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# Inside the



SAFEGUARDING MARKET INTEGRITY

## Editor's Note

This is the second issue of *"Inside the RMOD"*, the official newsletter of the Regulatory & Market Oversight Division (RMOD) of the Jamaica Stock Exchange (JSE). Since our last issue, a lot has taken place; including movements in the composition of the Regulatory & Market Oversight Committee (RMOC), the passing of new rules for the Exchange and most recently, the official launch of the RMOD's Automated Market Surveillance System (MSS).

The lead article in this issue provides excerpts of the Keynote speaker's address at the MSS Launch. Also, the RMOD caught up with the new Chairman of the RMOC to discuss his views on the future plans of the Committee. Subsequent articles highlight and provide more information on several new rules, for example MD&A, that have been amended to the JSE's Rules. Be sure to check out our recurring feature *"Rules to Remember"*, which seeks to keep stakeholders "in the know" on the rules of the JSE.

The RMOD is pleased to provide stakeholders with this publication as we seek to keep the investing public informed of the activities of the RMOD and the Exchange. Enjoy!

## RMOC Launches its Automated Market Surveillance System (MSS)

At the RMOD's launch of its Automated Surveillance System on September 18, 2009, Keynote speaker Mr. Rohan Barnett, Executive Director of the FSC, reaffirmed the commitment of securities regulators to combat market abuse and manipulation.

*Below are excerpts from Mr. Barnett's rousing speech.*

"During its existence, the JSE has modernized the process of trading stocks in Jamaica through automation. I am sure you will agree that the transferring of ownership of stocks electronically through the Jamaica Central Securities Depository (JCSD) is a much welcomed advancement and development. In the same way, I wholeheartedly anticipate that we – FSC, the regulator, the Regulatory & Market Oversight Division (RMOD) of the JSE, Stock Brokers and investors – will harvest substantial benefits from the Automated Market Surveillance System (MSS). Allow me to wholeheartedly congratulate the Jamaica Stock Exchange, and specifically its Regulatory & Market Oversight Division for implementing this system. The development we celebrate here today is a signal of the commitment of securities market regulators and overseers to combat market abuse and aid in market development.

As you have all heard, the JSE will be the first stock exchange in the Caribbean to employ an automated market surveillance system. This also means that Jamaica, through the JSE, has joined the international trend where exchanges have automated their market surveillance in many developed financial markets in North America, Europe, Australia, and Asia.

An automated surveillance system can be an extremely valuable tool in the fight against market abuses. One of the FSC's duties as mandated by the Financial Services Commission Act is to promote stability, the maintenance of order and public confidence in the financial market.

Therefore, the FSC must continue to treat the detection and prosecution of market abuses as one of its enforcement priorities.

However, I would reiterate that this fight against stock market abuses should never be seen as only the FSC's or the RMOD's, but every brokerage firm and individual stock broker must participate in this fight.

The subject of market manipulation and insider trading continues to be a topical issue. In Jamaica, over the years, both the FSC and the JSE have been suspicious of questionable trades that have led us to launch investigations. The FSC believes that the MSS has the potential to be used quickly to identify and analyze breaches to the market in real time. This should strengthen the ability of the regulators to detect, monitor, minimize and prosecute any attempt to influence and undermine the integrity of the market. A properly functioning automated market surveillance system will therefore bolster the regulatory

activities of not only the JSE, but also the FSC in its role as the regulator of the JSE.

The changing face of the Jamaican financial landscape demands that innovative systems such as this be introduced to enhance and foster a sound and stable financial sector. Benefits to be gained from the automated surveillance system include bringing greater effectiveness and efficiency to the existing method of monitoring trades on the JSE, greater transparency as to how trades are conducted by the stockbrokers and fostering compliance among stockbrokers with the varying Acts and rules of the Exchange, which [in turn] will facilitate the development of the financial market.

With all these potential benefits, the FSC welcomes the JSE's automated system and looks forward to its utilization to advance the effectiveness and efficacy of regulation, supervision and monitoring."



*Keynote speaker, Mr. Rohan Barnett delivers his speech at the recent launch of the RMOD's Automated Market Surveillance System*

*"The fight against market abuses and manipulation has to be the joint responsibility of the regulators, stock-brokers and the investing public".*

## Pictorial Highlights of the RMOD MSS Launch on September 18, 2009



## New Chairman and Director named to the RMOC



Lambert

Miss Nicole Lambert was appointed the Bar Association of Jamaica's representative to the Board of Directors of the JSE. Miss Lambert will serve as an Independent Director and will sit on the Regulatory & Market Oversight Committee (RMOC).



Phillips

Miss Lambert replaces Miss Hilary Phillips, Q.C., as the representative from the Bar Association of Jamaica. Miss Phillips, Chairman of the

RMOC, resigned from the JSE's Board to take up the position of Judge in the Court of Appeal. Mr. Livingstone Morrison, who is also an Independent Director of the JSE, was appointed the new Chairman of the RMOC.



Morrison

## Mr. Livingstone Morrison: Committed to benchmarking the regulatory framework and surveillance systems of the Exchange against international standards



Recently, the RMOD caught up with the new RMOD Chairman, Mr. Livingstone Morrison (LM), to discuss his views and plans for the RMOD for the upcoming year. Mr. Morrison replaced former Chairman, Miss Hilary Phillips, Q.C., who was recently appointed as Judge in the Court of Appeal.

**RMOD:** Mr. Morrison, how do you see/interpret your role as chairman of the RMOD?

**LM:** My perspectives on the chairmanship of the RMOD might seem a bit strange especially coming from a public servant and a Central Banker. I view the RMOD as being in the business of engineering market efficiency. The engineering of market efficiency requires that we ensure that information is made available to the investing public on a timely basis to allow for all available information to be reflected in the stock prices quoted on the Exchange. The RMOD conducts its business through the work of its operating arm, the RMOD. And the means by which we undertake our business is by ensuring strict compliance with the rules of the Exchange which are designed to preserve market integrity and promote market efficiency.

My role as chairman is to oversee the strengthening of the institutional arrangements necessary to ensure strict compliance with the market rules

**RMOD:** The RMOD/RMOD has been in existence for a little over a year, how would you rate the performance so far?

**LM:** For an organization being in existence for a little over a year, I believe its performance is nothing short of exceptional. For this we must pay tribute to the former Chairman, Justice Hilary Phillips. She was instrumental in the formative stages in charting a course for the RMOD in light of the new organizational arrangements at the Exchange. The transition to the RMOD was challenging given the outstanding issues that were transferred to the RMOD at the time of its formation. Chairperson Phillips guided the Committee ably and has set a solid foundation on which the RMOD can build for the future. I am very pleased to have served under her leadership.

**RMOD:** As Chairman, what are some areas that you will be focusing on for the upcoming year?

**LM:** We will focus on strengthening the institutional arrangements required to deliver on our objectives. We have a good specialized team, and over the next year, we will look for opportunities for members of the Team to utilize their skills to institutionalize and develop the RMOD. The RMOD must remain flexible and agile to face the new challenges and changing developments and cannot be lulled into believing that our current framework, strategies and operational arrangements will be relevant for all situations. The RMOD has to remain relevant in the face of changing and challenging times and we will do this by finding ways of engaging and relying on the skills of RMOD members to bring the Committee, RMOD and the Exchange up to international standards for regulation and market surveillance.

**RMOD:** How would you describe the RMOD's strategy, especially in these tough financial times, in safeguarding market integrity to ensure that stakeholders are protected?

**LM:** I am very comfortable with the strategies being utilized so far in that the RMOD is very firm with enforcing rules of the Exchange fairly and with transparency. The RMOD continues to engage market participants and stakeholders, providing guidance and clarification when needed. We will take a tough stance when necessary, but coming down with the "big stick" is never the first option.

**RMOD:** What can the investing public expect from the RMOD in the coming months?

**LM:** The public can expect the RMOD to remain focused on advancing the integrity and efficiency of the domestic stock market. The RMOD wants the investing public to feel confident that all relevant information is available to market participants and consequently reflected in stock prices. I also give the commitment that the RMOD will intensify its efforts to benchmark the regulatory framework and surveillance systems of the Exchange against international standards.

## RULES TO REMEMBER!



Did you know that according to **JSE Rule Appendix 8 (D) – Policy Statement on Timely Disclosure, Developments to be Disclosed**, all Listed Companies are required to promptly disclose to the market any developments that may materially affect the firm? These developments include; changes in share ownership, Take-over bids, significant changes in management, major corporate acquisitions or dispositions, significant litigation inter alia.

Failure to provide this information constitutes a breach of the JSE's Rules.

### RMOD Objectives

1. Monitor the adequacy and effectiveness of the Exchange's regulatory programme and assess the Exchange's regulatory performance.
2. Structure and direct the regulatory functions of the Exchange.
3. Establish regulatory rules of the Exchange.
4. Monitor the compliance with the Exchange's rules by market participants and Listed Companies.
5. Monitor member dealers trading activities, investigation of trading activities and enforcement of the Exchange's Rules.



Kindly send feedback to [rmod@jamstockex.com](mailto:rmod@jamstockex.com)

The RMOD offers three options for submitting complaints. Please download the complaint form provided on the RMOD's page at [www.jse.com.jm](http://www.jse.com.jm) and once completed, either:

1. Email as an attachment to [RMOD@jamstockex.com](mailto:RMOD@jamstockex.com)
2. Fax to 876-967-3275

Or mail to:

The Chief Regulatory Officer  
Regulatory & Market Oversight Division  
Jamaica Stock Exchange  
40 Harbour Street  
Kingston

Also, the public can send enquires to [rmod@jamstockex.com](mailto:rmod@jamstockex.com) or call the toll free number at 1-888- 429-5678 for further information.

## Market Watch - Rules & Regulation Guidance

### JSE Amends Listing Agreement, Rule 407 and issues a Complaint Management Guideline

#### Management Discussion & Analysis (MD&A)

Under **Appendix 3 (8)- Listing Agreement and JSE Rule 404 (E) – Annual Reports & Accounts**, the Jamaica Stock Exchange now requires all Listed Companies to include Management Discussion and Analysis (MD&A) Disclosure as part of their Annual Reports. This disclosure is a standard report internationally and is also a requirement of the Securities Act 1999, Section 76 Part IV and The Companies Act 2004.

The purpose of an MD&A is to provide stakeholders with management's assessment of the company's operations within a given period, of past activities, future plans and other internal & external factors that can impact on its operations. Therefore, it enables investors to see the company "through the eyes of management."

MD&A's are beneficial in that they provide more transparency and disclosure, evidence that management is serving shareholders' interest and is a better basis for analysis and assessment. This rule is in keeping with international best practices and will aid not only Listed Companies but other market players to monitor and advance market integrity and transparency. This submission will take effect with the submission of the Annual Reports for 2009.

#### Amendment to JSE Rule 407 – Quarterly Financial Statements

The JSE has amended the disclosure of the Fourth Quarter option for Listed Companies. Previously under **JSE Rule 407 – Quarterly Financial Statements**, Listed Companies were required to declare to the Exchange, at the beginning of the Third Quarter, the option to submit its Quarterly Results which can be either (i) Fourth Quarter Financials submitted 45 days (Unaudited) and 90-day (Audited), or (ii) 60-days Audited Financial Results.

With the amended rule, Listed Companies are no longer required to declare the option to submit at the start of the Third Quarter if it remains unchanged from the previous financial year. Companies that choose, however, to change the option to submit from what it was the previous year, are required to declare this to the Exchange at the start of the Third Quarter.

#### Guidelines for Complaint Management

The RMOD has created guidelines to assist member-dealers in managing customer complaints. The Complaint Management System (CMS) Guidelines are a set of internationally accepted standards and best practices that member-firms are required to use to manage customer complaints. These guidelines are intended to improve the customer service delivery of member-dealers who are on the Exchange.

As a complement to **JSE Rule 121 – Complaints by Non-Members**, these guidelines

establish the minimum requirements for the CMS. These requirements include maintaining an up-to-date log of customer complaints, documenting procedures for handling customer complaints and advising customers of where complaints should be directed.

The CMS is welcomed in the market at this time as it seeks to not only promote better record keeping of customer complaints and foster improved customer service in the industry but also protect the interest of customers, member-dealers and all stakeholders.

#### Reminder

All Listed Companies with a December 31 Yearend are reminded that their 3<sup>rd</sup> Quarter Financial Statements become due on November 15!

