



ORGANISATION
FOR ECONOMIC
CO-OPERATION
AND DEVELOPMENT



*The 2007 Meeting of the
Latin American Corporate Governance Roundtable*

*10 - 11 October 2007
Medellín, Colombia*

**Country Report: The Role of
Institutional Investors in Promoting
Corporate Governance in Peru**

To provide background for the development of an overview report on Institutional Investors and Corporate Governance in Latin America, the OECD asked consultants and task forces to elaborate country reports on current practices, challenges and prospects for improvement. These country reports are provided to the Roundtable participants as background for the meeting's discussion, and will be made available at <http://www.oecd.org/daf/corporate-affairs/roundtables>.

Peru's report was elaborated by **Carlos Eyzaguirre**. For any comment or specification regarding the country report please contact Carlos at: carlosey@terra.com.pe

Copyright © OECD 2007, All rights reserved

Corporate Affairs Division, Directorate for Financial and Enterprise Affairs
Organisation for Economic Co-operation and Development
2 rue André-Pascal, Paris 75116, France
<http://www.oecd.org/daf/corporate-affairs/>

THE ROLE OF INSTITUTIONAL INVESTORS
IN
PROMOTING GOOD CORPORATE GOVERNANCE PRACTICES IN PERU

The following report was developed following the May 11th working group meeting organized by the Association of Private Pension Funds of Perú (Asociación de Fondos Privados de Pensiones – AAFP). The meeting's objective was to discuss and enhance the Role of Institutional Investors in Promoting Good Corporate Governance Practices.¹ The May 11th meeting was complemented with interviews with the Chief Investment Officers of three AFPs and the Deputy Investment Officer of the fourth AFP, the fund manager of a foreign mutual fund, the general manager of an insurance company, a director appointed by the AFPs and a partner of a local audit firm. This report first sets out background on the types of institutional investors in Peru, their ownership structure and legal framework relevant to governance issues. It then focuses on pension fund practices related to governance and barriers to further improvements, before concluding with recommendations for these funds to influence better company governance as well as to improve their own.

I.- BACKGROUND

1.Types of institutional investors in the Peruvian Market

The main domestic institutional investors in the Peruvian Capital Market are the Private Pension Funds, the Mutual Funds and the Insurance Companies. As a group they manage a total of U.S.\$25.1 billion, being the Private Pension Funds Administrators or Administradoras de Fondos de Pensiones (AFP) the largest and most important with total funds administered equal to U.S.\$18.9 billion. As a comparison the Market Capitalization of the Lima Stock Exchange is U.S.\$92.9 billion.

Total Funds as of May 2007

Private Pension Funds	US\$ 18.9 billion
Mutual Funds	US\$ 3.5 billion
Insurance Companies	US\$ 2.7 billion
Total Funds	US\$ 25.1billion

Source: SBS, CONASEV

Given their relative importance, the present report will deal with the Private Pension Funds Administrators or Administradoras de Fondos de Pensiones. The last ten years the Pension Funds have grown at an average rate of 32% per year.

1. It was attended by Pedro Flecha - President of the AAFP; Federico Oviedo – General Manager of the Lima Stock Exchange, Melvin Escudero - Intendente de Gestión de Inversiones de la Superintendencia de Banca Seguros y Pensiones (SBS), Rodny Rivera – Chief of the Economic Studies Area of the Comisión Nacional Supervisora de Empresas y Valores (CONASEV); Mariela García – Finance Manager Ferreyros, Alvaro Clarke – Socio Principal Clarke y Asociados; Eduardo Herrera - Chief Investment Officer of PROFUTURO Pension Fund Administrator; Diego Icaza - Investment Analyst of HORIZONTE Pension Fund Administrator; Roque Benavides – General Manager of Buenaventura, Matthew Sullivan, Consultant - IFC .

Pension Funds Evolution Last Ten Years

YEAR	U.S.\$(000)	<u>GROWTH y*/y</u>
2006	14,414,000	52%
2005	9,509,294	21%
2004	7,842,003	24%
2003	6,341,380	40%
2002	4,526,603	25%
2001	3,622,078	32%
2000	2,751,734	14%
1999	2,406,034	39%
1998	1,733,691	15%
1997	1,510,443	59%

Source: FIAP

The ownership of the AFPs is concentrated in such a way that the controlling groups hold no less than 91% of equity of the AFPs. (See annex1). With the exception of Prima that is solely owned by Credicorp, all AFPs have foreign shareholders that have forged alliances with local economic groups.

All but one of the AFPs (PROFUTRO) have shareholders that are both registered in the New York Stock Exchange and that own directly or indirectly more than 50% of their equity. This has led the AFPs to have to follow some of the rules of Sarbanes – Oxley. This has improved the internal governance of the companies. Even Profuturo, which doesn't fall in this category, has benefited with its partnership in terms of codes of conduct, investment policies and internal controls.

2. Investment Strategies

The basic strategy is the acquisition of minority stakes in the listed companies of the Lima Stock Exchange. They use market-based strategies to exit their investments. By law the PFA have to be active shareholders (See below I 5b,5g).

3. Equity ownership

Seven billion dollars or 37 percent of the U.S.\$18.9 billion administered by the AFPs are invested in equities registered in the Lima Stock Exchange (LSE). This percentage of equity in the total portfolio of the Peruvian Pension Funds is the highest among the countries reported by FIAP. Total market capitalization of the Lima Stock Exchange (LSE) is US\$ 92.9 billion.

This comparison doesn't reflect the actual importance of the equity ownership of the AFPs, taking as an example their stake in some of the largest companies of Perú at the end of 2006:

Sector	Company	% Ownership of Common Shares ^a
Financial Services	Credicorp	36
Oil Refining	Relapasa	38
Construction Machinery	Ferreyros	43
Construction	Graña y Montero	30
Food	Alicorp	35
Cement	Cementos Lima	26

a) Holdings of all AFPs taken together
Source: SBS, CONASEV, BVL

4. Legal investing rules

Investment limits by categories²

- a) Securities issued or guaranteed by the Government of Peru: 30%
- b) Securities issued or guaranteed by the Central Bank: 30%
- c) The sum of a) plus b) can not exceed: 40%
- d) Securities issued by foreign Governments, and financial and non financial entities with economic activities basically located in foreign territories: 20%, But the Central Bank has imposed a tighter operational limit of 15%.

Other important limits:

Investment in all types of securities issued by a single corporation can't be more than 12% of equity. If more than one type of security representing equity is issued, no fund can hold more than 15% of each type of security.

The sum of all investments made by an AFP in an economic group cannot exceed 25% of the value of each type of fund.

Investment limits for securities issued by related parties are reduced by 30%.

Investment Limits by Type of Fund

Since its inception up until November 8, 2006, AFPs administered one fund each. Starting November 9, 2006 the AFPs divided their funds into three funds. So now, each AFP manages

2. Article 25-D of Law 27988, June 4 2003

three types of funds, which go from lower to higher risk. Anyone over 60 years old has to be in a type 1 fund (conservative fund which is a low risk fund).

Limit: Maximum amount as percent of Type of Fund			
	Type 1	Type 2	Type3
	Conservative Fund	Balanced Fund	Aggressive Fund
Variable income	10	45	80
Fixed income	100	75	70
Derivatives	10	10	20
Cash and short term securities	40	30	30

The requirements that a listed company has to fulfill in order to be suitable for investment are:³

For listed issues: The issuer must develop most of its economic activities in Perú and must have audited financial statements for at least the last three fiscal years.

For new listings: Issue has to be at least U.S.\$ 40 million, the public offering must guarantee a diversified investor base, Pension Funds must not acquire more than 80% of the offering.

The new regulation has opened the possibility of expanding the number of companies included in the list. A positive consequence of the new provisions (SBS rule 608) has been that the AFPs have participated in two recent offerings (Intercorp and Maple Gas).

Only 15% percent of the total listed companies have the SBS approval to be in the list of selected companies.

It is not clear whether more companies could be suitable for inclusion in the SBS list if they do moderate (or significant) governance improvements, since in practice it is size and liquidity that determine inclusion in the list.

5. Laws and Regulations with regard to Institutional Investors' duties to its Beneficiaries

a. Disclosure of Compliance with Corporate Governance Principles

Given the fact that all AFPs are listed in the Lima Stock Exchange, they must disclose their compliance with "The Principles of Good Corporate Governance for Peruvian Corporations" a voluntary code, which was drafted in 2002.

b. Fiduciary duties of the pension funds

The AFPs must appoint representatives of the funds, which must exercise the rights (and comply with the duties) that are attached to the securities held in the portfolios of the funds. AFPs have to appoint representatives always, without regard of the size of their investment.

3. These are the current requirements established by SBS Rule 608 of may 2007. The prior requirements were: 1) Equity greater than or equal to 50 million nuevos soles (3.14 nuevo soles = 1 U.S. dollar) in average for the last three fiscal years). 2) Market capitalization greater than or equal to 50 million nuevos soles in average for the last three fiscal years. 3) Earnings before taxes and inflation adjustments must be positive for the last 3 years; or earnings before taxes and inflation adjustments must be equal to or greater than 5% of the companies assets. 4) Issuer must be operating for at least five years.

The representatives of the funds will defend the rights of the funds with independence of the interests of the AFPs, will comply with corporate governance practices and promote their adoption by the investee companies.

The representatives of the funds must voice their points of view on the topics that are discussed, cast their votes and see that it is reflected in the minutes. They must report to the AFP of the result of their endeavors. The AFP must keep the representatives' reports and make them available to the SBS when required.

In the election of members of the board, the representatives are forbidden to vote for candidates that are shareholders, directors, managers or workers of an AFP.⁴

c. Good corporate governance and best practices

"Each AFP must adopt the principles of good corporate governance and the best applicable practices in the management of the AFP and in the investment decision process of each administered fund, taking as reference the best available standards. The SBS will supervise the adequate compliance with these principles and practices.⁵

d. Investment policy

Each AFP must develop an investment policy that defines the objective of each Type of Fund and the investment diversification policy. This investment policy must be disclosed to the general public.⁶

e. Code of ethics and conduct, SBS Rule 114, January 21 2005

The Board of the AFPs must develop a code of ethics and conduct for the personnel who participate in the investment process of the financial resources of the pension funds and of the AFPs.

The personnel in the investment area or risk control area must have an internationally accepted CFA certification.

f. Best practices in the investment process, SBS Rule 641, April 19 2005

The Board of the AFPs must develop a set of policies that guarantee the best practices in the investment process. The investment committee and the risks committee are in charge of conducting these policies.

g. SBS Rule 680, May 11 2007

Resolution 680 of the SBS, they have to invest in those companies and funds that follow good corporate principles. They have to promote good corporate governance in those companies and good investment practices.

4. Article 94, Regulation of The Unified Text of the Private Pension Fund Law, enacted by Supreme Decree N° 004-98-EF, modified by, Article 2, Supreme Decree N ° 182-2003-EF, 12-12-2003

5. Article 60, Regulation of The Unified Text of the Private Pension Fund Law, enacted by Supreme Decree N° 004-98-EF, modified by Supreme Decree N ° 182-2003-EF, 12-12-2003

6. Article 25-C, The Unified Text of the Private Pension Fund Law, enacted by Supreme Decree N° 004-98-EF, modified by Artículo 4°, Ley 27988, 06.03.2003

6. Laws and regulations with regard to corporate governance rules

Good corporate governance and best practices

"Each AFP must adopt the principles of good corporate governance and the best applicable practices in the management of the AFP and in the investment decision process of each administered fund, taking as reference the best available standards. The SBS will supervise the adequate compliance with these principles and practices.⁷

SBS Rule 680, May 11 2007

Resolution 680 of the SBS, they have to invest in those companies and funds that follow good corporate principles. They have to promote good corporate governance and good investment practices in those companies.

Disclosure requirements

No rules requiring disclosure of their policies and practices regarding corporate governance of the companies in which they invest.

II.- THE ROLE OF AFPS IN PROMOTING GOOD GOVERNANCE

The Pension Funds Administrators (AFPs) are the main institutional investors in Peru. Although the AFPs face the same governance issues as other fund administrators, there is the view that the responsibility of the pension funds is higher because they manage compulsory pension funds as opposed to mutual funds, which are voluntary.

They promote good governance in their investee companies through the appointment of independent directors. Representatives of the pensions funds have to participate in the AGMs and vote. The AFPs have representatives in the "surveillance" committees of the investment funds.

The independent directors have contributed to the modernization of the board through the introduction of committees, like the audit committee.

Also, companies have gone from having board meetings 3 times a year, to having board meetings every month. The quality of the information provided to the directors has also improved.

The AFPs have more power and visibility than the Mutual Funds or the Insurance Companies. The stakes they hold are higher and the AFPs can vote together in the election

7. Article 60, Regulation of The Unified Text of the Private Pension Fund Law, enacted by Supreme Decree N° 004-98-EF, modified by Supreme Decree N° 182-2003-EF, 12-12-2003

of directors. Also, they can join forces when a particular problem arises with one of the investee companies.

Although this is the case, it has not attracted the attention of the general public.

1. Key risks and main corporate governance problems in Peru from the AFPs perspective

a. Board practices;

Concentrated ownership traditionally led to boards being dominated by economic groups. The pension funds have accumulated stakes that allow them to elect directors individually or collectively.

Some cases have been reported in which the controlling group withheld information from the directors elected by the pension funds. For example: a parallel meeting would be held without the participation of said directors. Also, a company reduced the number of directors so as to block the access of any independent director to the board. It is fair to say that companies did not expect AFPs to elect directors and that there was an element of shock when the AFPs elected directors in a company that had never had independent directors.

With the passage of time the AFPs have reached some agreements among them and with the issuers on the way to elect directors. Also, current legislation allows the AFPs to vote for the list presented to the AGM by the board.

In the ideal scenario, the AFPs will ask the company the type of director they need to complement the skills of the other members of the board. With this input the AFPs will search for candidates. These candidates are presented to the company, and the company⁸ chooses who will be part of the list that will be presented to the AGM. If an AFP has enough votes to elect a director by its own, it may do it by itself.

Managers or staff from the AFP is forbidden to be appointed as directors.

A partial review of the appointed directors shows that many of these are lawyers or economists. Many of them have a graduate degree in business administration (or similar). And some of them have been high ranking officers of the public sector (former vice ministers of finance, members of the board of the Central Bank, a former head of the Central Bank and a former minister of finance). Several also serve as directors of other companies, so some may be on there way to becoming professional directors.

The demand supply ratio of directors is hard to determine, however, it is clear that there are many well trained professionals that are willing to participate in the selection process. We have to understand that the process of designating independent directors in the investee companies has been gradually evolving. At the beginning the lawyers related to the AFPs or the controlling groups of the

8. In this case “the company” means the controlling shareholders or the people that represent them in the board or in management.

AFPs were the ones that were appointed as independent directors.. Later, members from the most prestigious consulting groups were chosen as independent directors. Finally, inasmuch as the need to appoint independent directors has become known to a wider public, many professionals have submitted their curriculum vitae to the AFPs, increasing the pool of available candidates.

b. Control environment (internal controls and risk management)

Independent directors elected by the AFPs are encouraged by the AFPs to promote audit committees and participate in them.

Also, when potential problems related to transactions may arise at a company the pension funds are informed by the AFPs-elected directors for them to take action.

Cases:

PCU was merging with its parent company Grupo Mexico and the AFPs' director was nominated as part of the committee that had to evaluate the transaction.

Backus:

When Backus made an offer to buy all investment shares issued by Backus, the AFPs rejected the offered price, hired an independent consultant company to make a valuation and obtained a price that was better than the initial offer (close to double). The AFPs had close to half the investment shares issued by Backus and hence a good negotiating position.

ENERSUR

ENERSUR needed to raise money for the Yuncán project. The AFPs negotiated with the controlling group to participate in the valuation of the project, to have the shares listed a year after the offering was made and to participate in the audit committee.

RELAPASA

When RELAPASA was buying a chain of gas stations that belonged to RELAPASA'S economic group, the AFPs did an independent valuation of the transaction.

Real Estate Investment Funds

When problems arose in a couple of real estate investment funds, the AFPs took a more active participation in seeking solutions.

c. Shareholder rights;

Lack of available securities and illiquid markets has led the AFPs to buy B shares and investment shares, both of which lack voting rights. In both cases, the possibility to improve the practices is very small.

d. Family business issues;

Disclosure issues and fear of loss of control can make it difficult for the independent directors to be accepted.

2. AFPS ARE ACTIVE IN PROMOTING GOOD CORPORATE GOVERNANCE AT DIFFERENT LEVELS:

a. Individual companies they invest in;

The AFPs have actively participated in the modernization of the boards of the investee companies and are active participants in the AGMs. They also participate in the surveillance committees of the investment funds and in the in the bondholders meetings.

They have appointed independent directors that are active in promoting good corporate governance practices.

The directors have encouraged the formation of committees, like the audit committee.

The frequency of the board meetings has increased from 3 times a year to 12 times a year.

The AFPs have elaborated a Handbook for Directors

See examples of activism in 1b).

b. Supported the development of a public policy/regulation on corporate governance

The Pension Fund Administrators' Association supported the committee that drafted the "Principles of Good Corporate Governance for Peruvian Corporations" a voluntary code drafted in 2002.

c. Support an Annual Corporate Governance Contest

The PFAs also support the annual Corporate Governance contest that seeks to foster good corporate governance practices by giving awards to corporations that follow good corporate governance practices.

3. PFAs PRACTICES TO ENCOURAGE AND PROMOTE CORPORATE GOVERNANCE

a. Considering corporate governance risks and opportunities before investing;

Has had very little weight in the decision to invest. The weight is given to profitability of the companies. There are only a few issuers that are eligible for investment by the AFPs.

b. Actively exercising ownership rights through:

i. One-on-one meetings;

AFPs visit the companies to discuss their general economic situation and projects. It is during these meetings that governance issues are mentioned. It should be noted that there isn't a tradition in the investee companies to receive investment analysts.

ii. Voting;

Voting by the AFPs is mandatory, they have to attend the AGM, cast their votes and have it registered in the minutes of the AGM.

iii. Board representation (nomination of directors);

(See above: I 2a)

iv. Putting issues on the AGM agenda;

Only occasionally

4. DIFFERENCES WITH MUTUAL FUNDS.

Mutual funds that invest in stocks are currently young and small relative to pension funds. In the near future they may pool their votes with the pension funds to elect directors. (Coordination should be facilitated by the fact that the biggest mutual fund managers belong to the same economic groups as the AFPs)

5. BARRIERS FOR AFPS TO BETTER UTILIZE THEIR POSITION AS A KEY GOVERNANCE ACTIVIST

a. Shortcomings of existing regulation;

Investment limits by issuer may limit the ability of AFPs to elect directors. Given the investment limits, the fewer the AFPs that own shares in a company the harder to elect board members. Also, there was a case where the corporation reduced the number of directors to the point where the AFPs didn't have enough votes to elect a board member.

Investment limits may also act in a perverse way. When a particular asset (or family of assets) experiences an extraordinary growth in value and limits are

surpassed, the AFP is forced to sell the excess over the limit, even when risk considerations might not indicate any potential problem.

Corporate law requires high percentages of voting rights in order to be able to exercise some rights. For example: in some cases you need 20% of shareholders votes to force some topics onto the agenda.

b. Poor Disclosure of Compliance with the corporate governance code

Listed companies have to reveal their degree of compliance with “The Principles of Good Corporate Governance for Peruvian Corporations” a voluntary code, which was drafted in 2002. The improvement in the quality of the disclosure has been slow.

c. Poor liquidity and few available investments

Liquidity issues and the small number of available investments reduce the possibility of using exiting as an alternative to being active shareholder.

There is a “market challenge” in order to become more liquid. However the sheer size of the AFPs, conspires against this. AFPs are too big for the market. Once they start buying shares in a company they are almost prone to become major shareholders. Also, once one of them starts buying the shares of a listed company, the others follow, since there is a tendency to have similar portfolios. Furthermore, they tend to maintain their holdings. The INCA fund which will follow the INCA index of the Bolsa de Valores de Lima is a type of instrument that may help to increase liquidity. The creation of ETF type of funds may help to increase liquidity. Both the growth of the mutual fund industry and the creation of the multiple pension fund system (each AFP can administer three types of funds) have increased market liquidity. Liquidity will also increase if and when Perú obtains investment grade status.

d. Concentrated ownership patterns have precluded the AFPs from having significant influence over companies in which they invest;

There is a pattern of concentrated ownership. At first, a company didn't want to accept the presence of independent directors. They had the mechanisms to deny the access to the board. It was through a gradual process of negotiation and probably after they were firmly in control that they allowed the presence of independent directors.

Another company reduced the number of directors to the point where the AFPs were unable to appoint members to the board.

e. Lack of proxy advisory services;

Though AFPs can easily get together to pool their votes or coordinate actions, the lack of proxy advisory services limits their coordination with other shareholders.

CORPORATE GOVERNANCE OF AFPS: ISSUES AND RISKS:

The following are the key issues and risks in corporate governance of AFPS

a. Board composition (independence);

Concentrated ownership and business alliances between foreign investors and local economic groups have led to very little participation by independent directors.

b. Qualifications of Board members;

Board members depend on or are part of the controlling groups. Some family members of the local economic groups participate in the board.

A head hunter may be used to hire qualified board members.

c. There is no disclosure of policy on activism

Although activism is encouraged by the existing regulation, there is no voluntary or mandatory disclosure on policy activism.

d. Focus on short-term results;

A commercial war among pension funds has led to a focus on short-term results. AFPs publish comparison charts on profitability to attract customers.

The SBS has required the AFPs to publish their profitability adjusted by risk. This concept is not easy to comprehend by the general public. Also, it may not be as useful in a context like the Peruvian where you have few securities.

e. Conflicts of interest;

The investment committees of the AFPs can include among its members, officers from other corporations that belong to the same economic group as the AFP.

f. Access to insider information;

Some dangers exist because:

A) They belong to an economic group

B) They have appointed directors to their investees companies.

Independent directors appointed by the AFPs have a duty to the company (and all shareholders). If these directors need to meet with an AFP, the consensus approach is that they should ask the Pension Fund Association to organize a meeting with all the AFPs to prevent any PFA from having an advantage over the other. (This raises a question about information to the other minority shareholders and the type of information that is being released. The directors have to be careful not to release any privileged information).

g. Portfolios tend to look alike

The detailed portfolio of the pension funds was published every month. But, with the argument that the portfolios were almost identical, the period has been extended to every four months. Without discussing whether the objective can be attained through this procedure, there is the fact that the system's transparency has been diminished by this policy change. There is the fact that in order to choose a pension fund, the quality of the portfolio is important and so the need to evaluate or compare among the different portfolios.

It has been argued that the investment limits, the few "approved" investments and the fact that all AFPSs have to meet a minimum return on the funds work all in favor of making all portfolios look alike. (The SBS makes a list of "approved" companies). The scarcity of quality issuers goes hand in hand with this regulation (the limits) to contribute to the "copy cat portfolios".

h. Limited monitoring capabilities, given large portfolios, limited staff, and limited ability to engage in active management activities;

Regulatory compliance requires lots of resource allocation. For example, there are many reports to be filed and many investment limits to comply with. The commercial war has forced the AFPs to increase the salesmen. There aren't many trained specialists. Investment in foreign securities is complex.

i. Political pressures on public pension funds – pension funds may be pressured to make certain investments to support the local economy or for other political reasons;

There is a political pressure to invest in local companies or projects.

The Central Bank has the power to limit the percentage of the fund that can be invested in foreign markets. Up until the current administration, there has been an effort by the Central Bank to keep this limit down. The argument was that the funds should be used to develop the country. As a consequence the interest rates have been kept low. Local borrowers have been able to obtain funds at lower rates than their peers from other countries. Even foreign issuers have been able to obtain cheap local funds.

There is an obvious contradiction or conflict of interest. The local firms are being favored at the expense of the future income of the pensioners.

What the funds can invest in has been politically addressed in some cases. There is a government willingness to persuade the funds to invest in infrastructure projects.

RECOMMENDATIONS TO IMPROVE THE CONTRIBUTION OF AFPS TO BETTERING CORPORATE GOVERNANCE PRACTICES IN PERU AND TO IMPROVE AFPs CORPORATE GOVERNANCE

1. Improve legislation/regulation;

More flexible investment limits:

Increase the percentage of the fund that can be invested abroad.

Lower the percentage of voting rights required to exercise some rights.

Lower the costs of exchanging investment shares or non-voting shares for shares with voting rights. Lack of available securities and illiquid markets has led the AFPs to buy B shares (non-voting shares) and investment shares⁹, both of which lack voting rights. In both cases, the possibility to improve the practices is very small.

2. Improve enforcement;

Consolidated supervision and/or better coordination with Conasev.

The biggest mutual fund managers belong to or are related to the same economic groups as the AFPs. The same is true for the insurance and banking companies. This may lead to related party transactions that may benefit one of the parties and harm the other.

The surveillance of these practices isn't easy for the SBS, since they do not supervise the mutual funds and hence have no access to their portfolios or market transactions.

Consolidated supervision or better coordination with Conasev would be a solution to this problem.

Improvements in the administrative procedures

In Perú the types of offenses must be clearly spelled out in the laws and regulations. So there have been cases where this hasn't been done and hence no sanction could be applied to the offender.

Administrative procedures are slow. There is an AFP with many unfinished investigations.

3. Improve IIs' accountability to their beneficiaries and the regulators;

Specify who can belong to the investment committee.

Public disclosure of the members of the investment committee and the risks committee.

9. Investment shares are securities that give their holders equity rights but do not have voting rights. B-shares don't have voting rights.

Public disclosure of investment policies.

Public disclosure of codes of conduct.

4. Develop proxy rules.

There are no proxy rules or proxy services. So although it's easy for the AFPs to coordinate among themselves, it's not easy for them to coordinate with other shareholders. It is hard to identify those shareholders that are not AFPs. A proxy service could be useful.

5. Improve the dialogue between the IIs and their investee companies;

All companies should have conference calls. Currently, only those registered in New York have conference calls, like Compañía de Minas Buenaventura (BVN), Credicorp (BAP) and Southern Copper Corporation (PCU)

6. Improve the Board composition

Have independent directors in the board.

ANNEX 1
OWNERSHIP CONCENTRATION IN THE AFPs

AFP HORIZONTE S.A. (Major Holders)				
Shareholder	Nationality	%	Series	Starting date
BANCO BILBAO VIZCAYA - ARGENTARIA S.A.	ESPAÑA	24.85		07/03/2000
HOLDING CONTINENTAL S.A.	PERU	54.36		18/02/1998
PROVIDA INTERNACIONAL S.A.	CHILE	15.87		02/01/1998

AFP INTEGRA (Major Holders)				
Shareholder	Nationality	%	Series	Starting date
ING INSURANCE INTERNATIONAL B.V.	HOLANDA	13.42	C	18/05/2007
ING LATIN AMERICAN HOLDING B.V.	HOLANDA	20	C	14/07/1995
ING PENSIONES PERU S.A.	PERU	29.5	B	04/12/2001
INTERNATIONAL INVESTMENTS S.A.	PERU	29.5	A	29/10/2004

PRIMA AFP S.A. (Major Holders)				
Shareholder	Nationality	%	Series	Initial date
GRUPO CREDITO S.A.	PERU	99.99		07/09/2005

PROFUTURO AFP (Major Holders)				
Shareholder	Nationality	%	Series	Initial date
CITIBANK OVERSEAS INVESTMENT CORPORATION	ESTADOS UNIDOS	42.15		26/03/1996
CORPORACION CERVESUR S A A	PERU	19.95		12/08/2004
LATIN INVEST S.A.	PERU	9.99		24/02/2005
TRANSACCIONES ESPECIALES S.A.	PERU	19.17		26/03/1996

Source: CONASEV

Copyright © OECD 2007, All rights reserved