Peru

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

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 Peru and additional country reports on Argentina, Brazil, Chile, Colombia and Mexico 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

The Peruvian capital market´s depth and capacity to provide appropriate financing for the economy currently fall short of both OECD and Latin American market levels. The capital market is mainly used for debt issuance (current debt represents about 4% of the GDP), whereas IPOs have been rare during the last decade (last IPO was in February 2012). This may be due to structural barriers that impede the entry of new market participants; high levels of informality in the economy, which limits the interest of companies to provide more information and eventually be highly scrutinized when compared with their peers; lack of interest from the business community, particularly a low interest from family businesses to share their ownership; and, finally, perceived high costs of public markets among some players[1].

The number of domestic companies listed for equity trading has risen slightly over the last decade, from 188 at the end of 2007 to 218 in 2017, according to World Federation of Exchange data[2] – a number that is higher than all Latin American countries except Brazil. Moreover, Peru also requires that supervised financial institutions list on the Lima Stock Exchange even in cases where they do not trade shares[3]. Counting these companies, 284 companies were listed in 2017[4], a number which had fallen to 277 by mid-2018, according to Lima Stock Exchange data.[5] Although Peru ranks relatively well in the region in terms of number of listed companies and market capitalization as a percentage of Gross Domestic Product (GDP), its liquidity (2.7%) ranks second lowest of the six countries reviewed for this report (slightly above Argentina --1.0%--), based on trading volume as a percentage of GDP, according to World Bank and WFE data[6].

Moreover, while the secondary market remains active and there was a slight increase in the number of equity transactions in 2017 (147,779) compared to 2016 (122,216), there has been a more significant downward trend in the last ten years. In 2007 the number of secondary market equity transactions reached 535,265, which represents more than three times the number of transactions in 2017[7].

Notwithstanding, there is a great commitment from public and private market players -- led by the Superintendency for Securities Markets (SMV)- and Lima Stock Exchange (BVL) -- to make changes that will contribute to the development of the market. On the one hand, in order to promote the primary market, the SMV has created market segments with flexible registration procedures and lower regulatory requirements to facilitate the access of SMEs to the market. This include the “Alternative Stock Market” for small and medium-sized enterprises and the “Institutional Investors Market”. These initiatives are expected to contribute to enable the growth of stock and bond markets.

On the other hand, to foster development of the secondary market, during the preparation of this report, SMV and BVL presented a program (applicable as of 1st August 2018) to reduce 90% of trading fees[8] to listed companies that are part of the local corporate governance index (a reduction of the BVL and CAVALI ICLV fees, as well as the trading contribution of the SMV). The corporate governance index (IBGC) is currently composed of six listed companies[9] representing about 19% of the liquidity of the Peruvian stock market and almost 50% of its market capitalization. The fee reduction initiative aims to

encourage better levels of corporate governance practices implementation among current issuers, as well as to improve the depth of the Peruvian market[10].

In 2017, the Peruvian secondary capital market had a USD 162.354 billion stock market capitalization according to Bolsa de Valores de Lima (BVL). The latest evaluation of the "Capital Markets Development Degree Indicator" produced by the Peruvian Central Bank showed there was a shortage in market liquidity. Also, in 2015 low levels of liquidity led MSCI[11] to consider reclassifying Peru from an "emerging market" category to "frontier market". If this downgrade would have taken place, it would not only have had a high impact on the Peruvian market, but also on the economy as a whole. An MSCI decision would generate a strong capital outflow, and therefore, greater difficulty to meet financial requirements for the Peruvian economy. According to "La Voz del Mercado", a study performed by BVL and EY (2016), the MSCI's decision to maintain the Peruvian market as an "emerging market" was due to three reasons: i. the country´s macroeconomic policies in recent years; ii. reforms carried out by capital market actors and; iii. corporate governance requirements adopted by regulatory authorities.

According to Procapitales, facing the threat of a possible reclassification as a "frontier market", the priority still is to increase liquidity levels in the capital market, as well as to find issuers (current or new ones) with the required free-float to attract international investors. As a response to the MSCI´s possibility to reclassify the Peruvian capital market, Law 30341 was passed in Congress in 2015, and entered into force on January 1, 2016. This law exempted income tax derived from the sale of stock until December 31, 2018.

Also, as part of the regulatory responses, the SMV strengthened corporate governance requirements with Resolution SMV N ° 033-2015 published on December 15, 2015. This regulation required issuers to include "corporate sustainability" information in their annual reports. This new set of information complements the annual "comply or explain" report on corporate governance practices. The purpose is to facilitate a better comprehensive risk management assessment from investors.

Another circumstance that might explain the absence of new equity listings on the Peruvian capital market is the high level of banking concentration, as stated by the International Monetary Fund. As described by Martín, Domínguez, Perea, Saca & Sánchez,[12] higher banking concentration implies better credit conditions offered to companies compared to capital market´s conditions.[13]. High levels of banking concentration within the Peruvian economy, as in other countries, may imply that the financial system promotes financing companies with traditional credits instead of helping companies to acquire its funds through capital markets (bonds or stock).

Finally, even though in recent years the Peruvian economy has achieved positive growth and informality has been dropping slightly, the informal economy remains significant. According to National Institute of Statistics and Informatics (*Instituto Nacional de Estadística e Informática – INEI*)[14], informal productive units[15] decreased by 3.4 % from 2007 to 2015, from 89.9% to 86.5%. Meanwhile, informal employment declined from 79.9% in 2007 to 73.2% in 2015[16]. High informality may create disincentives for companies to assume stronger levels of disclosure (for tax and competitive reasons mainly) that are required in the public capital markets.

About this document

This document discusses the benefits, risks, and barriers perceived by companies (listed and non-listed), as well as institutional investors, to the development of the Peruvian equity market. The responses from companies and investors regarding capital markets´

development are presented in the first part; and some recommendations for public policy considerations in the final section. As input to this document, 22 surveys were answered (10 responses from listed companies, seven from non-listed companies and five from institutional investors). In addition, recent academic studies on the subject were reviewed, and some experts interviewed[17]. The surveys were conducted during the first quarter of 2018 and were sent electronically by BVL and Procapitales to a targeted sample of companies and investors, with the collaboration of the Securities Market Superintendence (Superintendencia del Mercado de Valores – SMV).[18]

The participating companies and institutional investors are presented below:

Table 1.1. Participating companies

Company / Institutional investor	Classification
Luz del Sur	Publicly listed company
Compañía de Minas Buenaventura S.A.A.	Publicly listed company
Southern Copper Corporation	Publicly listed company
Inversiones Centenario S.A.A	Publicly listed company
ENGIE Energía Perú	Publicly listed company
Austral Group S.A.A	Publicly listed company
Alicorp S.A.A.	Publicly listed company
Cementos Pacasmayo S.A.A.	Publicly listed company
RELAPASAA	Publicly listed company
Multi Top SAC	Non-listed company
Promotores eléctricos S.A.	Non-listed company
Camposol	Non-listed company
LAYCONSA	Non-listed company
Metalpren S.A.	Non-listed company
Medrock Corporation	Non-listed company
Ferreycorp	Publicly listed company
Perales Huancaruna S.A.C.	Non-listed company
Profuturo AFP	Institutional investor (Pension fund)
Diviso Grupo Financiero	Institutional investor (Investment company)
AFP Integra	Institutional investor (Pension fund)
Prima AFP	Institutional investor (Pension fund)
Compass Group	Institutional investor (Mutual fund)

2. Companies´ perspectives

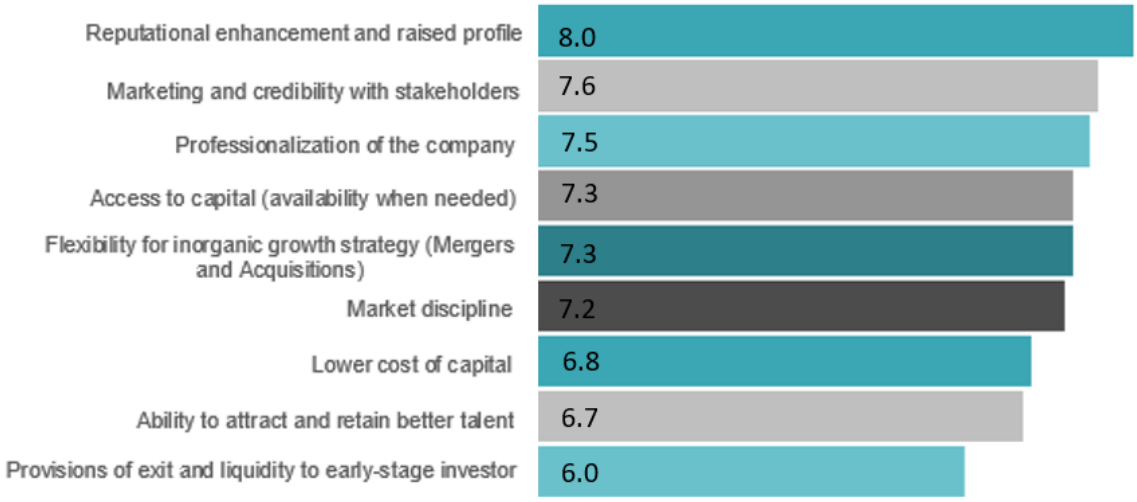
The findings presented below are based on the answers provided by 17 Peruvian companies, 10 of them listed. These companies are predominantly part of economic groups (12 companies are parent or subsidiaries within a business group).

Listed companies

Surveyed listed companies are predominantly part of economic groups (eight companies, representing 80% of the listed companies sample). Seven companies (70%) are only listed on the local stock exchange (BVL), Two companies (20%) are dual-listed on a foreign stock exchange, and one company (10%) has foreign depositary receipts. In general, the advantages provided by the market are perceived as moderately high; most of them are rated between 7.0 and 8.0 /10, slightly higher than ratings assigned to risks or costs of being listed.

According to Peruvian issuers, reputational enhancement is considered the most important benefit of being a listed company (8.0/10), followed by credibility among stakeholders (7.6/10) and professionalization of the companies. As discussed in several interviews carried out for this report, the option to use the capital market as an exit strategy for early stage investors has not been used in Peru.

Figure 2.1. Benefits generated from being a listed company

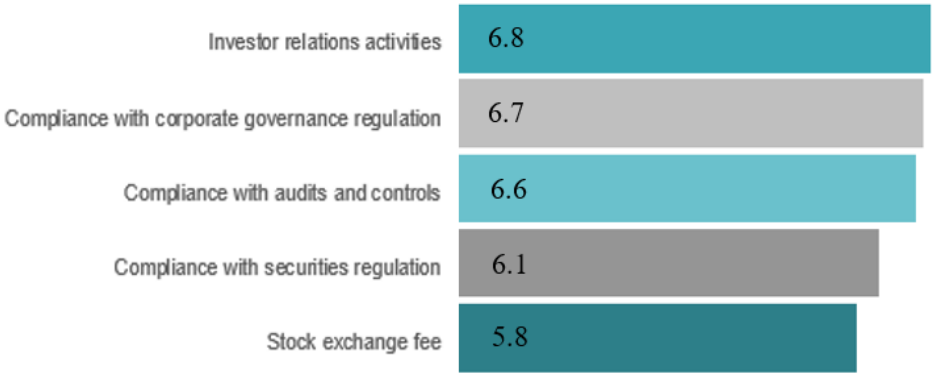


Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

According to the survey´s results, Peruvian companies do not consider that being listed implies extremely high costs (all the items are below 7.0/10). Investor relations and governance-related compliance are considered as the most relevant costs (nonetheless these

costs are not perceived as extremely high – 6.1 to 6.8). In addition, it is important to highlight that, as opposed to some other studies and perceptions according to which stock exchange fees are a determining factor for the Peruvian capital market´s development, this survey shows that issuers consider stock exchange fees as one of the least significant costs (5.8/10). Notwithstanding, as it was presented in the introduction of this document, BVL and SMV have developed strategies focused on reducing stock exchanges trading fees for issuers committed to enhance their governance standards.

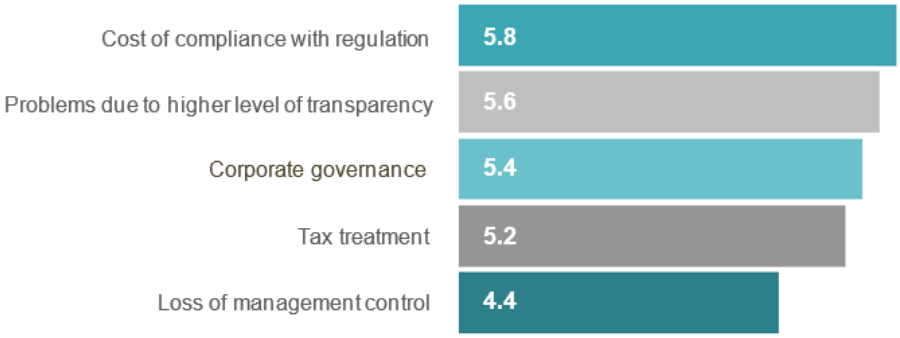
Figure 2.2. Costs generated from being a listed company



Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

Regarding the risks generated from being a listed company, in general, all the responses were also rated quite low (5.8 to 4.4). Comparatively, perceived benefits received general ratings between 7 and 8 (six factors in total). The highest perceived risks of being listed relate to compliance with regulation, problems due to higher levels of transparency and corporate governance requirements.

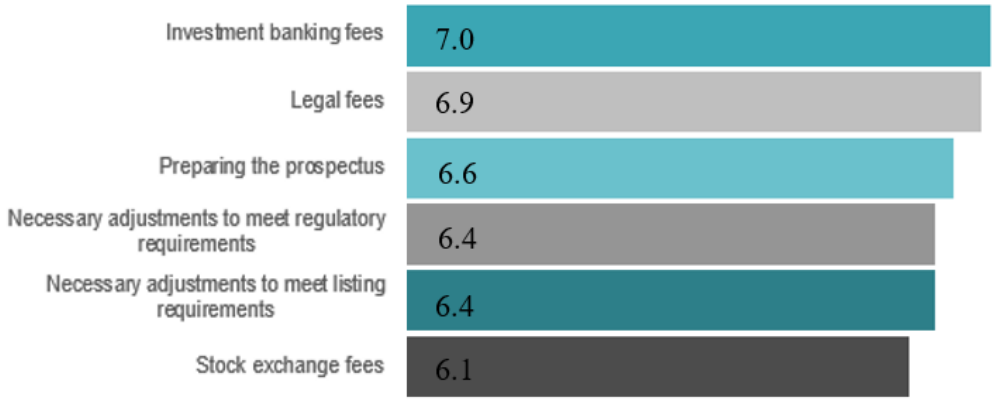
Figure 2.3. Risks generated from being a listed company



Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

Ratings given to costs related to IPOs were slightly higher than those related to costs and risks of being listed. Fees paid to investment bankers are seen as the most significant cost for IPOs (7.0/10), followed by legal fees and preparing the prospectus. Adjustments required to address regulatory, listing requirements and stock exchange fees were considered relatively insignificant.

Figure 2.4. Costs related to IPOs

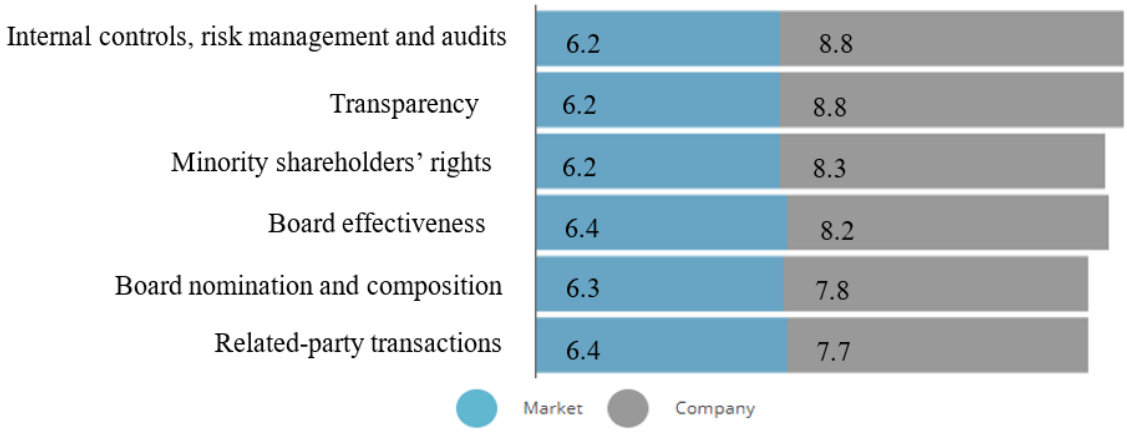


Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

As it was expected, considering normal biases[19], Peruvian issuers perceive their own corporate governance (in their companies) as being substantially better than the market´s in every dimension. In general, all the responses of the perceived market practices were rated quite low (6.2 to 6.4).

Companies' perceptions of their own corporate governance practices highlighted transparency and internal controls as being the two most advanced dimensions (8.8/10 each), followed by minority shareholders' rights (8.3/10). In contrast, the lowest rated aspect is related-party transactions with 7. 7/10 Interestingly, the lowest perceived market practices were transparency, internal controls, and minority shareholder rights (6.2/10 each); dimensions that, as it was previously presented, had the highest scores in the company self-evaluation perspective.

Figure 2.5. Level of development and sophistication of corporate governance in the market

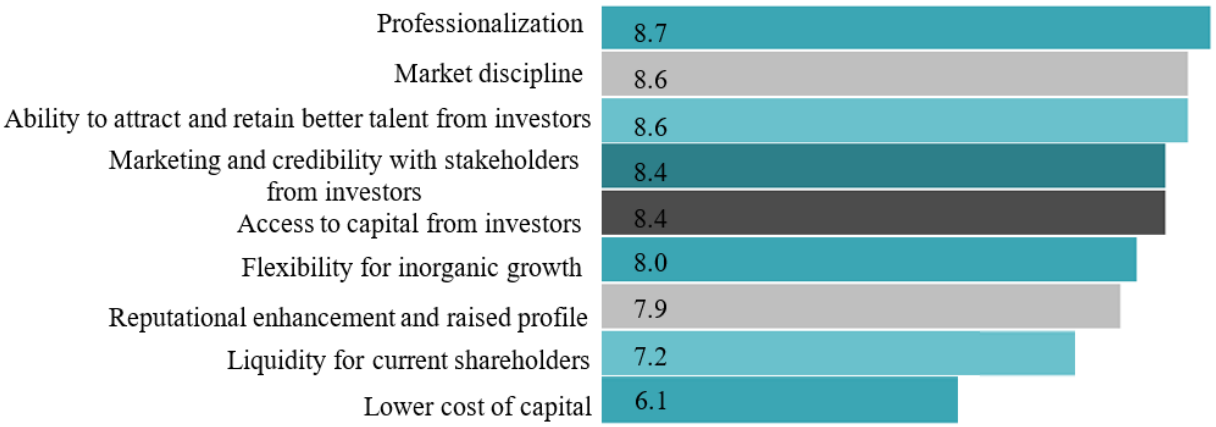


Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

Non-listed companies' opinion

The percentage of non-listed companies that responded to the survey represents 41% of the total sample. According to the results, non-listed companies consider that the benefits generated from being a listed company are higher than the costs related to listing and being listed. This perception shows the market´s high potential to attract new issuers. Also, it is interesting to note the importance Peruvian companies give to the effect of being listed in terms of the company´s professionalization (8.7/10); followed by market discipline and the ability to attract and retain better talent with a score of 8.6/10 each. Obtaining capital at a lower cost was not cited as a significant incentive for non-listed companies (6.1/10).

Figure 2.6. Potential benefits from being a listed company



Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

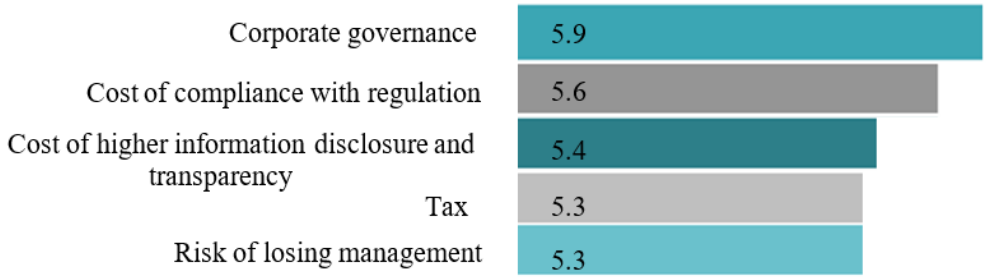
Non-listed companies consider the costs related to deciding whether to list as relatively low, with 13 factors receiving ratings between 3.3 and 5.7/10 – all well below the higher ratings cited for benefits above. Regulatory costs were cited as the most important concern related to using the equity market at 5.7. The next most significant concerns were related to investors short-termism (5.6/10) and additional corporate governance requirements (5.4/10).

Figure 2.7. Determinant factors of the decision to list a company

Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

Non-listed companies believe that the highest risk and cost generated from being an issuer is related to corporate governance requirements (5.9/10). Again, these and other costs cited below received significantly lower ratings than the perceived benefits.

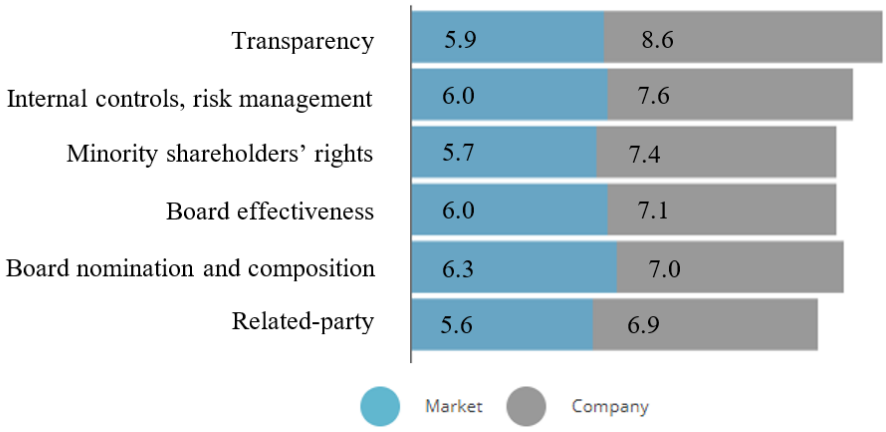
Figure 2.8. Potential risks or costs generated from being a listed company



Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

As is the case with listed firms, there is a gap between the perception of corporate governance evolution in their own companies, compared to the market´s. According to these companies, the dimensions perceived as most developed are transparency (8.6/10), followed by the control environment (7.6./10) and protection of minority shareholders rights (7.4/10). Meanwhile, at market level, all categories receive much lower ratings of between 5.6 and 5.9.

Figure 2.9. Development and sophistication of corporate governance from the perspective of non-listed companies



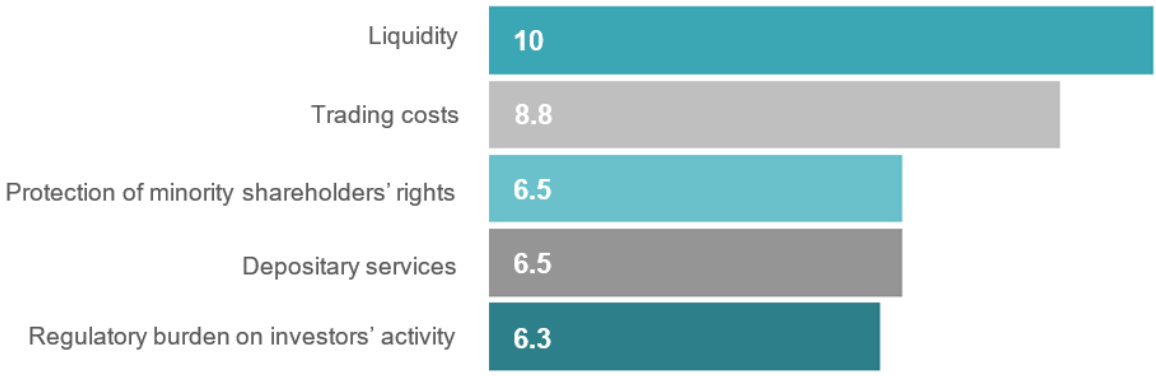
Source: Survey on access to equity financing in Latin America - survey for Companies (2018)

Institutional investor perspectives

Five institutional investors from Peru completed the survey (four pension funds and one mutual fund). All of them stated having an active investment strategy; 80% consider their investment strategy to be limited by regulatory caps to invest in equity; and two of them reported to base their investment decisions on indices. Furthermore, all investors are part of a financial conglomerate and have invested in international markets.

According to the surveyed investors, liquidity is the most crucial aspect to make an investment (10/10), followed by trading costs (8.8/10).

Figure 2.10. Important elements to consider when investing in shares

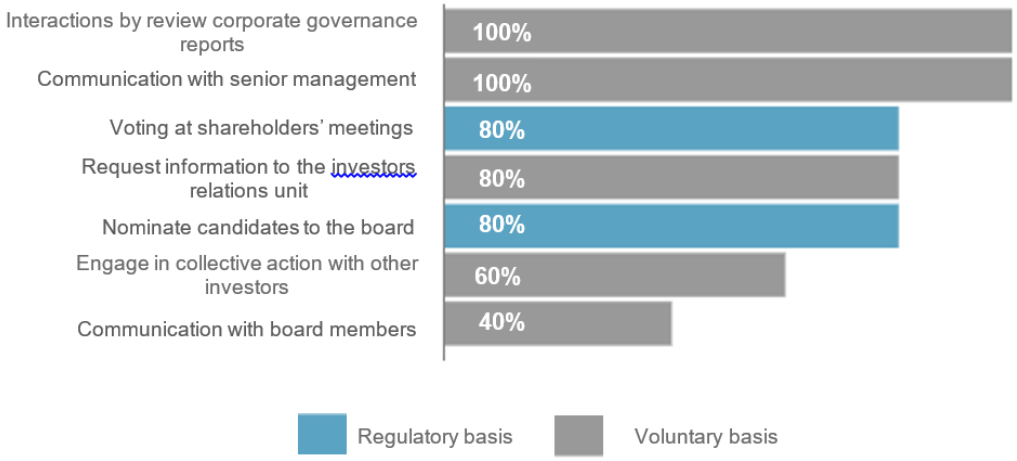


Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

Surveyed investors see themselves as being active and involved with their investees' companies. According to the results, all the investors reported that they obtain information from the investees' companies by means of corporate governance reports (voluntary basis); and to communicate with issuers´ senior management (voluntary basis). On the other hand, 80% of investors reported to vote at shareholders´ meetings and nominate director candidates (due to regulatory requirements), and obtain information from IR units (based

on voluntary basis). Sixty percent of investors surveyed reported to engage in collective action with other investors on a voluntary basis) and 40% of investors reported that they communicate with board members (on a voluntary basis).

Figure 2.11. Investors' participation in companies



Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

Consistent with the high rating given to trading costs when deciding to invest in shares (8.7/10), all five Peruvian investors considered trading costs to be a barrier to further developing the domestic capital market, but only one suggested that this barrier is "significant."

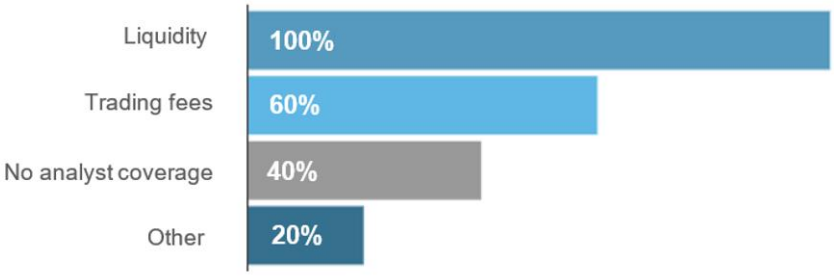
Table 2.1. Trading costs

Are trading costs a barrier to further develop the domestic capital market?	
Answer options	Rating
Yes, significantly	20%
Yes, but not significantly	80%

Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

All the investors consider liquidity as the main bottleneck for investing in small cap. In addition, 60% of investors believe trading costs are also a barrier for investing in such companies.

Figure 2.12. Bottlenecks for investing in small cap



Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

About the development of corporate governance

The development of corporate governance in Peruvian companies is considered acceptable by 80% of local institutional investors; while the remaining 20% believe its development and companies´ commitment is still poor. Among the six jurisdictions reviewed by the Task Force, this was the poorest score that domestic investors gave to their own jurisdiction. In all other jurisdictions, one or more investors rated corporate governance as good or very good in their jurisdictions.[20]

The investors' questionnaire included a section to understand their perception of comparative levels of corporate governance development in Latin American markets. Overall, investors found corporate governance practices in Peru to be either at the same level, or in a few cases, below the level of certain Latin American countries. More specifically:

i. There is no agreement among visions from Peruvian investors who have invested in Brazil and Argentina about corporate governance development in these markets in comparison with the Peruvian market. One institutional investor considers the development is about the same as in Peru; while the other responding institutional investor believes the Peruvian market´s corporate governance is lower than Brazilian or Argentinean markets.

ii. When compared to Chile, 100% of Peruvian investors (four investors) who have invested there consider that Chilean corporate governance is better than the Peruvian.

iii. When compared to Colombia and Mexico, 100% of investors (four investors) consider that its level of development is about the same as in Peru.

iv. Finally, three investors or 100% (that have invested in OECD countries), believe that corporate governance in OECD countries is better than corporate governance in Peru.

Table 2.2. Development of corporate governance in other countries

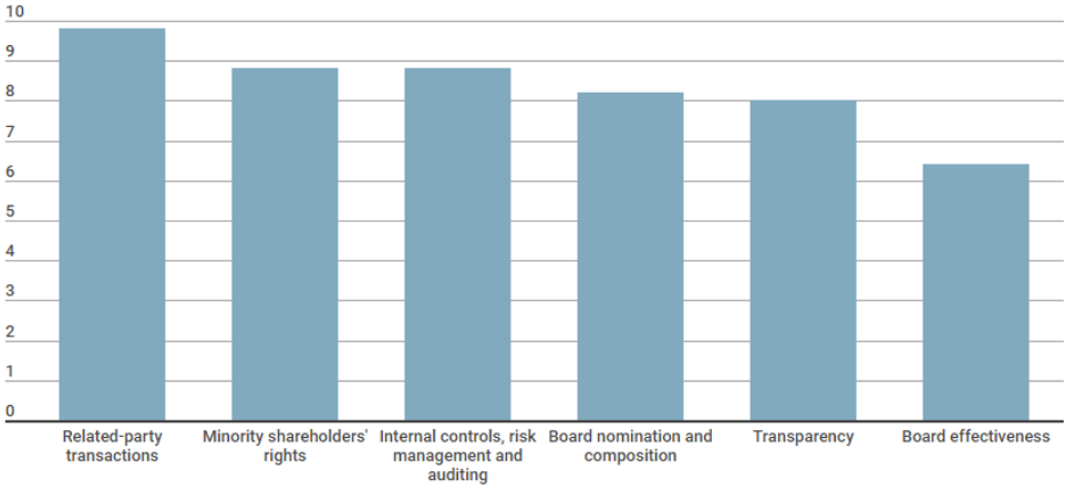
In case you invest in equity in countries other than your home country, how would you rate corporate governance practices of domestic vis a vis foreign firms?				
Answer options	Lower	About the Same	Higher	Much higher
Argentina	50%	50%		
Brazil	50%	50%		
Chile			100%	
Colombia		100%		
Mexico		100%		
Other OECD countries			33%	67%

Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

Peruvian institutional investors give high importance to corporate governance (8.6/10). All of them believe that better corporate governance would enable and increase their investments in local equity. Particularly, they believe that some corporate governance dimensions such as the related-party transactions regime (9.8/10), minority shareholders protection (8.8/10), and control environment (8.8/10), should be improved. The high

priority investors assign to related party transactions is consistent with the very low ratings that companies assigned to the level of development of this same issue within the market. However, companies tended to have a more positive perception than investors with respect to minority shareholder protection and company control environments.

Figure 2.13. Corporate governance areas to improve



Source: Survey on access to equity financing in Latin America - survey for institutional investors (2018)

3. Stakeholders' perspectives

As part of this report, some other sources were consulted to complement the results of the surveys. During the last 3 years BVL in alliance with EY developed a study called "La Voz del Mercado". This study surveyed different market participants about their perceptions of issuers and other topics related with the development of Peruvian capital markets. In 2016, "La Voz del Mercado" based on 348 responses found the following: [21]

I. Within the Pacific Alliance, Peru is perceived as the country with lower corporate governance quality.

II. Companies need to strengthen their corporate governance practices, especially focused on shareholders meetings and boards of directors. The practices that are perceived to require further development are: shareholders equal treatment, professionalism at board level, and transparency.

III. Information quality was reported as a key aspect that should be emphasized by the market regulator. The results show, for instance, that more than 60% of companies do not issue a corporate governance compliance report.

IV. Although 95% of the respondents consider that an adequate control environment and an integral risk management system would improve investor's confidence; only 31% of the companies have structured a sophisticated internal control system.

The findings of "La Voz del Mercado" may be seen as complementary to the OECD survey, providing a more detailed review of perceptions of corporate governance practices and compliance with the Peruvian regulatory environment, based on a much larger sample size. However, the OECD survey remains an important benchmark due to the common set of questions provided to all six Task Force countries that allows for greater comparability across the region.

The high level of banking dependence for the Peruvian economy is an additional issue of concern for some of the people interviewed for this document; as well as how this situation might serve as a barrier for new IPOs. According to the market participants interviewed, banks have different roles in the capital market, functioning in some cases as parent companies of other financial entities (institutional investors including pension funds, investment funds, private banking funds); as intermediaries (investment banking, brokerage firms); and as shareholders of issuers (main private sector companies). This situation is a source of potential conflicts of interest, due to the fact that for financial conglomerates (that include investment banks and commercial banks), keeping companies as creditors could be financially more attractive, as opposed to structuring issues that permit companies to enter the Peruvian equities or bond markets. This might be a factor contributing to the perception that investment banking fees are the most significant costs related to listing.

Some interviewees consider it crucial to initiate a discussion about creating a business regulatory environment based upon a healthy competition between capital markets and the banking sector. In that sense, banking and market regulators should analyze these issues

and find ways to surmount market development impediments. For instance, from a corporate governance regulatory perspective, they can look for some measures to alleviate or mitigate these potential conflicts of interest.

Finally, some stakeholders mentioned the importance of creating more incentives for the use of capital markets by SMEs such as through the Alternative Stock Market (AVM). According to Procapitales, this market did not have new issuers during 2017 and presented less than half of the transactions (128) compared to 2016.[22] As an interviewee said, the Peruvian regulatory framework has traditionally been designed only for large companies. Hence, it is necessary to continue reformulating capital market regulation to encourage SMEs' participation.

4. Conclusions and policy options or recommendations

I. Although the Peruvian stock market is facing the same restrictions and problems as the rest of the region, the interest of SMV and BVL to work together to create incentives to encourage new issuers is perceived with enthusiasm. This convergence of interests is considered particularly important in a context where the Peruvian market faces a risk of being reclassified as a "frontier market", which would lead to its exclusion from many international indices. Nevertheless, coordinated public-private efforts to address and resolve concerns of private international indices' operators have been successful to date.

II. The compulsory requirement for certain financial institutions to be listed, even when they are not interested in trading (or having a free-float), might lead to some confusion. However, in the end, subjecting companies to this requirement can have a positive outcome. Since they already have complied with high standards of regulation, ultimate issuance of shares in the market can be more easily promoted.

III. From a corporate governance perspective, several interviewed actors consider that one prior fundamental step is to harmonize governance requirements from SMV and the Banking Superintendence (with regards to basic corporate governance definitions; e.g.: independent directors[23]). This measure seems easily achievable, taking account of the government´s commitment, and it can become a "quick-win" for the Peruvian market. Similarly, most of the people interviewed for this report highlighted the importance of defining mandatory minimum corporate governance practices to complement the current voluntary "comply or explain" model.[24] Nevertheless, the harmonization of the regulatory framework should be analyzed from different perspectives, considering all the impacts it would have in companies and the Peruvian securities market. For example, some requirements for financial institutions related to risk supervision and risk management may need to be different than those for non-financial companies, considering the systemic risk that some financial institutions pose for the Peruvian economy.

IV. Even though, regulatory authorities such as the SMV have led efforts to strengthen the related-party transactions regime,[25] as it was identified in other countries, there is great concern among Peruvian investors regarding regulation on the subject. Mainly about their scope (definition of related-party), management rules to apply (identify, approve and report), and compulsory reports required to issuers (to investors and regulators).

V. Finally, as it was considered for other countries, market-integration initiatives are perceived as representing a viable path for strengthening capital markets. The relevance of integrating the Pacific Alliance has already led to a series of regulatory changes to facilitate the secondary securities trading, the recognition of IPOs in other markets, and recently the commitment among authorities for recognizing mutual funds shares (open-end funds). The integration process could contribute to boost the primary and secondary market: the possibility of having more investors from other countries could increase the demand, leading to higher share prices.

Accordingly, more issuers would be attracted to the Peruvian market as well as more institutional investors due to more stock alternatives to invest in. As a result, the market could benefit from higher liquidity, attracting more market participants such as investors and companies.

Notes

[1] Based on interviews and comments undertaken to produce this document.

[2]https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?end=2017&locations=PE&start=2007&view=chart

[3] Law 26702 defined that banks, financial entities, leasing companies and insurers must have registered in the stock exchange their equity before initiating operations. This legal requirement was created to guarantee higher levels of transparency and information disclosure in financial companies, since they manage funds from third parties and should preserve a public interest.

[4] Procapitales, 2017

[5] http://www.bvl.com.pe/mercempresas.html.

[6]https://data.worldbank.org/indicator/CM.MKT.TRAD.GD.ZS?end=2017&locations=PE&start=2007&view=chart

[7] Stock Report (*Informe Bursátil*) 2018 and 2008. Bolsa de Valores de Lima, 2018 and 2008.https://www.bvl.com.pe/pubdif/infmen/Ultimo_IB.pdf and https://www.bvl.com.pe/pubdif/infmen/M2008_12.pdf

[8] https://gestion.pe/economia/mercados/reducen-90-tarifas-negociacion-valores-indice-buen-gobierno-corporativo-234349

[9] Currently the IBGC (corporate governance index) is composed of BBVA Continental, Credicorp, Alicorp, Pacasmayo, Buenaventura and Ferrreycorp.

10 New trading fees for listed companies' part of the corporate governance index are:

Entity	Ordinary Fees	New Fees
SMV	0.0135%	0.00135%
BVL	0.021%	0.0021%
Cavali	0.04095%	0.004095%
Total	0.075% or 7.5%	0.0075% or 0.75%

[11] International independent provider of research-driven insights and tools for institutional investors. www.msci.com

[12] Martín, M., Domínguez, J., Perea, J., Saca, F. & Sánchez, S. (2011) La concentración bancaria y su impacto en los mercados de capitales de los países emergentes.

[13] RPP Noticias (2018). Fondo Monetario Internacional: Hay una concentración bancaria en el Perú.

[14] Originally in Spanish

[15] Companies not registered in the local tax system (SUNAT – Peruvian tax authority-).

[16] ASBANC (2016). Informalidad, flagelo para la economía peruana.

[17] Marco Antonio Saldivar, Chairman of BLV; Gerardo Gonzalez manager of Procapitales; Miguel Puga Partner at PWC; Sheilla Laserna, Profuturo.

[18] BVL, which sent out the survey, did not provide information on the overall number of surveys sent out.

[19] Sample bias - companies who answered the survey are the most interested in corporate governance; or simply due to a general self-reporting bias, in which respondents believe themselves to be better than the rest.

[20] See "Equity Market Development in Latin America: Enhancing Access to Corporate Finance".

[21] La Voz del Mercado, 2016

[22] Procapitales, annual report 2017.

[23] Since the definition of independent directors proposed by the SMV considers more elements and is stronger than the definition proposed by the Banking Superintendence, both definitions could be harmonized. In addition, other relevant corporate governance definitions and requirements proposed by both Superintendences could be analyzed in order to identify common aspects and not only enrich but also harmonize the requirements. This effort would facilitate companies to comply with applicable regulation and laws, to have some of the additional corporate governance requirements for being listed and, hence, ease their access to the stock market.

[24] The establishment of mandatory corporate governance practices aims to strengthen companies' direction and control structures. The regulation could contribute to improve the sophistication of the corporate governance models in the country by requesting companies to incorporate good practices such as an audit committee or independent members in the board of directors.

[25] The SMV has recently put into public consultation a regulation draft that regulates the requirement established in the Article 51, subsection c of the Securities Market Law, which requires that related-party transactions involving at least 5% of the issuer's assets must be previously approved by the Board of Directors.

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