

Biennial International Conference on Business, Banking & Finance

CONFERENCE AIMS AND OBJECTIVES

This international conference is a forum for the exchange of ideas on critical business, banking and financial issues with a regional emphasis. It will serve to bring together leaders of the local and regional business communities, governmental policy makers and international scholars and researchers. The conference aims to:

- Critically explore and share experiences on key emerging issues pertaining to financial stability, financial integration, business competitiveness and related developments, with lessons for the Caribbean.
- Identify strategies to be pursued at both the business and governmental levels to promote international competitiveness of Caribbean business firms in the global economy.
- Enhance understanding and collaboration between academics and business and governmental leaders so as to improve the quality of decision-making on developmental issues confronting the region

OUR FOCUS

Regional integration, financial stability and business competitiveness together reflect some of the more complex and stimulating features of the phenomenon that is generally referred to as globalization. Globalization has placed added pressure on businesses to become more competitive in order to survive and prosper in today's corporate environment. Regional integration represents an important avenue for financial flows and in achieving gradual improvements in competitiveness. It is therefore important that we understand the significance of these issues for policy making at national and corporate levels. This conference will therefore focus on the opportunities and challenges from regional integration for the international financial system, and its functioning as well as explore the concept of business competitiveness and financial stability.

Biennial International Conference
on
Business, Banking & Finance

KEY NOTE SPEAKER

**DR. AGUSTIN CARSTENS
DEPUTY MANAGING DIRECTOR,
INTERNATIONAL MONETARY FUND**

Agustín Carstens assumed office as Deputy Managing Director of the International Monetary Fund on August 1, 2003.

Born in 1958, Mr. Carstens has a Ph.D. (1985) and M.A. (1983) in Economics from the University of Chicago. He has a B.A. in Economics from Tecnológico Autónomo de México (ITAM)(1982).

Prior to taking up his current position he was Mexico's Deputy Secretary of Finance. From 1999-2000, Mr. Carstens served as an Executive Director at the IMF (representing Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain and Venezuela), after a career at the Banco de México (central bank), where his positions included those of Director General, Economic Research and Chief of Staff in the Governor's office. In addition, he has been an organizer of the United Nations Conference on Financing for Development in Monterrey and of meetings of the Group of 20, and has served as Alternate Governor for Mexico at the InterAmerican Development Bank and the World Bank.

He has published articles in collections edited by: the Federal Reserve Bank of Boston, the University of London, OECD, IMF and World Bank. He has also published articles in the following journals: *Columbia Journal of World Business*, *American Economic Review*, *Journal of Asian Economics*, *Journal of International Finance*, *Cuadernos Económicos del ICE* (Spain) and *Gaceta de Economía del ITAM* (Mexico).

Mr. Carstens is a citizen of Mexico.

Biennial International Conference
on
Business, Banking & Finance

CONFERENCE PROGRAMME

Biennial International Conference
on
Business, Banking & Finance

DAY ONE
May 1, 2006

1:30 - 5:30 PM

REGISTRATION
Trinidad Hilton^S

6:30 - 9:30 PM

OPENING CEREMONY
Trinidad Hilton

Chair of Proceedings
Mr. Ewart Williams,
Governor, Central Bank of Trinidad and Tobago

Key Note Address

Dr. Agustin Carstens
Deputy Managing Director,
International Monetary Fund

Feature Address
The Hon. Patrick Manning
Prime Minister of The Republic of Trinidad and Tobago

Vote of Thanks
Mr. Errol Simms,
Head, Department of Management Studies,
The University of the West Indies

RECEPTION AND CULTURAL PRESENTATION

* Participants arriving on Days Two and Three can register at the Conference Venue

Biennial International Conference
on
Business, Banking & Finance

**DAY TWO
MAY 2, 2006**

8:00 - 9:00 AM

REGISTRATION

9:00-9:45 AM

WELCOME AND INTRODUCTION

Chair

Dr. David Rampersad
Director, Business Development
The University of the West Indies

Welcome Address

Pro Vice Chancellor
Dr. Bhoendradatt Tewarie

Remarks

Mr. Ram Ramesh
CEO, Caribbean Money Market Brokers

9:45 - 10:00 AM

COFFEE BREAK

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on
Business, Banking & Finance

DAY TWO
MAY 2, 2006

10:00 - 11:45 AM

SESSION 1

**Challenges for Monetary and
Financial Integration**

**Session Chair: Mr. Surendra Arjoon
Discussant: Dr. Patrick Watson**

**Governor. Ewart Williams,
*Moving from the Single Market to the
Single Economy: Implications for
Financial Integration and Monetary
Co-operation***

**George A. Walker
*Capital Reform, Financial Services
and Single Markets: A Regulatory
Overview***

**Rabi N. Mishra
*Financial Innovations and Systemic
Risk: In search of an Ever-Elusive
Global Super Central Bank***

Discussion

SESSION 2

**Business Competitiveness: Turning
the Ignition on**

**Session Chair: Mr. Roland Baptiste
Discussant: Dr. Lester Henry**

**Ramesh Chaitoo
*Trade, Development and Finance
Issues in CARICOM***

**C. Elbourne and N. Debysingh
*Caribbean Mergers and Acquisitions:
Recent Experiences and Lessons***

**A.C. Pienkos
*Real Appreciation, Competitiveness
and Regional Financial Centrality:
The Policy challenges***

Discussion

Biennial International Conference
on
Business, Banking & Finance

DAY TWO
MAY 2, 2006

11.45 AM - 1.15 PM

SESSION 3
Regulating Caribbean Financial
Market

Session Chair: Mr. Terrence Brunton
Discussant: Mr. Dave Seerattan

Carla Herbert
Designing a Legal Framework for
Better Fiscal Management: Some
Issues for Consideration

Christopher Malcolm
Financial Harmonization in the
OECS: Legislative and Regulatory
Framework

Douglas Leys
Does CARICOM need a Regional
Insolvency Pact?

Discussion

SESSION 4

Financial Potpourri:
Risk Management Practices,
Insurance, Financial Innovation &
Regional Development

Session Chair: Dr. Barney Pacheco
Discussant: Mr. Anthony Birchwood

Martin Dalglish & Wanda L. Pinney
Is Caribbean Sovereign really
Sovereign?: Implications of the
Grenada Financing on Financial
Institutions

M. Bishop, D. Seerattan and P.K.
Watson
The Structure & Performance of
Equity Mutual Funds in T&T

P. Desmond Brunton
Securitization in the Regional Capital
Market: Opportunities and
Constraints

Discussion

1.15 PM - 2.30 PM

LUNCH

Biennial International Conference
on
Business, Banking & Finance

DAY TWO
MAY 2, 2006

2.30 pm - 4.00 PM

PANEL DISCUSSION 1
New Directions in Financial Regulations

Panel Chair: Ms. Catherine Kumar

Panelists:

Ram Ramesh, Managing Director, CMMB, Trinidad
Brian Wynter, Executive Director, Financial Services Commission, Jamaica
Larry Howai, President, Bankers Association of Trinidad and Tobago.
Clevinston Haynes, Director (Bank Supervision), Central Bank of Barbados

DINNER
Trinidad Hilton

Biennial International Conference
on
Business, Banking & Finance

**DAY THREE
MAY 3, 2006**

8:30 - 10:00 AM

**PANEL DISCUSSION 2
Business Opportunities in the Caribbean**

Panel Chair: Dr. Bhoendradatt Tewarie

Panelists:

**Michael Mansoor, Executive Director, First Caribbean Bank
Pravinchandra Dave, CEO, Demerara Bank Limited
Patrick Antoine, Advisor, Ansa McAl Group**

**10.00 AM - 10.15 AM
COFFEE**

10.15 AM - 11.45 AM

**SESSION 5
Corporate Governance: No more
loose ends?**

**Session Chair: Dr. Acolla Lewis
Discussant: Mr. John Mair**

**Surendra Arjoon
*Striking a Balance between Rules and
Principles - Based Approaches for
Effective Governance: A Risk- Based
Approach***

**Emily Dick-Forde
*A Contextual Analysis of the Social
Programmes of Leading Financial
Institutions in the Caribbean***

**The Hon. Christine Sahadeo
*Corporate Governance: A State
Enterprise Perspective***

Discussion

**SESSION 6
Market Efficiency and Capital
Allocation**

**Session Chair: Professor Kit-Fai Pun
Discussant: Dr. Shelton Nicholls**

**Sherlene S. Enriquez
*Univariate Time-Varying Volatility***

**Aiyaswami Prasad
*Role of Competition in Capital
Allocation for R&D Expenditure***

**C.S. Bhatnagar and Mark Salina
*Cross-Listing, Efficiency and
Integration: Do Caribbean Equity
Markets Reflect the Macrocosm?***

Discussion

Biennial International Conference
on
Business, Banking & Finance

**DAY THREE
MAY 3, 2006**

**11.45 AM - 1.15 PM
PANEL DISCUSSION 3
Alternative Financing Mechanisms**

Panel Chair

Ms. Joan John, Deputy Governor, Central Bank of Trinidad and Tobago

Panelists:

Judith Mark, Executive Director, Venture Capital Incentive Program

Enid Bissember, CARICOM

Douglas Camacho, President, ATTIC

Eutrice Carrington, VP (Asset Management), Unit Trust Corporation

1.15 PM - 2.30 PM

LUNCH

Biennial International Conference
on
Business, Banking & Finance

**DAY THREE
MAY 3, 2006**

2.30 PM - 4.00 PM

SESSION 7

**Growth and Development: Financing
and other Issues**

**Session Chair: Mr. Simon Fraser
Discussant: Mr. Jwala Rambarran**

**Anthony Birchwood
*Economic Convergence in the
Caribbean Community***

**Acolla Lewis and Leslie Ann Jordan
*The Tourism Industry and Economic
Stability in Trinidad & Tobago***

Discussion

SESSION 8

Regulatory Compliance

**Session Chair: Mr. Prakash Ramlakan
Discussant: Dr. Anthony Bowrin**

**Kirk. H. Taitt
*Regulatory Compliance: "Evil Money"
and the implications for the Business
of Banking in a Caribbean Single
Market***

**J. Thorpe-Taitt
*Corruption, Fraud and business
Failures: The Forensic Accountant
- Coroner or Internist?***

Discussion

6:30 PM

CLOSING CEREMONY AND COCKTAIL

Hosted by

His Excellency

Professor George Maxwell Richards

President of The Republic of Trinidad and Tobago

Biennial International Conference
on
Business, Banking & Finance

Poster Presentations:

Ken Blawatt

Creating New Ventures Financing Model for the Caribbean

Anthony R. Bowrin

***Audit Committee Regulations and Practices
in West Indian States***

Biennial International Conference
on
Business, Banking & Finance

PAPER ABSTRACTS

SESSION 1

**Moving from the Single Market to the Single Economy: Implications for
Financial Integration and Monetary Co-operation**

EWART WILIAMS
Governor, Central Bank of Trinidad and Tobago

Over the last decade, the member countries of CARICOM have been grappling with the issue of monetary co-operation. This presentation discusses the current challenges that confront the Caribbean region as it moves towards the establishment of the Single market.

**Capital Reform, Financial Services and Single Markets: A Regulatory
Overview**

GEORGE A. WALKER
Centre for Commercial Law Studies, Queen Mary College, University of London

The main developments that have taken place during the last regulatory year have been reviewed. Each of the main sets of problems and reforms adopted are considered and the principal outstanding regulatory issues still to be resolved identified from an international, European and UK perspective.

Biennial International Conference
on
Business, Banking & Finance

**Financial Innovations and Systemic Risk: In search of an Ever-Elusive
Global Super Central Bank**

RABI N. MISHRA

Economics Department, Harvard University

While the growth and stability enhancing contributions of Financial Innovation have been well known, the recent literature on financial innovation dealt mainly with showing how it affects adversely welfare either through likely collapse of other existing risk sharing mechanisms (Duffee and Zhou-2001) or by destroying the signalling role of bank debt (Morrison-2003) or by creating potentials for crisis by increasing the risks that banks are prepared to take (Wagner-2005 a) or by increasing the probability of liquidity-based crises as they tend to reduce the

amount of liquid assets they hold and increase the amount of risky assets (Wagner-2005 b) or through contagion that makes everybody worse off (Allen and Carletti - November 2005). The interaction of incomplete markets and the role of liquidity in asset pricing as the key factors for the contagion across sectors was the focus of the Allen & Carletti paper. Private provision of liquidity in the markets without regard to the possible role of central banks should play in liquidity provision was the other point of discussion. They submitted that in markets with limited participation it is likely that central banks will have problems injecting liquidity into financial system that will reach the required markets and prevent contagion. The justification used by FRB New York for their intervention in arranging a private bailout of LTCM in 1998 explicitly used this rationale. The interesting issue of what the precise role of central banks in this kind of situations was left for future research. This paper intends to continue the discussion further.

Biennial International Conference
on
Business, Banking & Finance

SESSION 2

Trade, Development and Finance Issues in CARICOM

RAMESH CHAITOO
Caribbean Regional Negotiating Machinery, Barbados

This paper will deal with CARICOM-wide issues regarding the financial services sector since the banking and insurance industries are now largely regional. It will start with an overview of the trade picture of the OECS and CARICOM which reveals an alarming trend of overall deficits. It will argue that there is a critical and urgent need in the OECS and CARICOM to shift their trade dependence from goods exports to services and diversify the services export profile. It will then explore the need for financing to meet this challenge. This requires a new approach to the supply of capital for growing businesses in the region. Financial services are a critical infrastructural sector for any economy and success in many other sectors requires a competitive financial sector which goes beyond basic commercial banking services.

Caribbean Mergers and Acquisitions: Recent Experiences and Lessons

CHERELYN ELBOURNE & NESHA DEBYSINGH
Caribbean Money Market Brokers (CMMB), Port-of Spain

Organic growth in many Caribbean companies is being increasingly driven through the vehicle of Mergers and Acquisitions. The most recent example is the creation of One Caribbean Media (OCM) - a union of two leading Caribbean media houses, Caribbean Communications Network (CCN) and Nation Corporation. Several reasons have been advanced for the Mergers and Acquisitions route including the acquisition of additional market share to enter new Pan-Caribbean markets, cost savings and other synergistic advantages. This study analyses one of the largest Caribbean mergers, that of First Caribbean International Bank (FCIB), a product of Barclays Bank PLC and Canadian Imperial Bank of Commerce (CIBC). FCIB's integration was not as seamless as originally contemplated and a recent merger between Ansa Merchant Bank and TATIL Insurance Company seems to have suffered similar challenges. The study identifies lessons to be learnt for other entities contemplating mergers, especially OCM.

Biennial International Conference
on
Business, Banking & Finance

**Real Appreciation, Competitiveness and Regional Financial Centrality:
The Policy challenges**

ANDREW C. PIENKOS

With continued monetization of energy revenues and expansionary fiscal stance as key features of Trinidad and Tobago's macroeconomic landscape, IMF projections see a 20% to 30% real appreciation over the medium term. This of course threatens the sustainability of the tradables sector and raises the Dutch Disease spectre. Furthermore, a policy dilemma arises in shifting the burden of adjustment to either the price level or the nominal exchange rate. The latter will disproportionately burden those in society least able to cope, while the latter will require de facto abandonment of the current exchange rate regime and arguably make matters more complicated for financial institutions expecting the country to consolidate its role as the regional financial centre. Feasible policy options are identified and assessed in light of experiences elsewhere, and the optimal policy response is derived and its associated institutional requirements, especially as relate to the peculiarities of the foreign exchange "market" here, are discussed.

SESSION 3

**Designing a Legal Framework for Better Fiscal Management: Some Issues
for Consideration**

CARLA HERBERT

Ministry of Finance, Trinidad and Tobago

In the discussion of matters financial in the context of Trinidad and Tobago, little if any attention is given to the public financial management system which entraces revenue collection, accounting, budgeting, the implementation of the Budget and auditing. The system currently operating is derive from the Exchequer and Audit Act (UK) as is therefore over 140 years old. It is a manual cash-based input focused system, increasingly out of harmony with the financial and business environment of Today. This paper canvasses, albeit briefly, some issues that arise in the design of a legal and regulatory framework for a re-engineered public financial management system promoting the highest standards of accountability, transparency and value for money. Such a system enables taxpayers to know how their money is spent. Where the public financial management system operates accordingly there is inevitably increased openness of responsibility in the conduct of all public affairs, public sector transformation and the promotion of good governance. The issues canvassed in this paper arise upon the resolution of the fiscal or economic policy which is largely pre-occupied with the government's philosophical approach to public

Biennial International Conference on Business, Banking & Finance

financing i.e. the role of the Government in the conduct of the macro economy of the State. Many complaints about the prevailing quality of the governance of a State can be directly attributable to poor financial management systems. Thus, the need for systemic re-engineering. The thesis propounded in this paper is that public expenditure management based on output based budgeting is the nuts and bolts of good governance and effective public sector management. If a country can affect a public expenditure management system, which directly links policy implementation to actual expenditure, it has put in place a vehicle for not only effecting service delivery but also, as a corollary, public sector transformation. It is through the design of the financial management system that the operation of the principles of value for money, accountability and transparency can readily permeate the management of the public sector as it is through the means of publicly available information on the financials in a consumer friendly format - the hallmark of output based budgeting that enables the public to assess the performance of a government and effective Budget implementation. From the perspective of good governance, a State's public financial management system should have, and entrench as its prime objective, the principles of good governance i.e. Value for Money, accountability and transparency. Accepting that all governmental activities operate from one operating premise to serve the common good, there is no logical reason why an appropriate legal and regulatory framework should not have bi-partisan political support.

Financial Harmonization in the OECS: Legislative and Regulatory Framework

CHRISTOPHER MALCOLM
Queen Mary College, University of London

The framework for the financial sector in the Organisation of Eastern Caribbean States (OECS) includes uniform legislation and a community central Bank (ECCB). The OECS financial sector has made a positive contribution to the socio-economic conditions of participating members and this manifests *inter alia* in the coordination of monetary policy through the ECCB and maintenance of a stable currency (SEC). This paper examines the legislative framework for the OECS financial sector with implications for financial integration in CARICOM. Although the paper is not prescriptive, it highlights significant aspects of the OECS model and suggests that the OECS model could be beneficially applied across CARICOM. In addition to possible transplantation of the OECS, the paper also suggests that CARICOM should consider standardisation in the financial sector and ongoing training for financial regulators and supervisors.

Biennial International Conference
on
Business, Banking & Finance

Does CARICOM need a Regional Insolvency Pact?

DOUGLAS LEYS

Caribbean Development Bank, Barbados

This paper is relevant as a cognate area to the conference themes of Regional Integration and Financial Stability. The Caribbean Single Market is now a reality pursuant to the Revised Treaty of Chaguaramas (the Treaty). It is anticipated that by July 2006 an overwhelming majority of member states within the Caribbean Community (Caricom) will have acceded to the provisions of the Treaty establishing the Caribbean Single Market. The Treaty, *inter alia*, grants to member states of the Region the right to establish businesses in any member state on the basis that Caricom will be treated as a single economic space. This will lead to a proliferation of cross-order activities and companies will establish themselves throughout Caricom by way of branches, subsidiaries and affiliates, in order to maximise their economic advantages. There are already clear examples of such companies, some of which are now conglomerates. These conglomerates have positioned themselves strategically in manufacturing, tourism and financial services. The paper will show that the Treaty is deficient as there is no corresponding regime, which can deal in a holistic way with these entities when they become insolvent. It will demonstrate that the current insolvency regime in the Region is a hotchpotch of different laws with different standards dependent on the discretion of local judges for their application. It will also examine the traditional remedies for cross-border insolvencies by discussing regional and international examples (the most recent being the insolvency of the Dyoll Group) and show how unsatisfactory these remedies are for companies which have operations in more than one country and which go "belly up" in a trading bloc such as the Caribbean Single Market. It will also look at the much touted concept of harmonisation of laws as a solution. It will demonstrate that the harmonisation of laws throughout Caricom is deficient and that this remedy cannot instil in investors the necessary confidence required if cross-border investment is to flourish. In this regard, please see the Editorial in the Jamaica Daily Gleaner of January 26, 2006 on the insolvency of the Dyoll Group entitled "A Misguided Act". The paper will conclude that what is required is a regional insolvency treaty among all the nations of Caricom. Such a treaty would mandate that there should be one insolvency law governing the liquidation of any company in a Caricom member state, and that this law should be applicable throughout all member states for the duration of the liquidation. It will demonstrate with examples that this is the way other trading blocs have resolved this issue, namely, the Nordic Bankruptcy Convention 1933, the European Union Treaty and the EC Council Regulation 1346/2000 which came into force in May 2002. It will also show that the United States of America, notorious for its insularity in opening its jurisdiction to foreign laws, is now under its Bankruptcy Code opening itself to laws from other jurisdictions under the North American Free Trade Association (NAFTA) arrangements with Canada and Mexico to resolve issues arising from insolvency. Countries in the Asian and Pacific bloc are also actively considering a similar course of action, spearheaded by the Asian Development Bank. The paper will recommend that Caricom Governments sign and ratify a like Treaty which would carry with it an

Biennial International Conference on Business, Banking & Finance

obligation to enact into local law a provision to the effect that, depending on which jurisdiction a liquidation commences, the law of that jurisdiction will govern the liquidation throughout Caricom. Under this Treaty the Caribbean Court of Justice (the CCJ) would be given jurisdiction to decide issues arising out of the Treaty. This would ensure that even if Governments fail to enact the requisite legislation, investors would not be left without recourse as they could always invoke the jurisdiction of the CCJ and hold these Governments accountable for any losses sustained as a result of differences in treatment between local and foreign creditors arising out of domestic law.

SESSION 4

Is Caribbean Sovereign really sovereign: Implications of the Grenada Financing on Financial Institutions

MARTIN DALGLEISH* & WANDA L. PINNEY**

* Financial Consultant, St. Kitts-Nevis

** Bank of Nevis, St. Kitts-Nevis

In late 2005 Government of Grenada refinanced its debt extending tenor and reducing interest rates to better match projected financial outflows with expected government inflows as Grenada recovers from the effects of the hurricane/s. In keeping with Caribbean government tradition, no debt was written off. Nevertheless, the authors, at the time involved in the Investment Department at the Bank of Nevis, show that because of the application of International Financial reporting Standards the Bank of Nevis recorded a loss of about half of its investment in GOG securities. The authors present the details of the actual transaction and identify the accounting background for the valuation of bond investments. Finally, the authors discuss the implications of their findings: raising specific questions about Caribbean sovereigns for bank management, bank Boards of Directors, other financial institutions, bank regulators as well as Government debt management personnel.

The Structure & Performance of Equity Mutual Funds in T&T

M. BISHOP, D. SEERATTAN & P. WATSON

SALISES, The University of the West Indies, St. Augustine

The authors of this paper describe and analyse the structure and performance of the equity mutual funds market in Trinidad & Tobago. A comparison is made between mutual funds created, managed and distributed by the locally owned commercial banks and the largest non-bank equity fund, the Income and Growth Fund of the Trinidad and Tobago Unit Trust Corporation. The Sharpe Ratio is employed to assess the relative performance of these mutual funds over the period June 2001 to May 2005. It is shown that the returns on bank equity mutual funds are not significantly different from those of the First Unit Scheme, but that there is a significant difference in the risk involved in the various

Biennial International Conference
on
Business, Banking & Finance

portfolios. Recommendations are made to implement and enforce regulations with respect to the disclosure of the risk adjusted rate of return on mutual

funds so that the average investor can make informed investment decisions with respect to mutual funds or alternative investments.

Securitization in the Regional Capital Market: Opportunities and Constraints

P. DESMOND BRUNTON
Caribbean Development Bank, Barbados

Securitization, defined as the conversion of bank loans and other assets into marketable securities can make a major contribution to capital market development in the Caribbean. The benefits of securitization include lower financing costs, reduced financial risks and an expanded range of investment opportunities. For most countries of the Region, tourism is the most important economic sector, with annual growth rates averaging around 5.5%. In general, strong fundamentals and a significant asset base suggest that a securitization market in the region's tourism sector has real potential. However, the translation of this potential into actual securitization transactions is currently not possible because of a number of constraints which need to be removed if securitization is to become a major part of the financial landscape in the region. The most important of these constraints include the tax structure in the Region, the quality of data available from asset originators, and the "conduciveness" of the current banking environment. Some proposals are outlined that are designed to help in addressing the constraints.

SESSION 5

Striking a Balance between Rules and Principles - Based Approaches for Effective Governance: A Risk- Based Approach

SURENDRA ARJOON
Department of Management Studies, The University of the West Indies, St. Augustine

Several recent studies and initiatives have emphasized the importance of a strong ethical organizational DNA (ODNA) to create and promote an effective corporate governance culture of trust, integrity and intellectual honesty. This paper highlights the drawbacks of an excessively heavy reliance on rules-based approaches which increase the cost of doing business, overshadow essential elements of good corporate governance, create a culture of dependency, and can result in legal absolutism. The paper makes the case that the way forward for effective corporate governance is to strike an optimal balance between rules-based and principles-based approaches. The recent corporate scandals have demonstrated that the ethical ODNA is critical to the driving force and basis of legal and regulatory requirements. Effective governance means adhering to

Biennial International Conference on Business, Banking & Finance

ethical principles, not merely complying with rules, and is a crucial guardian of a firm's reputation and integrity. It is through an effective corporate governance

program (that is, one that optimally captures and integrates the appropriate aspects of rules-based and principles-based approaches, and identifies and assesses the related risks) that an organization can reconfigure its ODNA for improved performance. Focusing on the ethical ODNA as the basis of new governance measures provides an opportunity to develop a competitive advantage as it represents a potential source of differentiation, strengthens the relationship with all stakeholders of the organization by building a culture of trust and integrity, and re-instills investor confidence. This paper employs dialectical reasoning that links the ODNA through principles-driven rules in developing a risks-based approach. Although there have been few applications employing dialectical reasoning in business research, this methodology can be extremely useful in isolating ethical issues and integrating them into the business process. The risks-based approach captures the benefits of both rules-based and principles-based approaches, and incorporates trust-based principles such as solidarity, subsidiarity and covenantal relationships.

A Contextual Analysis of the Social Programmes of Leading Financial Institutions in the Caribbean

EMILY DICK-FORDE

Department of Management Studies, The University of the West Indies, Cave Hill

An emerging trend among large financial institution in the Caribbean is the development and promotion of social impact programs with substantial financing. The three publicised examples include Republic Bank Limited with its \$40million programme titled "The Power to Make a Difference" (RBL). First Caribbean International Bank (FCIB) not only has a strategic approach to giving, the mega bank has prepared and distributed a Social Annual Report for each of the last two years. Finally Citigroup announced its "FINANCIAL Literacy with Excellence" programme in partnership with Habitat for Humanity Trinidad and Tobago (HFHTT) in 2005. This paper makes the connection between such activities and the now globally significant movement of corporate social responsibility. In so doing the paper takes a critical look at this emerging trend to assess the extent to which these financial institutions are addressing the sustainability needs of the Caribbean community or whether the acts stop at the level of philanthropy. The criteria used to analyse these corporate expressions of social consciousness is based on the Global Reporting Initiative guideline for the financial services sector on social performance. Additionally, the paper explores how these institutions compare to international affiliate financial institutions within the context of emerging standards for social responsibility and reporting around the globe. Finally, the discussion is extended using the wider context of financial system stability and the broader understanding of CSR which includes sound corporate governance- an essential feature for maintaining the stability of any financial market and system.

Biennial International Conference on Business, Banking & Finance

Corporate Governance: A State Enterprise Perspective

THE HON. CHRISTINE SAHADEO
Ministry of Finance, Government of Trinidad and Tobago

The Minister's Presentation looks at the issue of "Corporate Governance", with a particular focus on the State Enterprise Sector. It begins by noting that Government is committed for the country to attain Developed Country Status by 2020. The State Enterprise Sector will play a critical role in making this a reality. The Presentation notes that the State Enterprise Sector currently comprises 79 companies, inclusive of the Special Purpose State Enterprises (SPSEs) that have been mandated to manage Government's development projects. The Presentation concludes with an assertion that Government continues to work towards being more accountable to all its stakeholders (primarily Civil Society), by ensuring that its operations, procedures and processes display the highest levels of transparency and accountability, which it demands from its State Enterprises, Statutory Authorities and Boards of Directors.

SESSION 6

Univariate Time-Varying Volatility

SHERLENE S. ENRIQUEZ
University of Belize, Belize

Financial return volatility data is influenced by time dependent information flows, which result in pronounced temporal volatility clustering. These time series can be parameterized using Generalized Autoregressive Conditional Heteroskedastic (GARCH) models. It has been found that GARCH models can provide good in-sample parameter estimates and, when the appropriate volatility measure is used, reliable out-of-sample volatility forecasts. The GARCH model is a more general case than the ARCH model. In their original form, a normal distribution is assumed, with a conditional variance that changes over time. For the ARCH model, the conditional variance changes over time as a function of past squared deviations from the mean. The GARCH processes variance changes over time as a function of past squared deviations from the mean and past variances. Estimates of asset return volatility are used to assess the risk of many financial products. Accurate measures and reliable forecasts of volatility are crucial for derivative pricing techniques as well as trading and hedging strategies that arise in portfolio allocation problems.

Biennial International Conference
on
Business, Banking & Finance

Role of Competition in Capital Allocation for R&D Expenditure

AIYASWAMI N. PRASAD
Finance Department, University of Connecticut, USA

Studies on stock price response to R&D expenditure present a mixed picture. Previous literature suggests viewing R&D as a strategic input aimed at competition to explain the differing results. We propose a model based on competition which harmonizes the conflicting results seen in the literature. We also derive from our model a firm level capital allocation norm for R&D expenditure. We suggest that R&D expenditure has to be related to the overall competition within the industry on the one hand and the firm characteristics like the firm size and firm dominance on the other. Our model predicts that maximum R&D activity in an industry occurs at an optimum industry concentration. Similarly within an industry maximum firm level R&D is achieved at an optimum level of firm dominance. Neither too much nor too little of industry concentration or firm dominance is good for R&D. We extend and improve on the previous literature on R&D. We develop an empirical measure for firm dominance which is continuous and includes all firms in the industry. We test our model on pharmaceutical companies and control for other variables identified in the previous literature. The results support our model. We also find that our new measures better explains market returns to R&D. We examine the implications of our model for capital allocation to R&D and policy implications for promoting R&D. We estimate optimum values for competition and dominance in the dataset of pharmaceutical industry and discuss the policy implication of the model.

**Cross-Listing, Efficiency and Integration: Do Caribbean Equity Markets
Reflect the Macrocasm?**

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We examine two major Caribbean stock markets to see if the regional market has kept pace with their more developed counterparts in terms of increased efficiency and integration with each other. A probe into the cross-listed stocks shows no significant change in liquidity after cross-listing. There is also evidence of abnormal security returns as well as un-aligned prices in different regional markets. This hints at the possibility of some arbitrage gains on offer, at least theoretically. We also observe that security returns become less sympathetic to the local market factors after cross-listing, indicating towards a possible risk diversification and reduced cost of capital.

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SESSION 7

Economic Convergence in the Caribbean Community

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It has been argued that economic convergence between member countries is a prerequisite for the introduction of a single currency, the deeper integration of financial markets and the diffusion of benefits for the participants of the economic union. However, differences in macroeconomic circumstances has given way to wide disparities in exchange rates and the polarisation of intraregional trade and capital flows, factors which may have frustrated convergence. Accordingly, the study explores the distribution of benefits of the Caribbean economic union, and whether there is catching up between low and high income countries in the union. A number of cross sectional and time series techniques are employed to investigate the convergence process. These include the testing of Gini coefficients, the testing of Beta hypothesis, an examination of sigma convergence, and Panel estimation. Ultimately the study is able to identify convergence clubs.

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The Tourism Industry and Economic Stability in Trinidad & Tobago

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Trinidad and Tobago lies within one of the world's most tourism-intensive regions, the Caribbean. Yet, unlike its neighbours, it has not relied heavily on income from travel and tourism since its economy is dominated by the energy sector. The energy sector is the mainstay of the economy contributing approximately 34.1% to the country's GDP, 85.5% to merchandise exports and 37.1% to Government revenues in 2004 (Ministry of Energy, 2006). The Government, in its aim for developed nation status by 2020, recognizes that the energy sector is unable to provide the sustainable jobs needed to achieve this. Thus, the Government's policy strategy, Vision 2020, identifies tourism as one of five (5) sectors that should be developed to contribute to the country's economic development. The tourism industry currently represents 13.8% of total Gross Domestic Product (GDP) in Trinidad and Tobago and is expected to increase its share by nearly three percentage points to 16.5% by 2015. It accounts for 16.7% of total employment, and this is forecasted to rise to 19.2% (WTTC, 2005). Several challenges are evident, that continue to limit the industry's full potential for growth in the country. It is against this background that this paper seeks to identify and analyse the strategies that can be adopted to maximize the contribution of the hospitality and tourism industry to economic development in Trinidad and Tobago. The three main strategies proposed are a greater focus on local entrepreneurship; the re-orientation of the role of the local financial mechanisms in tourism development and; the development of competitive tourism investment incentives for potential investors in the hospitality and tourism industry.

SESSION 8

Regulatory Compliance: "Evil Money" and the implications for the Business of Banking in a Caribbean Single Market

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With up to 40% of offshore banks located in the Caribbean basin the systemic nature of modern day commerce has propelled these nations into the midst of the on-going war against money laundering and the financing of terrorism. Since the inaugural blacklisting exercise of the Financial Action Task Force on Money Laundering (FATF) in 2000, Caribbean nation-states have since transformed their legislative and regulatory frameworks to reflect the global stance against financial crime and also to help protect their respective financial systems from abuse by criminal elements. This paper explores whether the deputization of banks alongside law enforcement is yielding the intended results given global regulatory dictates and considers how the face of regional banking is mutating

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in the process. Central to this discussion is the reality of a Caribbean single market where commercial integration through strategic alliances, mergers and acquisitions will, if bigger trading blocs are to be emulated, eventually become a normal course of business. In addition attention will be paid to the ordinary citizen whose good custom is overruled by excessive regulation and over-zealous institutional conformance. By engaging these questions and others it is intended to not only highlight the problem of money laundering and terrorist financing as a reality to Caribbean banking business but also to provide additional navigational tools to help ensure regional single market arrangements are adequately insulated against reputation and other jurisdictional risks.

Corruption, Fraud and business Failures: The Forensic Accountant - Coroner or Internist?

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Over the past decade and for years earlier, the topic of corruption has attracted much attention from, politicians, economists, accountants and people in general. Corruption has been around for as long as many institutions of any sort and modern democratic government and institutions have not evaded this scourge. In the present day, business scandals and elaborate fraud schemes have become a part of daily news, with a noted expansion in the breath of their ambit. No longer limited to Governments and public officials, these scandals have exposed a sinister trend of fraud and corruption that touches all walks of life including public accounting firms, private enterprise, and health care and banking institutions. In the banking industry globalization of economies and technological trends such as electronic money transfers have helped to ease the

path of the fraudster and complicate the job of the investigator. However, Inkster (1996) noted that the general consensus among countries is that the driving factors behind the current fraud and corruption problems are economic pressures and society's weakening values. This diagnosis would indicate that these issues will not be going away any time soon and so demand an appropriate response from governments, businesses, banks and the accounting profession. In the wake of the current disaffection with the effectiveness of an audit in uncovering fraud, the increasing sophistication of those involved in the practice of corruption and the myriad frauds used to cover their schemes, forensic accounting has become a necessary and potent tool in the successful investigation and prosecution of those involved. While this has gone a long way in penalizing those guilty of financial crime, greater strides must now be taken to curtail the progress of those who act with the intent of breaching systems and devising schemes to defraud institutions. By exploring a few contemporary cases, this paper will demonstrate that forensic accounting should not only be considered as an option to investigate irregularities. Instead this expertise should be a strategic part of the arsenal in building proactive and effective internal control measures thus safe guarding the assets and reputation of business institutions.

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POSTER PAPERS

Creating New Ventures Financing Model for the Caribbean

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Financing new ventures is both difficult and problematic in the Caribbean. To begin with, the investment culture almost precludes transparent investment in small firms by most constituencies, private and public. There is a disinclined public regard for entrepreneurship and capital creation. Moreover, traditional investors are reluctant to provide startup capital to unproven enterprises and entrepreneurs. On the other hand those who might best be able to judge the efficacy of an entrepreneurial undertaking, close associates and family members, are also hesitant since there is little incentive nor is there firm assurance there will be a return on their investments assuming it succeeds. This paper proposes a new financing model be created on the stock exchanges in the Caribbean that will address these issues and stimulate new venture creation in the region. The paper examines the present Caribbean financing structure that presumably is directed at supporting new venture startups, including the investing environment that often constricts positive assistance, and proposes a model based on the successful Canadian New Venture Exchange.

Audit Committee Regulations and Practices in West Indian

ANTHONY BOWRIN

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This study describes the regulatory framework governing audit committees (AC) of publicly traded companies in the West Indies and compares the provisions of these AC regulations with the International Federation of Accountants (IFAC) guidelines for AC. It also examines the actual AC policies of publicly traded West Indian firms and determines whether they vary systematically with industry affiliation or firm size. The sample comprised twenty-three companies traded in the Barbados Stock Exchange (BSE), twenty-eight companies traded on the Jamaica Stock Exchange, and twenty-seven firms traded on the Trinidad and Tobago Stock Exchange (TTSE) in 2002. The findings indicate a very laissez-faire approach to AC regulation in West Indian states. Overall, the level of disclosure in all three states was poor and larger companies provided better audit committee disclosures than their smaller counterparts, while companies in the financial industry provided better disclosures than companies operating in other industries.

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