This report examines and makes recommendations aimed at strengthening equity market development in Mexico.

It was developed as part of the work of the OECD Latin American Corporate Governance Roundtable’s Task Force on Equity Market Development, and served as a reference for Task Force discussions that took place in Argentina in June 2018. The report on Mexico and additional country reports on Argentina, Brazil, Chile, Colombia, and Peru have drawn upon an OECD survey of company and investor perceptions in these six countries as well as additional research and interviews with market regulators, participants and other stakeholders. The six country chapters have also served as a reference for the 2019 OECD publication, “Equity Market Development in Latin America: Enhancing Access to Corporate Finance”, which provides a more comparative perspective on developments across all six countries.

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1. Introduction—Mexican market overview

In spite of being one of the 15 largest economies in the world, Mexico occupies the 20th spot when it comes to stock market capitalisation, and the 25th in the number of listed companies. Trading volume in Mexico would need to increase six-fold in order to be aligned with the size of the economy, to reach a level consistent with more developed equity markets (AMIB, 2018).

Capitalisation

Equity market capitalisation in Mexico has more than tripled if we consider a 2003-2017 timeframe. However, as seen in Figure 1.1, there was a slow downturn from 2013-2016 followed by a partial rebound since 2016.

Figure 1.1. Mexico – Equity market capitalisation in USD billion

Source: World Bank, World Federation of Exchanges

In terms of GDP, equity market capitalisation has grown from 17.7% in 2003 to 33.5% in 2016 according to World Bank data. This is still far from the US or Japan where market capitalisation is over 100% of the respective countries’ GDP (Alto Nivel, 2018), and while in absolute terms Mexico’s market ranks second after Brazil, it also lags behind Chile and Colombia as a percentage of GDP (86% and 36%, respectively in 2016) (World Bank, 2016).
1. INTRODUCTION—MEXICAN MARKET OVERVIEW

Trading volume grew from $84.8 million USD in 2008 to reach its highest peak of the decade in 2013, and then had a considerable downturn from 2014 to 2015 that has since stayed relatively stable through 2017 (AMIB, 2018).

Listed companies in Mexico

The last official census in Mexico (INEGI, 2014) showed that there are 4.2 million companies in the country out of which 182,202 are large companies (that contribute 64.1% to the country’s GDP); whilst, 16,754 are medium-sized ones (that contribute 16.6% to Mexico’s GDP); and 4,031,789 micro and small companies (contributing 19.3% to the country’s GDP).

As seen in Figure 1.3, the number of listed companies in the stock market in Mexico has been growing slightly; however, as mentioned above, indicators of market capitalisation and trading volume have been weaker, and there remains potential for greater growth. To reach this potential will require all relevant market intermediaries to work in a complementary fashion to improve the situation, including not only Mexico’s two stock exchanges, the Bolsa Mexicana de Valores (BMV) and the newly established Bolsa Institucional de Valores (BIVA), but also banking intermediaries, legal firms, brokers, corporate governance consultants, rating agencies and accounting and auditing firms.
Actual growth of the equity market: a different perspective

Regardless of the aforementioned data, there is another perspective that points to recent growth in the Mexican capital market. While Mexico had 148 listed companies for equity share trading as of May 2018, it had 401 issuers in total making use of 455 different products (BMV, 2018). As of May 2018, there were 148 listed stocks, 220 listed debt instruments, 70 Certificates for Development (CKD’s), 12 Infrastructure and Real Estate Trusts (FIBRAs), and 5 more instruments on mortgage trusts and FIBRAs for the energy market.

Therefore, even though the stock market has had a discrete growth pattern (in terms of the shares’ market), the blossoming of these other instruments is an additional reflection of the development of the capital market in the country.

Participants in the capital market

The five main players in the Mexican capital markets include the following:

1. **Issuers**: economic entities that require some type of financing. Among these, we find services, commercial and industrial companies, financial institutions, the Federal Government, state governments, and government institutions.
In Mexico, the most important player in the debt market is the Federal Government, with 83% of debt volume; this percentage rises to 92% when accounting for other categories of government debt. Corporate debt constitutes just 8% of the market share.

![Figure 1.4. Mexico – Debt distribution](image)

Source: COFECE 2014

2. **Investors**: economic agents that demand different financial instruments with the objective of obtaining the highest possible performance/returns vis-à-vis the risks each one of them is willing to accept. In equity markets, the role of institutional investors (i.e. pension funds, known in Mexico as AFORES) stands out.

3. **Intermediaries**: entities authorised to: (i) mediate the buy-sell operations in the market; (ii) make operations; and (iii) administer/manage third-parties portfolios. They include banking intermediaries/brokerage entities, investment fund operations and credit institutions.

Since 2010, the three largest financial conglomerates in Mexico have taken over more than 50% of the market’s intermediation because they are taking advantage of their own economies of scale (they have regional offices); they also offer banking services to their clients; they are participating as institutional investors (either with their pension funds and/or insurance services); they are managing their exposure to credit; and, they are receiving generous incomes for being intermediaries.

4. **Regulators**: the Comisión Nacional de Bancaria y de Valores, or National Banking and Securities Commission (CNBV), is the main regulator responsible for establishing the rules of the game for Mexican equity markets. It regulates and supervises listed firms, banks, brokerage houses, other depositary financial entities, mutual funds, and other financial intermediaries and market participants (OECD, 2015).

5. **Stock exchanges**: Since 25 July, 2018, the Bolsa Mexicana de Valores (BMV) has a competitor – the Bolsa Institucional de Valores (BIVA). BMV has been the heart of
Mexico’s equity market for the last decades. However, in 2013 the Ministry of Finance (SHCP) received a petition for the creation of a new stock exchange which in 2015 concluded with a concession that authorised BIVA to list the same stocks and products as those of the BMV. After years of work, BIVA has begun its operations.

**The new stock exchange**

BIVA has declared that it is determined to have 50 new listings by 2021 (which would represent a 33% growth in the number of issuers in the Mexican stock market). Furthermore, it has made public its aim of developing a new market, and its willingness to attract more medium-sized companies to the stock markets.

Many players in the market see these statements as plausible based on the fact that the new CEO of BIVA was the former CEO of the Mexican Association of Private Equity & Venture Capital Funds (AMEXCAP) – which is an association that exists since 2003 and has the ultimate goal of fostering the private equity and venture capital industries in Mexico. Hence, it may attract some companies that are mature enough to obtain stock markets’ financing.

Regarding the companies that are currently listed in the BMV it is relevant to mention that they will have the option to either remain with the BMV or to move to BIVA. However, they will automatically trade in both stock exchanges (as it happens in countries that have more than one stock exchange).

BIVA’s incorporation to the Mexican market, however, found some contradicting views. Even though (in theory) competition can incentivize lower listing costs, the truth is that BMV has not been setting its prices. Therefore, no immediate nor considerable change is expected for listing costs.

**A comparison with the U.S. case:** Related to the fact that Mexican issuers will automatically trade in both stock exchanges (see number 15), the U.S. Department of the Treasury (Treasury) has exposed how, even though regulatory, technology and market factors have increased the number of trading venues in the U.S. and reduced transaction costs over the past decade, “the benefits have not been shared evenly by all listed securities” (Treasury, 2017, p.59). The Treasury states that while heavily traded stocks have garnered the most benefits, thinly traded stocks have faced problems. Therefore, the Treasury recommends that “issuers of less-liquid stocks, in consultation with their underwriter and listing exchange…select the exchanges and venues upon which their securities will trade” (Treasury, 2017, p.60) in order to promote the liquidity of their stocks.

The aforementioned U.S. scenario could yield an important lesson for Mexico because, as it will be elaborated further on in this chapter, the Mexican equity market faces liquidity problems that could resonate with what has been just exposed from the U.S. case.

While markets first assumed that participants like brokerage firms would be strong supporters of BIVA and the new competition regime (due to the expected market opportunities, and because having two stock exchanges might be assumed to be synonymous with larger markets), brokerage firms complained at first because they were obliged to absorb considerable costs in order to connect to the new stock exchange whilst the demand remained the same. However, and in spite of some players’ statements that the smaller brokerage firms were facing the risk of closure, every brokerage firm is now connected to BIVA’s network – the largest 30 brokerage firms are connected directly, whilst the remaining 4 connected indirectly in order to lower their costs.
While some participants applauded the opening up of the equity market to competition, the Commission for Economic Competence (COFECE) stated in 2014 that the small number of equity market participants in Mexico is explained by: (a) the general structure of the country’s company universe (made up of almost entirely micro, small and medium-sized companies); (b) the poor corporate governance culture in the vast majority of Mexican companies; (c) the lack of institutionalisation and weak management culture; (d) the misalignment with fiscal compliance duties; and, (e) the low utility levels of the majority of micro and small companies. In other words, it means that the flat growth of the equity markets in Mexico is not necessarily attributable to the lack of competition in the stock markets.

There are considerable fears and myths (as will be elaborated further in this chapter) in the Mexican market that need to be tackled. In other words, having two stock exchanges will not help to develop the market if promotion efforts are not done in parallel.

Since BMV and BIVA have different methodologies for calculating closing prices, even the smallest of differences could derive into negative effects created by the possibility of arbitrage between differing prices with investors that manage large sums of money (like Mexican pension funds – AFOREs).

**Conflicting incentives in the system**

As identified by various interviewees, an important factor that may explain the slow growth in the stock market in Mexico (in addition to other factors to be presented in this chapter) might be found in the embedded conflicts of interest that come with the banking intermediaries’ roles in the system.

Conflicting incentives are apparent because the vast majority of the financial conglomerates in the country have both bank and banking intermediaries’ businesses. Ergo, it is more business-convenient for conglomerates to make financial loans to companies via their banks, than helping them out as their intermediaries in the processes of obtaining financing from the equity market.

Interviewees underlined that there have been times where banking intermediaries told companies that there was no market demand; and, on the other hand, BMV was hitting records in its debt market placements. This disconnect gives support to the aforementioned assertion regarding the conflicting incentives in the Mexican capital market.

**Market and ownership concentration**

Market concentration in Mexico has been the rule rather than the exception. For example, in the last 5 years, 46.3% of the market cap has been concentrated in only 5% of domestic companies. And, it rises to 58.1% for the 10 most traded and capitalised domestic companies.

According to data from Bancomext (2017), the three Mexican stocks with greatest marketability represented 26.6% of the traded volume in 2016; whilst the 100 stocks with lesser marketability represented only 4.8% of the traded volume.

The average ownership concentration in Mexican listed companies was around 50% from 2003 to 2013. Although more recent data after 2013 were not readily available, the market is still characterised by a high degree of ownership concentration.
Taxation

Mexican business owners face a 30% fiscal burden on their income whether their companies are listed or not. In this regard, BIVA’s CEO has said that the lack of fiscal incentives may be one of the reasons behind the hindrance of the equity market; and, to cite an example, she said that funds that want to opt out from an investment because their investee company is going public need to absorb a 35% tax burden – in the US, however, funds that opt out do so with a 10% tax burden (Expansión, 2018)\(^8\).

Dominant sectors

The most dominant sector in the domestic equity market has been agriculture with an average of 32% concentration in the last five years. The most under-represented sector has been retail with an average of 7% in the last 5 years; and, the missing one has been the utilities sector.

The equity market in Mexico interweaves actions of several players

From the Task Force survey results, and interviews and exchanges with experts from the CNBV, BMV, BIVA, academics from business schools, and corporate governance consultants, we were able to identify some obstacles that may be inhibiting the development of the equity market in Mexico.

According to them, the main problem for the development of the equity market in Mexico may be synthesised in the generalised lack of awareness regarding the equity market among business people and entrepreneurs. However, the latter needs to be paired with the conflicting incentives embedded in the system; the elevated costs of going public; the information gaps that notaries (who legally constitute companies in the country) have regarding what legal configuration is convenient for each particular client; the evident disconnection between what is taught in academia vis-à-vis what the “real business world” demands; and, insufficient efforts from regulators and other authorities to disseminate the benefits of going public, and how-to-guides.
2. Survey results for listed and non-listed companies

In Mexico, the survey was sent to 25 companies and was answered by a total of 18 companies, out of which 11 are listed, and 7 are non-listed (although large enough to be so). In the following sections, the reader will be able to identify some relevant findings from the respondents.

Listed companies

The 11 listed companies that participated in this exercise included: (i) some of the most traded and capitalised companies in the Mexican market; (ii) recent listings; (iii) constituents of the Mexican Environmental, Social and Governance (ESG) Index; (iv) companies listed in foreign markets; and, (v) companies that do not belong to any of the most traded indices in the market. Thus, this sample allows us to have a diverse range of opinion from the Mexican listed companies’ universe.

Figure 2.1. Mexico – Respondents’ composition

From the company groups that participated in this effort, two are the parent company, whilst the other three are subsidiaries of their own groups. And, considering the characteristics of the Mexican equity market, it was not surprising to see that 85% of the respondents have a controlling shareholder (28% of which are family-controlled); because, as Flores and Watkins (2015) finds, listed companies in Mexico are characterised by a high degree of ownership concentration and a large proportion of company groups which, in many cases, are family groups.

Nevertheless, it is worth mentioning that based on the fact that all of the respondents are listed in the BMV, 71% of them also confirmed to have an ownership structure with a dispersed investors base; whilst 57% of them ticked that foreign investors own more than 5% of the company’s equity capital; and, 28% confirmed that private equity investors also make up their ownership structure.
Represented industries

Listed company respondents belong to many different industries that comprise food & beverage, telecommunications, industrials, materials, financial, pharmaceutical, real estate and consumer goods. In line with the OECD categorisation, we could say that 36% of them belong to the consumer cyclicals\(^\text{10}\) category, 18% to the consumer non-cyclicals\(^\text{11}\), 18% to the financials, and the remaining 27% is equally divided into healthcare, basic materials and industrials, which we would say is a fair representation of the publicly listed companies’ universe.

Benefits of being listed

Respondents said that the most-valued benefits of being listed are intangible – those having to do with reputational enhancement and the raised profile that the company gets; plus, the marketing and credibility a company obtains from its different stakeholders. The former benefits are followed by the well-appreciated, learned discipline of the market.

Figure 2.2. Mexico – Benefits that companies obtain after being listed (0-10 scale). These were ranked from the least to highest

Deterrents in the stock market

Mexico, in spite of the above-mentioned benefits, does not have a robust equity market. As seen in Figure 1.3, there are only 148 listed companies (FIAB, 2017); and, there have only been 27 IPOs in the last 5 years – with 10 delisted companies. The reasons they underline in this regard have to do with costs and perceived risks.

Costs

Before going public: both surveyed and interviewed respondents confirmed that the elevated costs that intermediaries (investment bankers, legal firms and even “big 4” auditing firms) charge might be the ones most hindering the development of the equity market in Mexico because they represent the most elevated costs that they had to cope with in their own listing processes\(^\text{12}\).
As the Figure shows, both the banking intermediaries’ and the legal firms’ fees are widely seen as the most expensive categories in the process of going public. It is also notable that the first two cost factors cited in Figure 2.3 above received higher ratings than those given to the highest perceived benefits of being listed. There was only one respondent who did not consider that the intermediaries’ fees were high, but this may be because this company belongs to a *de facto* company group that has a banking intermediary. Thus, the costs may be lower for the companies that are part of this group.

**When the company is already listed:** respondents found that the highest expense a firm incurs is related with complying with audits and control (8.1 on a 0 to 10 scale), whilst the least expensive part had to do with taxes (5.2/10).

**Perceived risks**

Listed companies perceive that being public could materialize in certain risks due to both the increasing levels of transparency requirements and the higher level of corporate governance practices that they should align with. Responses recorded a 7.6 score on both of these two criteria.

Interestingly, however, all of the respondents stated that the loss of management control is the least of their concerns – with an average response of 5 out of 10 in the perception of risk.

**Listed companies: corporate governance perceptions**

Regarding the assessments that the respondents made of their own companies’ corporate governance, the best-evaluated practice had to do with the levels of transparency and the quality of the financial and non-financial information provided to stakeholders. Whilst the area identified for potential improvement has to do with minority shareholders rights and their protection.

Interestingly, 90% of the respondents thought that the market’s practices were inferior to their own regarding their board practices, as well as for related-party transactions, internal controls, risk management and audits. However, this is consistent with results across all six countries surveyed, and may reflect a built-in survey bias involving companies that devote greater attention to corporate governance being more likely to reply to a corporate
governance-related survey; as well as well-known tendencies of self-reporting for survey respondents to rate their own characteristics as superior to that of peers.

When listed companies were asked to rate the national corporate governance practices, they underlined two main spheres to focus on for improvement: internal controls, risk management and audits, on the one hand; and, minority shareholder rights on the other.

Non-listed companies

Out of the seven non-listed companies that responded to the survey, six are family-controlled, whilst the remaining one is primarily owned by private equity investors. Four of the respondents are not only part of a company group but are also confirmed as the parent company of such groups.

Non-listed company respondents of the survey belong to many different industries including food & beverage, textiles, funerary services, tourism and retail, and construction and transport. In line with the OECD categorisation, 57% of them belong to the consumer cyclicals category, 29% of them are industrials, and the remaining 14% may be classified as consumer non-cyclicals.

All of the non-listed companies that participated in this exercise are large enough to be listed in the local stock exchange. However, as the results reflected, there is still reluctance vis-à-vis listing; and, some very important misconceptions regarding the equity market in Mexico.

Table 2.1. Mexico – Every non-listed respondent is large enough to be listed in the Mexican market

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<th>Average annual USD million required for listing in Mexico</th>
<th>Average annual USD million income of non-listed respondents</th>
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Benefits and deterrents of going public

Non-listed company respondents perceived that the benefits of going public are attractive enough to reach out to the stock markets. They awarded 8.5 on a 0 to 10 scale to the perceived benefits of going public, vis-à-vis a 6.2 to the deterrents behind doing so.

Even though all of the respondents agreed that being listed would bring them better and more attractive access to capital, and that it would be synonymous with their companies’ reputational enhancement, non-listed companies perceive that the costs (even though some might be one-time) of investment banker fees, the legal firm’s fees, the costs of making the prospectus, and those implied in complying with the regulatory requirements are high enough to impede their decision (rating them 8.1 out of 10).

Plus, they all underlined that the risk of losing control, and the risks that may come with being more transparent and disclosing more information are also important deterrents to stepping forward towards the equity market.

In addition to the aforementioned risks and costs, more than 50% of the non-listed company respondents said that the possible lack of demand from investors might also be contributing to making them cautious regarding going public. This perception is sometimes fed by the banking intermediary as referenced in section 2 of this chapter.
2. SURVEY RESULTS FOR LISTED AND NON-LISTED COMPANIES

Non-listed companies: corporate governance perceptions

When assessing their corporate governance practices, non-listed companies considered, on average, that their related-party transactions’ regime is moderately well developed (they awarded themselves with 7.5 out of 10); whilst their board nomination processes, their minority shareholders rights, their transparency practices, and their internal controls and audit functions were rated lower, constituting important areas for improvement (they, on average, awarded themselves with 6.7 out of 10 in all of the mentioned categories).

Regarding their perceptions of listed companies’ corporate governance practices, non-listed respondents believed that publicly listed companies had considerably better board practices than non-listed ones. However, they also considered minority shareholders’ rights protection a weak practice in the country – regardless of whether a company is listed or not.

In an interview, one of the respondents insisted that there is a lack of information regarding the processes of going public, and the benefits from doing so. This view builds on the fact that, over the survey phase, 57% of the respondents underlined the importance that regulators (together with the stock exchanges) begin to offer free courses to the general public regarding the equity market (so as to incentivise the demand side); and, some more courses – with a finer focus – that target medium-sized companies in order to elaborate on the benefits of going public, and the process of doing so.

Both

Listed and non-listed companies had some shared views, and some very divergent ones, as will be presented in the following lines.

Opposing views

There are two contrasting views regarding the benefits that being listed brings to a company. Firstly, while listed companies see a clear benefit of learned-discipline, non-listed companies rank this criterion as the least attractive benefit they would get. And, secondly, as the results show, the main concern that non-listed companies have regarding being listed is the loss of the company’s control. Nevertheless, that is precisely the least important preoccupation of those already listed – in fact they explained how control is not lost if the owners prefer.

Coinciding views

On the positive side of listing, both listed and non-listed companies believe that the reputational enhancement and the access to capital are the clearest advantages that going public brings. Whilst, on the cost side, both listed and non-listed companies identified that the IPO costs – especially those that have to do with the fees paid to the investment bankers and legal firms, are quite high and, therefore, they see them as players that are hindering the development of the market.

Corporate governance: asymmetric perceptions

While non-listed firms perceive that listed companies’ corporate governance practices are superior to their own boards’ nomination processes and their own boards’ effectiveness, listed companies declare that this is also their second largest challenge (next to the protection of minority shareholder rights).
a) Over interviews, non-listed companies declared that their companies’ boards are usually “ghost boards” that exist only on paper. In other words, whilst the majority of private firms’ boards do not meet, those that do, fail in making distinctions between what has to do with operations and urgent matters vis-à-vis what relates to strategies, risks, objectives or the future of the company (in fact, most of the times these last matters are not even covered)\textsuperscript{17}.

b) Listed companies on the other hand said that their boards are not discussing strategy, nor are they being diligent enough with \textit{ex-ante} preparations. Interviewees said that directors tend to see board meetings as an excuse for catching up, and as a way to stay in good terms with the natural leader of the board (usually, the founder/controlling shareholder who is also the chairman). Plus, they said that there is no confrontation or discussion in a regular board session; hence, the company is not obtaining solid benefits from these “social-clubs-on-board” where everyone tends to conform with what the majority says.

What they both agree on regarding what could be done to further develop the market

Building up on the listed and non-listed interviewees’ insights, stock exchanges and regulators could make new efforts in order to disseminate the benefits of going public – either with successful case studies, with the organisation of open events that elaborate on the topic, with the development of digital materials that simplify information (with infographics), and by working to eradicate equity market myths amongst business people.
3. Institutional investors

In Mexico, we contacted 11 institutional investors out of which six responded to the survey, and two agreed to personal interviews. These institutional investors (including five pension funds and one mutual fund) have, in total, $85 billion USD in Assets Under Management\(^{18}\). From the respondents, five are part of an economic group or financial conglomerate.

Institutional investors’ equity investment strategies

In Mexico, AFOREs (pension funds), investment funds and insurance companies make up the total of financial assets managed by institutional investors. Figure 2.1 shows how these three “split the cake”. However, it is important to underline that according to COFECE (2014), **AFOREs have become the second most important player capable of influencing the development of the equity market (following banks)**.

![Figure 3.1. From the total sum of financial assets, this is what each player has](image)

One-third of our respondents (who are mostly pension funds) asserted that regulation sets a limit on their equity investment strategies for individual instruments. Another 33.3% reported that they have their own actively-managed strategy; 22.2% cited active management of equity investments; and, 11.1% index-based strategies.

Over the last year, 80% of the respondents have traded shares of locally listed companies in non-Latin-American foreign regulated markets because of liquidity and tax treatment; and, because in OECD countries respondents perceive that corporate governance practices are higher than in Latin America.
The respondents’ corporate governance assessments

Two thirds of the Mexican pension funds respondents said that corporate governance practices from Mexican listed firms are acceptable. Among other respondents, one perceived that practices are good, whilst the other considered them to be poor.

Interestingly, however, the largest pension fund that responded to the survey (which is also the one that engages the most with investee companies) was the one that suggested that Mexican listed firms’ corporate governance practices are poor. Its representative supports this assertion with the argument that investors that he is in communication with include the absence of corporate governance as part of their reasons behind not investing in or for divesting from Mexican companies.

Corporate governance in investment decisions

Every institutional investor awarded a value of 8 or more (on a scale from 0 to 10) to the corporate-governance-factor in an investment decision.

But more importantly, as seen in Figure 2.2, 83% of them said that better corporate governance practices would lead them to increase their exposure in the domestic market. They supported the previous statement with two arguments: (i) the fact that the lack of transparency diminishes trust and, thus, hinders investment; and, (ii) citing familiarity with studies that have shown a positive relation between good corporate governance and a firms’ valuation (which they suggested would normally reflect increased demand for and investment in company shares).

Figure 3.2. Mexico – Percentage of pension funds that said that better corporate governance would increase their exposure to domestic equity

Notwithstanding, they underlined that Mexican listed firms still have a titanic job in terms of transparency; followed by the paramount challenges of achieving boards’ effectiveness and robust internal controls systems.
Potential for pushing for better corporate governance

Considering the amount of assets that institutional investors manage, they could definitely influence the way companies conform their corporate governance standards.

Nevertheless, engagement with investee companies is still in early stages for most. Only 60% of the respondents said that they voluntarily engage with investee companies, while the remaining 40% confirmed that they do not. From those that do engage voluntarily, three seek to have communication with board members of the companies; and, two look to communications with senior management and investor relations departments.

Furthermore, even though AFOREs are theoretically considering the importance of corporate governance, in practice their investment manuals include only financial criteria.

Interviewees say that, perhaps, if liquidity increased and if they perceived that their hands are no longer “tied-up” with regulations that impede them from doing stock-picking in international markets, corporate governance would become a more important and beneficial criterion of investment.

Liquidity: A deterrent for investment

Both interviewees said that the lack of liquidity is a relevant factor to consider when referring to the obstacles in the development of the equity market in Mexico. To illustrate this assertion, one of the interviewees said that (approximately) only 15% of shares are “really liquid” in the Mexican market; and, explained that the remaining 85% becomes really costly in terms of time – which means that even 1% of the “most liquid” instruments (like the FIBRAs) take up to a month to be sold.
4. Perspectives from other stakeholders

Even though the Mexican equity market has seen important developments in recent years that could potentially strengthen its situation in the future, there are some obstacles that need to be tackled to spur the market. This section will elaborate on them.

Efforts are being made to foster development of the market

Corporate Governance Codes or Corporate Governance Certification Programmes, to the extent they influence improved corporate governance practices that attract greater investor interest, may support the development of the equity market. These two (and more initiatives) have been created in Mexico as ways to promote the stock markets as new financing options for companies.

Furthermore, the CNBV has made an effort to stay at the forefront of regulatory practices that may spur market development; and, is constantly interacting with industry participants in order to consider actions that benefit the market. To support this statement, BIVA said that the CNBV was completely open to the idea of having a new stock exchange, from the outset of such discussions.

New Mexican Code of Best Corporate Governance Practices: its potential contribution to strengthen the new Fintech Law

The Business Coordinating Council (CCE) recently announced the new, revised version of its Code of Corporate Governance Practices. This new version of the Code includes matters regarding women on boards, and the concept of social value creation in a company’s objective.

The 2018 Code has been revised and approved by the CNBV, BMV, BIVA and other relevant players in the Mexican equity market; and, it is expected to continue to align Mexican public and private companies with the best corporate governance practices globally.

In addition to that, some members of the Committee of Best Corporate Governance Practices of the CCE have confirmed their interest to influence the Fintech Law that was recently enacted in Mexico. This law sets a complementary foundation for banking institutions, the equity market, cryptocurrencies and credit institutions in general that have started to operate with the aid of financial technologies.

According to BIVA this new law may have the potential to develop a new financial culture in the country because Mexico is the Latin American leader in the financial technologies start-up ecosystem with 238 companies; followed by Brazil (219); Colombia (124) and Chile (75) (CNN, 2018).

The main pillars of this law include the prevention of money laundering; the framework to help companies in differentiating resources (those from clients and those from the company); and, a list of minimum corporate governance requirements.
Regarding corporate governance, the law now requires that financial technology companies disclose risks; and, have a Board of Directors, a CEO and an Audit Committee.

Nevertheless, according to corporate governance experts in Mexico, the law still has important corporate governance gaps (especially in the crowdfunding sphere where the protection offered to investors is limited).

Based on interviews held with experts, the law assumes the existence of market knowledge, and thus avoids going deeper and overlooks the relevance of disseminating more information in this regard – both to the supply and demand sides. This is what the CCE will try to tackle through its Best Corporate Governance Practices Committee.

The general perception of this law is that it will cause the crowdfunding system to bloom and, hence, financial culture will be strengthened in favour of the equity market.

The New Corporate Governance Certification Programme from BMV

Another positive development is that Bancomext (a Mexican development bank) with BMV and the Mexican Association of Equity Intermediaries (AMIB), conscious of the importance of good corporate governance and the development of the equity market, launched a new Corporate Governance Certification Programme called PRIME.

- PRIME was created for medium-sized to large companies that are looking for new financing options.

- Companies that show interest in the Programme will receive loans from Bancomext with preferential interest rates if, and only if, (i) the company improves its corporate governance practices with the certification of a corporate governance expert; and (ii) has a medium-term or long-term goal of going public.

Since BIVA began its operations, it expressed interest to include corporate governance differentiators. In this regard, BIVA has announced an intention to become part of the PRIME Corporate Governance Certification Programme.

The New Ambassadors Programme: BMV-IMEF

BMV noticed that the majority of their listed companies are based in either Mexico City, Monterrey or Guadalajara (the three largest cities in Mexico – which are based in three different states of the Republic); however, there are another 29 states in the country. BMV estimates that there is potential to reach out to new companies in the rest of the country’s states’ and their respective cities.

In line with the current geographical concentration of listed companies it is very common to find specialised banking intermediaries, legal firms, corporate governance experts and/or accountants with international qualifications in Mexico City, Monterrey and Guadalajara (and in some more of the largest cities in the country). However, in the rest of the country, companies have faced the problem of not being able to find such specialised teams.

The BMV, aware of this situation, has teamed up with the Mexican Institute of Financial Executives (IMEF) in order to build an “Ambassadors Programme” that develops agreements with Chambers, with the CCE and with different associations in order to
promote the stock market as a financing option. Plus, it aims to connect companies with those specialised experts that companies may not have found in their local markets.

Factors inhibiting the development of the equity market in Mexico

Responses from this survey, plus the interactions with experts from the CNBV, BMV and BIVA, academics from business schools, and corporate governance experts helped us identify some obstacles that may be inhibiting the development of the equity market in Mexico.

Regulators’ perspective

Interviewees from the CNBV helped us to identify factors that may be inhibiting the development of this equity market. In this regard, they divided their responses and analysis in two branches: (i) the macroeconomic conditions that markets in general need in order to bloom; and (ii) what they characterised as fears or myths that define and slow down the Mexican market.

Concerning the macroeconomic conditions that spur equity markets, the CNBV cited four pillars: (a) the existence of favourable economic conditions that lead to positive growth perspectives; (b) the robustness of the financial system in general – with a growing banking sector and strong institutional investors; (c) the relevance of having strong institutions and rule of law in order to give certainty that there are law-abiding participants; and, (d) the paramount importance of good corporate governance standards and practices in order to foster trust and attract investment.

Regarding fears or myths, the CNBV identified three main problems for Mexico: (a) the general belief that the equity market is available only for gigantic conglomerates, which leads to a widely spread perception that the stock markets are for “big companies only”; (b) an aversion to be transparent with one’s company’s accounting statements that leads to the fear of being subject to public scrutiny; and (c) the fear of losing control of the company, or having to share the decisions with other people.

An interviewee from Bancomext echoed the CNBV’s statement regarding companies’ fear of being transparent and said that this might be one of the most decisive factors slowing down the development of the equity market in Mexico because companies are highly reluctant vis-à-vis disclosing information to both their competitors and organised crime – “they do not want to expose the company’s shareholders”. Hence, she suggested that incentives could be interwoven within the system, but as long as promotion campaigns are not launched in parallel, the efforts would not be successful.

The aforementioned fears and myths are fed by the fact that companies are comfortable with the status quo of growing with profits and/or with banks’ financing; that they are unaware of the benefits that being listed would bring to their companies; and, the fact that most firms that could go public are family businesses that deal with idiosyncratic barriers usually involving family companies operating through unilateral decisions made by the owner(s).

Other market participant perspectives

An interviewee from BIVA said that many people perceive the stock market as a casino; and, adding to the obstacles highlighted above by the CNBV, he said that there is a poor financial culture in the country. To support his statement, he said that based on a survey
undertaken by AMIB, only 20% of business people identified the stock market as a source of financing.

Moreover, respondents from both stock exchanges underlined that, in Mexico, there is a curve that companies should traditionally follow in terms of their financing stages (see Figure 3.1).

**Figure 4.1. Mexico – Stages for financing companies**

![Diagram of financing stages in Mexico](image)

*Source: BIVA*

Whilst financing of a company traditionally begins with obtaining resources from friends and family, it is followed by a phase where the company obtains financing from a *Sociedad Financiera de Objeto Múltiple* – SOFOM (a form of enterprise under Mexican law that has the objective of providing loans and credits). Then the company reaches out to bank financing.

After the Banks phase, a company goes through the private equity funds phase, to end up in the last stage (one that is synonymous with a more mature company) – financing the company via the capital markets (typically starting with debt markets, and then with equity).

Unfortunately, most companies in Mexico perceive that the “Banks” phase is the last and ultimate one for obtaining resources.

The challenge that stock exchanges and other players have is to show the rest of the steps/options available.

**Lack of awareness regarding the need to work with corporate governance experts**

Only 12% of the big companies in Mexico have corporate governance manuals (COFECE, 2014). In this regard, interviewees said that corporate governance improvements might be perceived as expensive because the only suppliers that appear on the medium-and-large-company radars might be those that big accounting and auditing firms are offering.

However, thanks to the PRIME Programme from BMV, competition in this field has been promoted – the BMV has integrated a directory of Mexican corporate governance experts.
(which includes both big and boutique firms that have been reviewed and certified as part of BMV’s PRIME Programme) which the BMV shares with potential listing candidates. This means that BMV is both informing the market on the range of services available to them to support corporate governance improvements; and, is helping firms to have the freedom to choose the providers that suit them best.

Other platforms are perceived as more attractive for investors

The CEOs from both stock exchanges said that while it is true that there is a weak supply curve from companies planning to go public, there is a weak demand side as well – there are few independent investors that are interested in participating in the Mexican capital markets. To support their assertions, they underlined how platforms that sell cryptocurrencies like Bitso have been getting the attention that the capital markets need – in only four years, Bitso has created 400,000 active user accounts; whilst, the 31 brokers in Mexico together only reach 250,000 accounts since they began operations (Expansión, 2018). This signals that promotion of the equity markets as an investment option still has a long way to go.

Weak market makers

One of the interviewees highlighted that, in the corporate debt markets in Mexico, there should be market makers. This means that the banking intermediary should be obliged (by mandate of the CNBV) to maintain positions of both the buy and the sell side (like in more developed markets) for the instruments that it helped to list. The former would increase liquidity in the markets and would reduce information asymmetries that today exist between buyers and sellers of corporate bonds. The market-maker figure already exists in Mexico (in the stock market and some government bonds), and it has helped to increase the issuers’ exposure, to discipline the banking intermediary, and to increase liquidity. However, further analysis would be needed to determine how such a system could be applied more widely in the Mexican market.

Such is the case of Nacional Financiera (NAFINSA29), which in 2015 implemented the Institutional Market for Alternative Corporate Debt (MIDAS, in Spanish) with the purpose of granting financing to mid-sized companies to fulfil the corporate governance requirements established by the BMV. In the framework of this program, companies have to comply with a process that allows them to implement better corporate governance practices in order to become more professional and institutional for the securities market. If the company does not meet BMV standards for issuing debt or capital, there is an interest rate penalty and the company has to pay the previously-given credit within a two-year timeframe. The criticism that MIDAS has received, however, is that it gives no further incentives for companies to continue improving their corporate governance over time. Thus, the PRIME Programme aforementioned is aiming to fill this gap by asking companies to provide evidence of their compliance with a continuous corporate governance programme.

Knowledge gap

Academics underlined that firms should find allies in their corporate governance experts in order for the latter to assess the former as to how to legally constitute their own companies. This observation comes as a consequence of having many notaries in Mexico that ignore the corporate governance characteristics of one or another legal configuration; thus,
companies should protect themselves from the start and work with an expert that allows them to draw a corporate governance route based on the company’s projections.
5. Conclusions and policy options or recommendations

The following lines will present: (i) the conditions that favour the development of the Mexican equity market; (ii) the milestones that have taken place; and, (iii) the inhibiting factors that have been slowing down its development. And, it will present some ideas for consideration (these ideas take into account the survey results and the interviews, and do not necessarily represent the position of the OECD, its Secretariat, its members, or individual participants in the Task Force).

An equity market that pursues development needs favourable economic conditions that lead to positive growth perspectives; the robustness of the financial system in general (with a healthy banking sector and strong institutional investors); the existence of strong institutions and rule of law in order to give certainty that there are law-abiding participants; and good corporate governance standards and practices in order to foster trust and attract investment.

In Mexico, the Administration whose term concluded in 2018 has given clear importance to the development of the equity market. Some milestones in this last period included the concession to have a new stock exchange (BIVA), and the approval of important reforms that aim to strengthen the companies’ ecosystem in the country. Alongside this, the CNBV has maintained an objective to be at the forefront of the best regulatory practices that may spur the market; and, has not stopped interacting with industry participants in order to consider what else to do to benefit the market.

In addition to what the government and the CNBV have done to strengthen the market, players like the CCE, BMV, NAFINSA and AMEXCAP have been pushing for both an improved financial culture in the country, and for better corporate governance practices.

The CCE launched its new Code of Best Corporate Governance Practices – which interweaves matters of diversity in the board, and the concept of social value creation through sustainability.

The BMV not only launched PRIME (a Corporate Governance Certification Programme for non-listed companies); but, it also strengthened its Education Programs (through its Escuela Bolsa) to strengthen the market’s financial education gaps; it created an Ambassadors’ Programme with IMEF that promotes the stock exchange as a financing option in smaller, not-so-urbanised States; and, it continues to have the only ESG Index in Mexico –the S&P IPC Sustentable.

AMEXCAP launched a Manual of Best Practices for Private Equity Funds that includes corporate governance principles. This Manual aims to disseminate the importance of corporate governance (among other topics) in order to convert it into mainstream and, perhaps, in a way of preparing companies for potential financing through the stock markets; and, NAFINSA has been providing corporate governance training and assistance to medium-size family companies all over the country.

Nevertheless, and in spite of the previous efforts, the equity market in Mexico is not growing as it could. As seen in this chapter, many factors appear to be hindering the market’s growth: (i) the evident unawareness of the stock market as a plausible financing
option; (ii) the mistaken belief that going public is for multinationals only; (iii) the apparent conflicting incentives that banking intermediaries (especially those who belong to a financial conglomerate) bring to the system; (iv) the perceived elevated costs\(^2\) that banking intermediaries and legal firms charge for a company to list in either the debt or capital markets; (v) the lack of information regarding the benefits of going public; (vi) concerns cited by investors about a need for better corporate governance among listed companies, notably with respect to transparency, board practices and minority shareholder rights; (vii) deficient corporate governance programs at university level; (viii) the absence of easy-to-read materials for medium-sized companies regarding corporate governance and institutionalisation processes; (ix) the poor financial culture on the demand side; (x) the lack of liquidity in the market; (xi) the aversion to losing control and making financial statements public; (xii) the lack of awareness regarding the importance of improving a firm’s corporate governance before going public; (xiii) the recent corruption scandals and, (xiv) the lack of consideration given by notaries to the corporate governance requirements for each type of legally constituted company.

Addressing all of the above issues will not be an easy task. Indeed, in some cases, they may require trade-offs. For example, shareholders interviewed and surveyed for this report have suggested that they would consider investing more resources in Mexican equity markets if corporate governance is improved, with transparency at the top of the list. On the other hand, companies surveyed did not cite transparency as a high priority for corporate governance improvement, and non-listed companies have cited a concern related to increased transparency in the market as a deterrent to their listing. Taking into consideration such competing objectives is one reason that this chapter recommends educational and voluntary initiatives as an important pillar in seeking to change perceptions so that investor and company interests may be more closely aligned.

In addition, this chapter highlights how non-listed companies’ greatest concern regarding going public is losing management control (vis-à-vis listed firms which confirmed that this was their last preoccupation) which not only underlines the fact that private companies lack information regarding the stock markets, but also highlights the challenges that stock exchanges have regarding the promotion of the wide array of products that companies may use for financing (different from the equity-share market). It underlines how listed companies need better and more efficient boards of directors that dare to contradict the natural leader (usually the company founder/majority owner). It emphasises how institutional investors say they value corporate governance but do not necessarily take it into serious consideration yet (it is not in their investment manuals). And, it interweaves the perspectives of relevant players in the equity market in order to show how the education sphere might have areas for improvement regarding financial education and the perception of stock markets.

One additional and important takeaway has to do with banking intermediaries. This chapter presented that surveyed listed companies, plus some experts from the Committee of Best Corporate Governance Practices and interviewees that work in the equity market, shared a view that banking intermediaries might serve as a barrier to the development of the equity market in Mexico.

First, it is important to underline that banking intermediaries in Mexico belong to financial groups or conglomerates that include a bank in their business models. Thus, helping companies on their way to going public is sometimes in detriment to their other business: lending companies money through their banks\(^3\).
Second, all listed companies that were surveyed (except one that has a banking intermediary in its own company group) said that the most expensive costs in the process of going public are the fees paid to both the banking intermediary and the legal firms.

In this regard, interviewees from BMV suggested the incorporation of a new figure: limited underwriters. As seen in this chapter, underwriters in the stock market in Mexico are investment banks. Nevertheless, in some other markets there are different types of them – full underwriters and limited underwriters. Full underwriters include financial conglomerates, commercial banks and insurance companies; whilst, limited underwriters are either brokers that are members of recognised stock exchanges or private investment individuals and trusts. The latter usually perform one type of activity only – i.e. listing securities.

Typically, full underwriters take over projects that are either very large (and, thus, broker underwriters are not able to cover them), new to the market, or with a long gestation period; whilst, limited underwriters may take the lead on the rest.

The advantage of incorporating the figure of a limited underwriter to the market is based on the premise that they face lower compliance requirements and, thus, see a reduction in their costs structure. Therefore, having this figure in the Mexican equity market might be a way of reducing the IPO-costs that the full underwriters (the investment banks) would traditionally charge.

Finally, in addition to what has been highlighted above, some potential recommendations for the development of the Mexican equity market include:

Stock exchanges should pair with qualified corporate governance experts, in order for them to construct trainings and materials (including infographics and videos) that raise awareness of the benefits of market finance and of improved corporate governance for new generations, and that interweave a vision of the market’s future.

Academic institutions could (with financing from CNBV or other institutions), build a public portal that contains: (i) formats of the basic contracts and legal forms of a company in Mexico (either SA, SAPI, SAPIB or SAB); and, (ii) materials that help companies in their familiarity with the step-by-step process of institutionalizing their business.

CNBV should undertake analysis to consider the impact of mandating brokers to act on both the buy and sell side for debt issuances – creating the figure of a market maker – as a way of promoting greater liquidity in the debt market.

As seen in this chapter, there are still areas of opportunity and some areas that need to be explored further in order to strengthen capital markets in the region. Hence, future Roundtables could address capital markets in a more holistic way – that is, by interweaving Fintech companies (i.e. regulations/practices around them) and their potential of shaping a new financial market; and, by analyzing the financing curves in each market; and/or, by studying the potential that blockchain systems could bring to the international, corporate governance systems.
Notes

1 Large companies are defined as those that have more than 250 employees and have more than $13 million USD in annual income (INEGI, 2014).

2 According to INEGI (2014), medium-sized companies in Mexico have from 50 to 250 employees and have a maximum annual income of $13 million USD.

3 These products were tailor-made in order to cope with the identified fear (among Mexican business people) of losing control. These instruments are embedding discipline in the market and are teaching companies that they too may obtain public financing via mechanisms that do not necessarily need to lead to the dispersion of the company’s equity. Some of these instruments include Certificates for Development Capital (CKD’s); Infrastructure and Real Estate Trusts (FIBRAs); warrants; Share-Reference Certificates (TRAC’s); mortgage trusts; and long and short-term debt, amongst others.

4 BMV, as of May 2018, has 401 companies listed with respect to the different instruments mentioned above. The difference of 401 issuers vis-à-vis 455 listed instruments represents the issuers that have more than one instrument listed.

5 In Mexico, the CNBV determines prices. However, it must also be acknowledged that a competitive market could contribute to efficiencies that could also ultimately lead CNBV to set prices at a lower level.

6 If this lesson is taken, Mexican authorities would need to amend the Provisions applicable to Issuers, the Provisions applicable to Brokerage Houses, and the Provisions for Stock Exchanges in Mexico (among others) in order to ensure that the equity market benefits, that liquidity of the issuers’ stocks is promoted and that the interest of market-makers and investors is balanced.

7 According to experts interviewed, the aforementioned conditions have not changed since. And, whilst some interviewees maintained that if the equity market had been crowded enough (and if the BMV could not have dealt with the demand) then it would have been economically reasonable for a new stock exchange to enter the market, BIVA argues (in line with economic theory) that competition triggers innovation and thus brings positive impact to markets. Experts maintain, however, that the investment culture has remained almost the same in the last decades in Mexico, and that companies/business people are still reluctant regarding equity markets. This, as it will be elaborated further on in this chapter, presents a paramount challenge regarding the pending promotion efforts aimed at changing the financial culture in the country (which would incentivise financing through the stock markets).

8 As mentioned, this report was discussed and drafted in June 2018. However, the situation in Mexico has continued to evolve with the entrance of the new government in December of 2018. In this regard, the new Administration approved a measure in January 2019 to cut tax rates in interest earnings for companies with new equity issues, with the intention to incentivise an increase in the number of companies listing in Mexico’s stock markets.
The sample size was limited because the ambition was not to reach statistically significant conclusions, but to gain some insight into the views of a broadly representative cross-section of listed and non-listed companies with experience relevant to Mexican equity market development.

Stocks that rely heavily on the business cycle and economic conditions.

Also called defensive stocks because they experience profits regardless of economic variations. That is because they distribute goods and services that the market always needs; i.e. food, power, gas and water.

Interviewees from BMV and BIVA said that, in Mexico, listing costs for a company may go from 1.5% of the total offering if the company aims to get financing from the debt markets, and from 3.5% to 4% if it aims to obtain resources in/from the capital markets. The cost of banking intermediaries and legal fees were identified as the highest costs.

Even though this shows that the arithmetic average of the benefits of going public is exceeding that of the deterrents, the current state of the market might lead us to think otherwise – there could be a sample bias with those non-listed companies willing to reply to the survey also those most interested in considering listing. Nevertheless, the survey results may provide insight into the relative weight given to different factors. Thus, these matters could be addressed in further analysis.

All of them awarded a 10 (out of 10) to the criteria of access to capital and expected reputational enhancement.

Respondents awarded an 8 on a 0 – 10 scale to this factor.

Discipline is their top-2 favourite, just after the intangibles of reputational enhancement.

The companies that declared to “have” board meetings actually have review/discussion sessions (either weekly or monthly – depending on the time of the year) that they call “board meetings”. However, these sessions are only attended by the management and the CEO (who is also the chairman of the board); and they go over matters of sales, operations, controls, and day-to-day problems.

The largest being a pension fund that manages $35 billion USD.

The mutual fund did not answer this corporate governance question.

As of today, AFOREs are allowed to invest in Mexican indices and stock market products, and to do stock-picking in the domestic market; however, internationally, they may only invest in international indices.

However, interviewees from the CNBV did mention that the Commission could push for a more coordinated equity market (with a common, working plan that interweaves the CNBV’s work to that of other authorities and industry participants); and, for the definition of common goals and objectives in order to work in synergy to foster development in Mexico via the equity market.

A Fintech is a technologically enabled financial innovation that could result in new business models, applications, processes, products, or services with an associated material effect on financial markets and institutions and the provision of financial services.

Which is why the Mexico Central Bank (Banxico) is involved too.

Only those recognised corporate governance experts that have a proven trajectory. These firms were carefully selected, and were directly/personally invited by BMV, AMIB and BANCOMEXT. The list of consultants is confined to Mexican and Mexico-based firms.

“Who regulates and supervises listed firms, banks, brokerage houses, other depositary financial entities, mutual funds, and other financial intermediaries and market participants” (OECD, 2015).
26 Even though the CNBV did not give an opinion as to Mexico’s position vis-à-vis these four criteria, academics said that Mexico is strong in the first three pillars. Nevertheless, they underlined that the corporate governance pillar still needs to become a mainstream subject.

27 Private equity means that private funds channel long-term investment to companies that: (i) have been operating for a considerable period of time; (ii) are relatively more consolidated in the market; and, (iii) are in need of larger amounts of capital (this in comparison with venture capital). According to the COFECE (2014), this sector in Mexico is relatively young and still has a very limited contribution to the country’s GDP -less than 0.1% (when economies like the UK or the US contribute 1.1% and 0.9% of GDP, respectively). Nevertheless, it should be mentioned that the AMEXCAP launched a Manual of Best Practices for Private Equity Funds in 2017 that include corporate governance principles.

28 Big accounting firms' services are generally known to listed companies and potential issuers due to the regulatory requirement for issuers to have the last three financial statements reviewed by an external auditor before a company goes public.

29 *Nacional Financiera* is a Mexican development bank with the mandate to improve financial conditions for SME’s and to encourage the development of financial markets in Mexico.

30 Interviewees echoed the fact that the equity market has not been such a priority in over 20 years. For example, the fact that a company with a SAPIB regime may be now (after the Financial Reform) listed in the stock markets for 10 years before changing its regime to SAB (the regime that traditionally was required to be listed in a stock exchange), is without a doubt an incentive for the development of the equity markets.

31 Even though BIVA case has found contrasting views and perceptions, it is a potential catalyst for the market – especially, because it has brought attention to the stock markets, and it has incentivised the discussion on these matters. Nevertheless, it demands patience in order to see who the first movers are, how both the supply (companies) and demand (investors) curves of the market progress and evolve, and to see how it starts behaving when operations are formally launched.

32 Based on listed and non-listed survey respondents.

33 Following these assertions, some companies considering going public have revealed that their banking intermediaries told them (in the process) that there would be a lack of investors demand. Interestingly however, the BMV was hitting debt market records at the same time.

34 With them, issuers are assured to get the minimum subscription within the stipulated time, whilst the underwriter takes the burden of distributing the securities and provides its expert advice with regards to pricing of an issue.

35 They guarantee shares with a view to earn a commission from the issuer.
References


