

Meeting of the Roundtable Task Force on Latin American Equity Market Development

10-11 October, 2017

São Paulo, Brazil

Hosted by:



With the support of:



Meeting of the Roundtable Task Force on Latin American Equity Market Development

The Latin American Corporate Governance Roundtable Task Force on Equity Market Development, involving finance ministries, regulators, stock exchanges and private sector stakeholders from Argentina, Brazil, Chile, Colombia, Mexico and Peru along with other selected experts, has been established **to review the state of Latin American equity markets and their corporate governance standards. Its objective will be to enhance understanding of the current state of development and barriers to development of Latin American equity markets in the interest of identifying shared priorities for achieving further progress consistent with the G20/OECD Principles of Corporate Governance.**

The work of the Roundtable has found that Latin American countries face similar challenges in trying to develop their capital markets as an active source of financing for company growth. The challenges are two-fold: on the one hand, companies can be reluctant to undertake new or secondary listings, because they perceive that the shares will not receive sufficient value to make it attractive in comparison to other sources of finance (e.g., not high enough demand by investors or too costly to list). On the other hand, investors are sometimes reluctant to invest in Latin American markets (e.g. if they lack confidence that high standards of corporate governance are being respected, or if there are insufficient offerings or liquidity in the market). The Roundtable has suggested that fostering good corporate governance practices can play an important part in bridging this gap, by raising the value of companies and their attractiveness to investors, while creating stronger incentives for companies to list and trade on Latin American markets.

Yet, while better corporate governance may be part of the solution, it does not appear to be sufficient in itself to spur greater equity market development. The *G20/OECD Principles of Corporate Governance*, as revised in 2015, give increased emphasis to the importance of understanding market conditions and the dynamics and incentives of different market actors as part of the consideration necessary to develop an effective corporate governance framework.

The Task Force's first meeting therefore should be used to consider and explore more broadly what the barriers to the development of more active equity markets may be -- whether from the perspectives of companies, investors, stock exchanges, policy or regulatory officials, or other market participants or experts; and to identify where there are information gaps that require further research to come to more fully informed views.

Some attempts have already been made to identify these gaps and to take steps to address them, and an issues paper will be prepared for the meeting that helps to synthesize work undertaken to date as a reference for the Task Force's discussions. For example, current work of the OECD Corporate Governance Committee is looking at how greater regulatory flexibility may be tailored to address differing circumstances and conditions for different types of companies and other market participants. Within Latin America, increasing attention is being given to strengthening regional market integration and harmonizing standards to facilitate region-wide share trading. This is one of the rationales for the Latin American Integrated Market (MILA) initiative that has led to the development of a common trading platform among the stock exchanges of Chile, Colombia, Mexico and Peru. But the interest to promote region-wide trading has been wider, involving Argentina and Brazil as well. The emergence of "*Multilatina*" companies functioning in multiple markets has further reinforced the interest in considering the possibility of more harmonized standards supported by stronger enforcement co-ordination in cases involving multiple jurisdictions, to give investors

confidence that corporate governance requirements will be respected and enforced. Some stock-taking of the progress of these initiatives and their impact (or lack thereof) would also be useful to understand to what extent they may address the barriers that have been identified, or to what extent other solutions may be desirable.

This meeting of the Task Force is organized and co-ordinated by the OECD with funding support from the Government of Spain, and Brazilian local sponsors BRAiN and B3. It will be hosted by Brazil's Securities and Exchange Commission (CVM) in São Paulo.

A short issues and scoping paper will be prepared for consideration at the meeting to help guide and structure the discussion, and to provide proposals for a research agenda that may be most useful for the Task Force's work going forward.

Simultaneous interpretation will be provided between Spanish and English, and Portuguese and English.

DAY 1

Tuesday 10 October 2017

8:15-9:00 *Registration / Coffee*

9:00-09:10 **Welcoming Remarks**

- **Marcelo Barbosa, President, CVM Brazil**
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9:10-10:30 **Session 1: Stock-taking of the current state of Latin American Equity Market Development and Corporate Governance: the global context**

*Moderator: **Pablo Waldemar Renteria**, Commissioner, CVM, Brazil*

Introduction: The State of Latin American Equity Market Development and Corporate Governance: Current Knowledge and Gaps

Lead Speakers:

- **Mr. Daniel Blume**, OECD Senior Policy Analyst
- **Mr. Juan Munguira**, CNMV, Spain and member of OECD Corporate Governance Committee Bureau
- **Mr. Roberto Belchior**, B3, and member of stock exchange boards of Colombia, Peru and Chile
- **Mr. Paul Dudek**, Latham & Watkins, formerly of the US Securities and Exchange Commission

Summary

An OECD stock-taking of regional and global developments and current knowledge and gaps will be given to introduce the session. Subsequent speakers will present regional perspectives on factors that may influence moves towards increased cross-listing, financial integration and greater convergence of corporate governance standards.

Issues for discussion

- Why have initial public offerings stagnated or receded in recent years in Latin America?
 - How might these reasons be different than or similar to the experiences of developed or other emerging markets outside of Latin America?
 - What can we learn from experience and research on these topics to date?
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10:30-10:50 *Coffee break*

10:50-12:30 **Session 2: The Context: Perspectives on barriers and initiatives to support Latin American equity market development**

Moderator: Daniel Blume, OECD

Lead Speakers

- **Mr. Fernando Soares**, Director of SOEs, Ministry of Planning, Budget and Management, Brazil
- **Mr. Leandro Cuccioli**, Secretary of Financial Services, Ministry of Finance, Argentina
- **Ms. Rebeca Pizano**, Deputy General Director of Firm Banking, Ministry of Finance, Mexico

Summary

- Ministries of Finance have given consideration to both domestic conditions and regional conditions that may serve as impediments to greater equity market development. This session will provide them with an opportunity to report on the barriers they have identified and their actions, initiatives and plans -- looking not just at corporate governance but also the wider context involving issues such as the legal and regulatory framework for institutional investors including pension funds, tax incentives for investment in equity markets, consideration of alternative mechanisms for financing, efforts to reduce costs of listing, etc.

Issues for discussion:

- What are the barriers to developing more active and liquid equity markets in Latin America?
- What solutions or potential solutions have Latin American governments identified to address these barriers?
- What are the remaining challenges ahead?

12:30-14:00 *Lunch (sponsored by B3)*

14:00-15:50 **Session 3: Corporate Governance and Regulatory Approaches as a Factor in Regional Stock Market Integration and Equity Market Development: Stock Exchange and Private Sector Perspectives**

Moderator: Andrés Bernal, Governance Consultants, Colombia

Lead Speakers

- **Mr. Javier Diaz**, vice president, Bolsa de Valores de Colombia
- **Ms. Cristiana Pereira**, B3, Brazil
- **Ms. Maria Helena Santana**, audit com member, Itau Unibanco Holding, Brazil
- **Mr. Mauro da Cunha**, Executive Director, AMEC, Brazil

Open discussion

Summary

This session will focus on priorities for strengthening and improving the framework in Latin America to help stimulate greater use of Latin American equity markets. Some jurisdictions, seeking to attract company interest in using the market, have pushed for more flexible regulation that takes account of company size and other characteristics. Others have suggested a necessity for regulatory harmonization in order to facilitate greater cross-border investment. Under either approach, a key question may be what corporate governance standards are most important to prioritize. This could include, for example, a focus on investor protection issues (which may include issues related to board composition and independence); strengthening of the enforcement framework (including alternative dispute resolution mechanisms); and/ or strengthening and harmonizing of disclosure requirements.

Issues for discussion:

- What are the barriers to foreign investors trading actively in Latin American markets?
- Why may younger and smaller firms be reluctant to list their shares or, if they do, choose foreign markets?
- How relevant are transaction costs for firms and investors to list shares, trade them, etc. Has MILA reduced such costs?
- What steps may be taken to reduce such reluctance to list in local markets, e.g. how best to reduce transaction costs for firms to list shares, to decrease regulatory costs or to increase regulatory flexibility?
- Have capital markets been captured by mature firms?
- If better corporate governance practices are part of the solution, what are the priorities, and how would they address the concerns identified so far?

15:50-16:10 ***Coffee break***

16:10-17:30 **Session 4: Corporate governance research and perspectives: how to foster greater equity market development**

Moderator: Andres Oneto, CAF Latin American Development Bank

Lead Speakers

- **Prof. Alexander Guzman and Maria Andrea Trujillo, CESA, Colombia**
- **Prof. Viviane Muller Prado, Foundation Getulio Vargas, Brazil**
- **Mr. John Zemko, CIPE, US** on data gathering initiative on corporate governance practices for MILA countries
- **Prof. Luis Hernán Paul, University of Chile Corporate Governance Center**

Open discussion

Summary

Academics and corporate governance institutes who have done work or research on the role of corporate governance in promoting equity market development will be invited to present and discuss their findings. If they have plans or interest to carry out additional research in the future, this session will provide an opportunity to discuss their interests.

Issues for discussion:

- Have academics or corporate governance institutions developed additional or different insights into barriers to equity market development in the region? How could or should the corporate governance framework be changed to support greater market development?
- Do investors perceive the judiciary as an efficient institution to protect their rights?
- How could the existing dispute resolution mechanisms used by stock exchanges or administered by other institutions be empowered or fostered? What are their limitations?

19:00

Cocktail

- **Dress Code:** Casual
 - **Address: Banana Café**, 250 meters from the Hotel Meliã Jardim Europa - - Rua Jeronimo da Veiga, 198, Itaim Bibi, São Paulo
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DAY 2

Wednesday 11 October 2017

9:00-10:45 **Session 5: Regulatory perspectives on information gaps and priorities**

Moderator:

- **Mr. Pablo Souto**

Lead Speakers

- **Ms. Rocio Balestra**, Commissioner, CNV, Argentina
- **Ms. Alejandra Valladares**, Head of Regulation and Norms, SVS, Chile
- **Mr. Daniel Garcia**, head of research, SMV, Peru
- **Mr. Pablo Renteria**, Commissioner, CVM, Brazil
- **Ms. Sandra Perrea**, Deputy Superintendent for Issuers, SFC, Colombia

Open discussion

Summary

Regulators may have views as to what their priorities should be for strengthening the regulatory framework or its enforcement with respect to corporate governance issues or other measures that may be relevant to encourage greater equity market development. In this context, it will also be important for them to consider what information is lacking and what information should the task force consider gathering to allow for more informed decision-making and priority-setting? This may encompass, for example, surveys of task force regulators regarding existing standards and enforcement practices, or surveys of market participants or potential market participants on what may be needed to stimulate greater use of equity markets to support company investment needs and economic growth.

Issues for discussion:

- What further information may be needed to enable regulators and policy-makers to address the barriers to equity market development and the concerns raised during the first day of discussions?
- Given the advances made in corporate governance in the region over the last decade, is Latin America still lacking sufficient regulation or supervision and enforcement? Or are more flexible or targeted approaches to regulation needed?

10:45-11:10 ***Coffee break***

11:10-12:45 **Session 6: Open discussion on scope of work and preparations for June 2018 meeting of Task Force in Buenos Aires, back-to-back to 2018 meeting of the Latin American Corporate Governance Roundtable**

Moderator:

- **Mr. Daniel Blume**, OECD

Lead commentator

- **Mr. Juan Antonio Aliaga Méndez**, General Secretariat of Treasury and Finance Policy, Ministry of Economy and Competitiveness, Spain

Open discussion

Summary

Using the OECD Issues Paper as a reference, this session will feature open discussion among all participants to work towards a consensus for the scope of work and contributions from different task force members to the preparation of a more elaborated report for consideration by the Task Force at the June 2018 meeting of the Task Force in Buenos Aires, to be held back-to-back with the 2018 meeting of the Latin American Corporate Governance Roundtable.

Issues for discussion:

- How should the Task Force and its Secretariat focus their research agenda going forward, to be in a better position to assess priorities for its next meeting in mid-2018?
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