



Trinidad & Tobago  
**Stock Exchange**

*Creating Opportunities*

# STATEMENT OF SUBSTANCE AND PURPOSE

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## VOLUME WEIGHTED AVERAGE PRICE

January 11, 2011

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## Background

NasdaqOMX, the current supplier of the trading and settlement software used by the Trinidad and Tobago Stock Exchange (TTSE) advised that they would not be supporting the trading platform beyond 2012. This prompted the Exchange to search for new trading software. After a thorough search and six responses to the requirements specification, Trayport Limited and Percival Software Limited were chosen to supply new Trading, Settlement and Registrar software to the Exchange. Coincident with this change in software, the Board of the Exchange approved the Volume Weighted Average Price (VWAP) as the new method to determine the closing price of a share listed on the First Tier, Second Tier and Mutual Fund markets.

## Proposed Amendment

### Existing Rules

#### 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.

**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.

**Proposed Rule**

**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 the Volume Weighted Average Price, calculated as the total value of shares traded in the day divided by the total volume of shares traded in the same trading day.
- (2) If a share listed on the markets referred to in (1) does not trade in a trading day, 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 the Volume Weighted Average Price, calculated as the total value of shares traded in the day divided by the total volume of shares traded in the same trading day.

**CLS 2:**

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

## Statement of Substance and Purpose

In October 2008 the TTSE changed the methodology used to calculate the closing price for shares listed in the First Tier, Second Tier and Mutual Fund markets from the last sale price to a board lot structure that took into account the volume of shares traded in order to determine the closing price. This change eliminated the occurrence of very small trades causing substantial changes in the price of a share, by setting volume thresholds based on price intervals that had to be met in order for a trade to set the closing price for a share.

In light of the change in trading software TTSE considered it prudent to adopt an alternative methodology for calculating the closing price for shares listed in the First Tier, Second Tier and Mutual Fund markets that is commonly used by other Exchanges most notably fellow regional Exchanges; the Bahamas International Securities Exchange, the Barbados Stock Exchange and the Jamaica Stock Exchange.

The VWAP will be the average price of all the trades executed in a share for the day thereby eliminating the undesirable negative effect on market confidence of a small trade causing a substantial change in price. This method is transparent, equitable and reflects a fair security price based on traded volume. It is commonly used as a valuation benchmark by institutional investors and is expected to build more confidence in the market. It will also help to dispense with allegations of market manipulation by traders.

<b>Closing Price comparison</b>				
Trades			Board Lots Closing Price	VWAP Closing Price
First	Second	Third		
5,000@ \$15.00	1,000@\$15.75	500@16.00	\$15.00	\$15.19