

TERMS OF REFERENCE

CONSULTANCY TO ARTICULATE FEASIBLE MODELS TO EFFECT A REGIONAL STOCK EXCHANGE AMONG PARTICIPATING STATES OF THE CARICOM SINGLE MARKET AND ECONOMY

1. Background

The Revised Treaty of Chaguaramas (RTC) emphasized the importance of integrating financial and capital markets to the CARICOM Single Market and Economy (CSME) (Articles 14, 44, RTC). Integration of capital markets in the Caribbean Community (CARICOM) is central to realizing the vision of the CSME committed to at the Tenth (10th) Meeting of the CARICOM Heads of Government at Grand Anse, Grenada in 1989. Further CARICOM Heads, at their July 2019 summit held in Montego Bay provided a renewed focus on the goal and vision of a Regional Securities Exchange. The CARICOM Private Sector Organization (CPSO) is a service organisation established to coordinate the work of the private sector towards the realisation of the full implementation of the CSME, recognizes the imperative of realizing a single integrated CARICOM capital and finance market as a central adjunct of the CSME.

Efficient functioning capital markets enhance financial intermediation through directing resources from investors (individuals and institutions) to business and States to support operational, investment and capital expenditure requirements. The benefits of securities exchange integration are recognized to include optimal capital mobilization to support development, diversified risk, more efficient functioning and competitive financial markets, lower financing costs, higher returns, and the overall increase in cross-border flow of capital. Among CARICOM Member States, capital and financial market development has been uneven, with considerable differences in market size, sophistication, depth and product innovation, as well as of financial products and instruments traded.

It is an established fact that securities exchanges are vital vehicles for capital market development, though their existence does not necessarily ensure satisfactory levels of market capitalization. Many factors affect capitalization, the number of (potential) participants being among the chief reasons. The continued existence of seven (7)¹ individual stock/securities exchanges, throughout CARICOM, apart from possibly conflicting with the vision for the CSME à la the Grand Anse Declaration and the RTC - which commits CSME Member States to free movement of capital among the Community², may be considered as inefficient given the Community's small size – both population and economic.

Except for the Eastern Caribbean Currency Union (ECCU) territories, individual CARICOM Member

¹ Seven (7) Stock Exchanges in the CARICOM region: Jamaica Stock Exchange; Trinidad Stock Exchange; Barbados Stock Exchange; Bahamas International Securities Exchange; Guyana Association of Securities Companies; Haiti Stock Exchange; and Eastern Caribbean Stock Exchange (The Suriname Stock Exchange has not been included given (as at 2021) it remains a self-regulated non electronic exchange).

² Undoubtedly, other Community Member States, such as the Commonwealth of the Bahamas among others, maintain an interest in integrating with this pillar of the CSME.

States have retained exclusive competence over the functioning of their domestic capital and finance markets. Accordingly, varying legal frameworks and rules have emerged across Member States. Differences in registration and regulatory requirements have made it financially and administratively burdensome for companies and other issuers of securities to cross-list across exchanges.

The absence of a regional securities market, or alternatively, adequate arrangements for cross-listing and cross-selling has significantly impacted capital mobilization among the Community. Such absence has also limited Foreign Direct Investment (FDI) inflows and slowed capital and finance market development. The foregoing occurring in the face of yawning opportunities to fund critical infrastructure investments at the national and regional levels, provide options to the Citizens of the Community to earn greater returns on savings, and create opportunities for the emergence and growth of new and nascent MSMEs – which account for over 70% of CARICOM enterprises³.

The CPSO is committed to intensified work in this area, which holds out the promise of democratizing wealth, fostering financial inclusion, entrepreneurship and innovation, stimulating micro, small and medium-sized enterprise (MSME) growth. Based on consultation with key stakeholders including the Stock Exchanges and Dealer-Broker the CPSO is convinced that accelerating the pace of capital and financial market integration must proceed from a re-visiting of the past approaches, and the re-visioning and re-conceptualization of the Single CARICOM Securities Market, among others, to finally realize the goal envisioned at Grand Anse by the CARICOM Heads in 1989. The need to re-vision and re-image the Single CARICOM Securities Market as a key integrational deliverable has led the CPSO to contemplate undertaking a Study aimed at contributing to the basis for decision making on the ‘Way Forward’ towards the ultimate realization of the Regional Stock Exchange.

2. Related Actions and Interventions

The Community is seized of the need to fully capitalize on the combined CARICOM Gross Domestic Product (GDP) of over US \$110 billion⁴. Through the aegis of the CARICOM Secretariat, the Community has developed a **Policy for The Development And Regulation Of The Regional Securities Market In The Caribbean Community (CARICOM)** which was approved at the Ninth Special Meeting of the COFAP (25 May 2023).

The objectives of the Policy are:

- (i) Foster fair, transparent and efficient domestic securities markets through the establishment of a robust legal and regulatory regime;
- (ii) Improve the investor value proposition through enhanced market integrity and confidence;
- (iii) Reduce systemic risk through enhanced regulatory co-operation and cross-border supervision; and
- (iv) Promote the establishment of an integrated capital market within the Community.

The key strategies for achieving the stated objectives are:

³ [Supporting Micro, Small and Medium Enterprises, the Backbone of Caribbean Economies – CARICOM Today](#)

⁴ US \$112.2 billion according to IMF figures (as at 2022)

- A. legislative and regulatory harmonization/approximation consistent with internationally accepted standards,
- B. the application of the mutual recognition principle, and
- C. regulatory cooperation

The policy and the attendant strategies are (intended to be) effected through three items of (draft) legislation, these are **The Draft CARICOM Model Securities Market Law** and regulations pertaining to: **Prospectus Disclosure**, and **Conduct of Securities Business**. These items of draft legislation are intended to deliver a harmonized legislative and regulatory framework that will allow for the application of the mutual recognition principle via *passporting* – where a security that deemed compliant in one jurisdiction may register in and hence participate in the market of another jurisdiction with minimal (if any) further regulatory requirements.

In March 2024 the CARICOM Secretariat hosted a Regional Meeting on The Proposed Caricom Legal and Regulatory Framework for The Regional Securities Market, which brought together regulatory authorities across the Community to review the draft items of legislation. The CPSO was also present at this meeting as the umbrella body for the private sector. At the meeting the idea of the creation of a *Super Regulator*⁵ to vet and adjudicate/advise (if necessary) following national vetting and approval process was advanced as a missing facilitatory component of the proposed infrastructure needed to support *passporting* (the mutual recognition principle).

There was a consensus at the meeting that the Draft bill needs to be substantively redrafted. Further there are significant hurdles in the path toward harmonization of securities regulations. There was a definite sense that attainment of this goal is some ways off. Considering this one Member State's delegation suggested that contemplation should be given to separating the issue of 'the mutual recognition principle'/ 'passporting' from the issue of 'legislative and regulatory harmonization'. The delegation advanced the view that 'passporting' could be done with minimal amendments to national legislation, while harmonization can follow in stages overtime.

3. Problem to be Addressed

The overall and central problem to be addressed is how to create the institutional set up to ensure that the surplus financial resources of the Community are efficiently and effectively intermediated to sound financial ventures in manner that accelerates wealth creation and overall economic development. The fragmentary nature of the capital market in CARICOM means that cross-listing is the only method available to company and other issuers of securities to gain access to a CARICOM wide Capital Market. However, attempts to cross-list on other national stock exchanges attract onerous and costly listing fees, which multiply according to the number of exchanges targeted for listing. Such challenges, among others, have limited the extent to which cross listing has occurred and have stymied the ability and the interest of many firms to become publicly listed cross CARICOM.

The creation of a Regional Securities Exchange seems like a possible solution to this problem. However, this is not a straightforward proposition as there are several conceptually challenging areas to which clarity must be sought. Among these are *inter-alia*:

- A. What supporting legislative and regulatory architecture would be required to allow for the operation of Regional Securities Exchange?

⁵ Super Regulator could be a mechanism such as a committee of national regulators rather than a separate and distinct institution.

- i. Would full harmonization of securities regulations among Member States be required?
 - ii. Can ‘the mutual recognition principle’/ ‘passporting’ be decoupled from the wider issue of ‘legislative and regulatory harmonization’?
 - iii. Is it feasible to a separate financial zone with relevant law and jurisdictions applicable to the CARICOM Securities Market, and how much would this help?
- B. Would a CARICOM Securities Exchange in effect be a replacement for National Securities Exchanges, can they meaningfully exist simultaneously?

4. Purpose

The purpose of the study is to explore models for a regional intermediary mechanism (for the trade of securities) involving the key market institutions of Securities Exchanges, Securities Regulators, Broker Dealers and Issuers, that will achieve or at least proximate the core of an integrated capital market amongst CARICOM Member States in manner that is minimally financially and administratively burdensome to any of the key market institutions, while ensuring that Investors are appropriately protected via adequate regulatory oversight.

5. Scope of Work

The output of the consultancy will form an important input to developing a consensus on a roadmap towards a Regional Stock Exchange. The Study will consider critical foundational elements in this regard and will, *inter alia*:

- a. Assess the financial and administrative cost of cross-listing across national exchanges as a means raise capital in a pan-CARICOM fashion
- b. Determine the likely level of demand for a Regional Securities Exchange
- c. Identify the vital elements for common legal and regulatory framework needed to support a Regional Securities Exchange
- d. Evaluate ways in which the common legal and regulatory framework (in c above) may be achieved. In particular evaluate:
 - I. The harmonization of national securities legislation approach
 - II. The approach of establishing a separate financial zone with relevant law and jurisdictions applicable to the CARICOM Securities Market
 - III. Other approaches that could be contemplated within the context of 3.A above.
- e. Examine the efficacy of the simultaneous existence of National and Regional Securities Exchanges
- f. Explore regulatory linkages, (including regulations in the areas of securities and futures, AML/CTF, and possibly, virtual assets and Virtual Assets Service Providers (VASPs)), audit and accounting standards.
- g. Provide substantive recommendations on:
 - I. The nature of trading architecture that may be employed in Regional Securities Exchange

- II. How the Regional Securities Exchange will facilitate cross border settlements in view of the multiple currencies in use in the Community
- III. How securities and [futures] dealers and other financial intermediaries⁶ will be licensed in Regional Capital Market
- h. Identify socio- economic and political risk factors to the viability of the Regional Stock Market as well as potential opportunities for the application of new technologies and offering new financial products beyond stocks and bonds.

The consultant shall execute a to h above in two phases of work (Phase I and Phase II).

Phase I: ESTABLISHING THE FEASIBILITY OF A REGIONAL STOCK EXCHANGE

The Consultant will:

- 1) Analyze and evaluate the capital markets among Member States as well as their accompanying relevant legal and regulatory framework by undertaking an assessment of the current state of capital market and developments which will include, inter alia conducting desk research, evaluating information and data from the National Stock Exchanges, Ministries of Finance, Central Banks, Financial Service Commissions, Securities and Futures Dealers and other relevant financial intermediaries, as well as other economic operators in the sector, on financial and other relevant activities related to the sector;
- 2) Throughput/level of business and ‘Appetite’ for capital raise --- Is there Demand? Pinned Up Demand. What are the issues that currently prevent the demand from being supplied. (FX and Exchange issues)
- 3) Assess the financial and administrative cost of cross-listing across national exchanges as a means raise capital in a pan-CARICOM fashion
- 4) take into account the information derived from past efforts towards the development of a regional stock exchange, such as the Caribbean Exchange Network (CXN) initiative, and based on the evaluation of this information and consultations with relevant entities including National Stock Exchanges, Securities and Futures Dealers, financial intermediaries and regulators, among others, identify and evaluate the issues which affected the implementation and adoption of the CXN;
- 5) engage in consultations with traditional institutional investors, listed companies and non-traditional institutional investors, credit unions, relevant trade or industry associations and CARICOM nationals on the potential benefits (desirability) of a Regional Stock Exchange;

⁶ Including for example, deposit taking institutions, custodians, banks and securities and futures dealers, securities and futures investment advisors, corporate finance advisors, trading platforms, asset managers, rating agencies and VASPS.

- 6) engage with Heads of Government, Ministers of Finance, Regulators, Stock Exchange Boards, Securities and Futures Dealers, and other relevant stakeholders to better understand demand ‘appetite’ for a Regional Stock Exchange and to document strategic vision, views on modalities and key concerns.
- 7) examine the past approaches, issues, options and opportunities for multi-currency clearing among the national stock exchanges, based on the evidence and engagement with CARICOM Heads of Government, Central Bank Governors of Member States, and Ministries of Finance and Economic Development.
- 8) Identify, analyze and evaluate various regional stock market models and or mechanisms for the governance of capital markets from other jurisdictions (including Latin America, North America, Hong Kong, Southeast Asian Nations, Middle East, North Africa and the European Union) having regard to the country-specific and market-specific challenges faced.
- 9) Examine models from other jurisdictions such as Latin America, North America, Hong Kong, Southeast Asian Nations, Middle East, North Africa Region (MENA) and the European Union, for suitability, having regard to the country-specific and market-specific challenges to be addressed. The countries should be comparable to those within CARICOM in terms of size, level of savings and development of financial markets as far as possible. Other international and country case studies which may prove suitable are invited.
- 10) Examine preliminarily the possibility of incorporating new technologies (e.g blockchain and DLT) microcap stocks and de-centralised market models within the development framework of a Regional Stock Exchange.
- 11) Analyse the feasibility of creating a separate financial zone with relevant law and jurisdictions applicable to the Regional Stock Exchange; and,
- 12) Identify and list the differences in laws, regulations, policies and administrative practices, which exist among the existing CARICOM national exchanges that require harmonization pursuant to the operation of a Regional Stock Exchange, based on relevant and appropriate approaches, and consultations with National Stock Exchange Operators and Securities and Futures Dealers and other relevant financial intermediaries and identify and list any barriers to and the feasibility of such harmonization based upon the identified differences in laws, regulations, policies and administrative practices.

At the end of Phase 1 the Consultant shall submit a Report which will provide clear guidance on whether there is a sound basis for the Regional Securities Exchange. The Consultant will be required to present this report at a Regional Symposium organized by the CPSO, following which a decision will be made on proceeding with Phase 2.

Phase II: THE APPROPRIATE MODEL AND A OUTLINE OF WHAT THE FIT FOR PURPOSE ARCHITECTURE SHOULD LOOK LIKE

The Consultant will:

- 1) Evaluate the Stock Market and / or Governance Model(s) from other jurisdictions as identified in Phase 1 for application, either in whole or in part, within the context of establishing a Regional Stock Exchange. The Stock Exchange and / or Governance Model(s) should be comparable to those within CARICOM in terms of size, level of savings and development of financial markets as far as possible. Other early-stage Stock Market and / or Governance Model(s) deemed to be relevant and applicable may also be considered by the Consultant.
- 2) Identify policy and legal framework, (laws, regulations) policies and administrative practices, which will need to be established for the operation of the Regional Stock Exchange.
- 3) Identify and list any prerequisite which would need to be in place for establishing the model selected for operationalization among Member States
- 4) Clearly identify the benefit, cost and risk, associated with the proposed Model for the Regional Stock Exchange.
- 5) Consider in general terms which technologies would need to be instituted for the establishment and operationalization of the Regional Stock Exchange.
- 6) Advance a suitable foreign currency settlement mechanism (such as the PAPPs, among others) and a possible legal and regulatory framework to allow for the efficient functioning of a Regional (Single) Stock Exchange.
- 7) Compare the financial costs associated with cross list (Phase 1 point 3) to the expected cost (apportioned over the expected number of issuers identified in number 2 of Phase 1) of participating in the Regional Stock Exchange as envisioned.
- 8) review and evaluate modalities for operationalizing the proposed model, given the extant position where multiple exchanges exist. Explore the utility of the merger or integration of exchanges to create a Regional Stock Exchange or phased movement a new pan-CARICOM exchange of which major stakeholders maybe shareholders among other models.

6. Project Deliverables

Phase 2⁷

Prepare a final report based on suitable potential Stock Market and / Governance Models for adoption by CARICOM along with the rationale taking into account relevant points raised in the Scope of Work – including recommendations on the framework and scope of coverage for a suitable model for the Regional Stock Exchange to be used as a guide by stakeholders in the development of a ‘road map’ with timeframes for critical action pursuant to operationalizing the recommended model.

7. Expected Timeline

The Consultant will provide the services described under **Phase I**, of the ‘Scope of Work’ over a period of four (4) months.

8. Assumptions and Risks

- Study conclusions will always be presented in full internally and vis-à-vis third parties.
- All Study content will be accurate and will be up to date within a number of month(s) (as agreed between the CPSO and Consultants) before the submission of the Final Draft. The CPSO will not be responsible for verifying the accuracy of the Study conclusions or the information therein.
- Consultants will provide independent expert opinions.
- Code of Conduct, administration of conflicts-of-interest, transparency and participation will be respected and always enforced.
- Confidentiality Agreement will be entered into with the CPSO, on behalf of the National Stock Exchanges, Dealer-Brokers and the other Security Market Operators.
- The Study will not be released or published except with the prior written authorization of the CPSO.

9. Project Management

The Project will be overseen by a Project Steering Committee comprised of representatives of the

⁷ Note – This should 1) assist CARICOM in deciding which Stock Market and / or Governance Model(s) should be used in establishing a Regional Stock Exchange, (This may be a direct implementation of an existing Stock Market and or Governance Model or an amalgamation of a number of facets of different Stock Exchanges, 11) allow CARICOM to determine to what extent the Stock Market and / or Governance Model identified can be applied to CARICOM having regard to the current regulatory, socio economic and political conditions of the CARICOM Member States. The report should also identify the potential risks and challenges in applying the Stock Market and / or Governance Model identified and how these risk and challenges may be mitigated or overcome.

CPSO, Stock Market Regulators, Representatives from National Stock Exchanges, Representatives from the Broker-Dealers and the CARICOM Secretariat.

- a. The CPSO Secretariat will coordinate and supervise the day-to-day activities of the Study.
- b. Progress reports will be submitted monthly to CPSO’s Secretariat who in turn will furnish the Project Steering Committee with reports after every major deliverable, or as is necessary.
- c. CPSO’s Secretariat will meet monthly with the Consultants virtually.

Project Deliverables and Payment

Payment Amount (USD)	Deliverable
25%	Upon signature of contract.
25%	Upon submission of preliminary Draft of the Study and approval by the Project Steering Committee.
25%	Upon submission of Draft Final Study and approval by Project Steering Committee.
25%	Upon submission of Final Study and approval by Project Steering Committee.

10. Qualifications and Experience

- Advanced university degree in finance, business administration, economics, law or a related subject.
- At least ten (10) years of work experience in finance and capital market integration/regulation in developed and developing markets and working knowledge of best practices in securities regulation.
- Experience should involve coordination with various government entities on policy reforms.
- Experience and knowledge of capital and securities policies and operations is a distinct advantage.
- Excellent written and oral communications skills in English.
- Experience working within the CARICOM region and in developing countries is a plus.

The CPSO invites qualified Consultants to submit Proposals for Consultancy Services to conduct a Study to examine possible models toward a Regional Stock Exchange.

To be considered for shortlisting, interested consultants having the relevant qualifications and experience are invited to submit the following items:

- I. Curriculum Vitae specifying experience undertaking similar services.
- II. Proposed description of the approach to the Study, methodology and work plan; and
- III. A Financial Proposal to undertake the Study.

Interested Consultants should submit complete proposals for Phase 1 (financial and technical) marked ‘Consultancy Services on Possible Models for the operation of the Regional Stock Exchange’ addressed to:

CEO and Technical Director CARICOM Private Sector Organization info@thecpso.org
cc: pantoine@thecpso.org, amounsey@thecpso.org, kbaltimore@thecpso.org