SIA;

AND WHEREAS after some consideration the Commission has determined that the proposed rules would make a substantial change to the existing rules and therefore, a hearing would be required under section 134 of the SIA;

AND WHEREAS the statement of substance hereto annexed and marked "A" was published in the Trinidad Guardian on January 24 and 28, 2010, in the Trinidad Express on January 24 and 27, 2010 and in the Newsday on January 24 and 28, 2010;

AND WHEREAS a notice of hearing pursuant to section 134(1) of the SIA was published in the daily newspapers on April 9, 11 and 13, 2010 in the Trinidad Guardian and on April 9, 11 and 13, 2010 in the Newsday and on April 11 and 14, 2010 in the Trinidad Express;

AND WHEREAS, the hearing was held on Friday, April 16, 2010 at about 11:00 am in the Conference Room on the First Floor of the offices of the Commission situated at Numbers 57-59 Dundonald Street, Port of Spain;

AND WHEREAS, the following Commissioners presided at the hearing, Commissioner, Shelton Nicholls as Chair for the proceedings and Chairman, Deborah Thomas Felix;

AND WHEREAS, representatives from the TTSE, members of the public and staff of the Commission were present at the Hearing.

AND WHEREAS, the TTSE made the following oral submissions regarding the new rules for the implementation of the TTDRs:-

- (a) this proposal for the trading platform for the TTDRs by the Stock Exchange was a direct response to the Government's initiative to facilitate trade in foreign securities following the acquisition of RBTT Bank Limited by the Royal Bank of Canada (RBC) and the payment of cash and RBC shares to local RBTT shareholders as a consequence;
- (b) it was seeking to establish a separate market for trading in TTDRs, since the Stock Exchange has a number of markets under the present trading arrangements, a First Tier Market, a Second Tier Market, a Mutual Fund Market and a Government Bond Market.

AND WHEREAS, trading in the TTDRs has certain peculiarities:-

- a) allowances for short selling;
- b) uptick rule, which states, inter alia, that a broker can only short sell on an offer price that is higher than the last sale price or the bid price, if there was no last sale;
- c) opening price of the TTDRs would be aligned with the closing price of the primary market of underlying securities, which is at variance with what is done in the existing markets;
- d) the TTDRs would be excluded from the price stabilization band embodied in Rule 405, since the price of the TTDRs would be aligned to price of the foreign security in its market and would also be based on the liquidity of the securities in the foreign market, upon which the TTDR is based;

AND WHEREAS, the Commission has considered and deliberated and notes the following issues as to:

- whether the securities would be available to the lender/broker doing a short sell, at the time of settlement;
- whether the fixing of the foreign exchange selling rate from the Central Bank of Trinidad and Tobago to a specific time of 4:00 pm on each trading day under Rule 232 was appropriate;
- whether cash or some form of collateral should be provided under the rules as a safeguard for the broker/lender to mitigate the risks of short selling;

AND WHEREAS, the Stock Exchange:

- argued that the proposed rules did not provide for a “naked short sell” where there would be no guarantee of settlement. The Securities Loan Agreement Form would ensure that a person desiring to sell his securities would have already made provision for borrowing those securities so that securities would be available at settlement;
- agreed that Rule 232 should be amended to state that it would be the most recently available foreign exchange selling rate from the Central Bank of Trinidad and Tobago;
- argued that the loan arrangement between the broker/lender would be a commercial transaction outside of the purview of the Stock Exchange and would be a matter for the borrower/investor to conduct the required due diligence.

AND WHEREAS, it was agreed that the Commission would be in a position to suspend short selling of the TTDRS where there was extreme volatility in the markets;

AND WHEREAS, it was also agreed that the Stock Exchange would examine its processes to expedite approvals where a broker was involved in a short selling transaction (with the accompanying Securities Loan Agreement Form);

AND WHEREAS due consideration was given to the issues raised by the members of the public at the Hearing and are reported as follows:-

- the TTSE agreed that the promoters of the TTDRs would have the responsibility to advise and disseminate the required information to potential investors regarding unsponsored programmes;
- the Stock Exchange and the Commission would have the responsibility to educate the public on the TTDRs Regime;
- the staff of the Commission informed and noted that the legal framework for the TTDRs under the Securities Industry (Depository Receipts) By-Laws, 2008 had been drafted and was submitted to the Ministry of Finance in 2008 for approval;

AND WHEREAS, section 40(4) of the SIA states that the Commission may make an order refusing a proposed amendment to the rules of a SRO where:

- (a) the organization is not organized in a manner and would not have the capacity and resources to enforce compliance with its rules as amended;
- (b) the amended rules would not comply with section 39; or
- (c) the amended rules would be inconsistent with the SIA;

AND WHEREAS, having reviewed the statement of substance and purpose supported by the oral submissions, representations by the members of the TTSE and the issues raised by the members of the public, the Commission determined that there were no grounds to refuse the proposed rules in keeping with section 40(4) of the SIA;

AND WHEREAS, being cognizant at all times of the need to protect the interest of the public, the Commission shall make a final order and publish same under section 134(8) of the SIA;

AND WHEREAS, the Commission has agreed to make an order approving the proposed amendment to the rules of the Stock Exchange under section 40(3) of the SIA;

IT IS HEREBY ORDERED, that the proposed amendment to the rules of the TTSE cited below be approved by the Commission governing the TTDRs on the Exchange:-

TTSE Rule 227– Closing of Market

(1) The closing price of a share listed on the First Tier, Second Tier and Mutual Fund Markets of the Exchange is determined by using the price of the last trade executed in the primary market for the share, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the last trade executed with a volume of 5,000 shares or more, would be used to set the closing price.

Price Range (\$)	Volume of Shares
\$0 - \$4	5,000
\$4.01 - \$10	3,000
\$10.01 - \$20	2,000
\$20.01 – \$50	1,000
\$50.01 and above	500

- (2) If a share listed on the markets referred to in (1) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.
- (3) The closing price of a share listed on the TTDR Market is determined using the price of the last trade executed in the primary market for the share.
- (4) If a share listed on the market referred to in (3) does not trade in any designated trading session, the closing price will be the same as the opening price of the current day.
- (5) The closing price of a bond listed on the Bond Market is determined using the price of the last trade executed in the primary market for the bond.

(6) If a bond listed on the market referred to in (5) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

Horizon Rule 10.2 - Market Close (CLS)

CLS 1

The closing price of a share listed on the First Tier, Second Tier and Mutual Fund markets of the Exchange is determined by using the price of the last trade executed in the primary market for the share, subject to the Board Lot structure below. By way of example, for a share priced between \$0 - \$4.00, the last trade executed with a volume of 5,000 shares or more, would be used to set the closing price.

Price Range (\$)	Volume of Shares
\$0 - \$4	5,000
\$4.01 - \$10	3,000
\$10.01 - \$20	2,000
\$20.01 - \$50	1,000
\$50.01 and above	500

CLS 2

If a share listed on the markets referred to in (CLS1) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

CLS 3

The closing price of a share listed on the TTDR Market is determined using the price of the last trade executed in the primary market for the share.

CLS 4

If a share listed on the market referred to in (CLS3) does not trade in any designated trading session, the closing price will be the same as the opening price of the current day.

CLS 5

The closing price of a bond listed on the Bond Market is determined using the price of the last trade executed in the market for the bond.

CLS 6

If a bond listed on the market referred to in (CLS5) does not trade in any designated trading session, the closing price will be the same as the closing price of the previous day.

TTSE Rule 232 – Opening Price in the TTDR Market

- (1) At the beginning of each trading day, the opening price for securities listed in the TTDR Market will be set to the Trinidad and Tobago dollar equivalent of the most recent closing price for the underlying securities in the market of its primary listing, converted using the DR conversion ratio and the most recently available FX selling rate from the Central Bank of Trinidad and Tobago on each trading day. If the rate for the current day is not available, then the rate applicable for the previous trading day will be used.

Horizon Rule OPC 13 - Opening Price in the TTDR Market (Adopted)

At the beginning of each trading day, the opening price for securities listed in the TTDR Market will be set to the Trinidad and Tobago dollar equivalent of the most recent closing price for the underlying securities in the market of its primary listing, converted using the DR conversion ratio and the most recently available FX selling rate from the Central Bank of Trinidad and Tobago on each trading day. If the rate for the current day is not available, then the rate applicable for the previous trading day will be used.

TTSE Rule 233 – Short Selling TTDRs

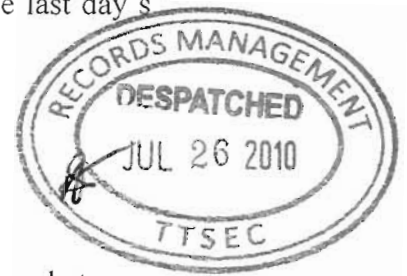
- (1) A short sale order shall not be entered unless a Securities Loan Agreement Form submitted by a broker as evidence of an agreement to borrow TTDRs to cover the short sale has been approved by the Trinidad and Tobago Stock Exchange.

TTSE Rule 234 – Uptick Rule

- (1) A short sale order can only be entered if its offer price is at least one tick above the best bid in the market.
- (2) If no opposing market exists a short sale order can be entered if its offer price is at least one tick above the day’s last trade price.
- (3) If no opposing market exists and if no trades have taken place, a short sale order can be entered if its offer price is at least one tick above the last day’s closing price.

Horizon Rule 9.14 – Uptick Rule

- (1) A short sale order can only be entered if its offer price is at least one tick above the best bid in the market.
- (2) If no opposing market exists a short sale order can be entered if its offer price is at least one tick above the day’s last trade price.
- (3) If no opposing market exists and if no trades have taken place, a short sale order can be entered if its offer price is at least one tick above the last day’s closing price.



TTSE Rule 405 (5) – Price Stabilisation

The provisions of Rule 405 (1) are not applicable to the TTDR market.

By Order of the Commission

Handwritten signature of Shelton Nicholls.

Shelton Nicholls
Chair of the Proceedings

Handwritten signature of Deborah Thomas-Felix.

Deborah Thomas-Felix
Chairman of the Commission

