



Highlights & Conclusions of the Task Force meeting on Latin American Equity Market Development

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The first meeting of the Latin American Corporate Governance Roundtable's Task Force on Equity Market Development provided an opportunity for regulators, policy-makers and a range of relevant stakeholders interested in promoting equity market development in the region to build a common understanding of current impediments to market development and possible avenues of further research that may help to underpin improvements that could boost their development in the future.

The approximately 60 attendees included participants from Argentina, Brazil, Chile, Colombia, Mexico, Peru, Spain, and the United States, as well as representatives of the OECD, World Bank, CAF-Latin American Development Bank, and the Inter-American Development Bank. The meeting was organised and co-ordinated by the OECD and its local host, the Securities and Exchange Commission of Brazil (CVM), with funding support from the Government of Spain, and Brazilian local sponsors BRAiN and the B3 stock exchange.

Key points raised included:

Session 1

- Welcoming remarks from Marcelo Barbosa, President of CVM Brazil highlighted the importance of this Task Force as an information-sharing platform. Relevant discussion points on equity market development included: 1) Enforcement; 2) Financial education; and 3) Reduction of the cost of compliance.
- The first session put the discussion in context by presenting a “**Stock-taking of the current state of Latin American Equity Market Development and Corporate Governance**”. The OECD “Background Issues Note on Equity Market Development in Latin America” prepared for the meeting, provided an initial scoping. However, the discussions helped to shed additional light on the problems different jurisdictions are facing - as well as commonalities. Countries in the region tend to be more dependent on bank loans as a source of financing for company growth, and Latin American countries have been experiencing a decrease in the overall number of Initial Public Offerings (IPOs) and a levelling off in the number of publicly listed companies as well as market capitalization during the last few years. Low market liquidity, in particular, is a problem as it exacerbates price volatility, reduces the pool of investors and increases risks, inhibiting investment finance through equity. There are several factors contributing to this, many of which are put forward in the Issues Note, such as the high levels of ownership and market concentration and the presence of conglomerate groups, among other aspects. Apart from macroeconomic conditions, recent scandals might have also negatively affected the credibility and confidence in regional markets.
- The Issues Note also identifies three important areas for improving equity market development: 1) the institutional framework; 2) sound macroeconomic policies; and 3) well-functioning financial infrastructure. Several Latin American countries have already had significant improvement in those areas and have taken steps to increase investor confidence at the country-level by implementing increasingly sophisticated corporate governance rules and codes. However further evaluation is needed, especially on market characteristics, dynamics of cross-listings and issuer’s incentives and disincentives to go public. Further research would also be needed on how best to compare CG practices and standards across countries and the functioning of enforcement mechanisms.

- After this preliminary diagnosis, several participants pointed to the importance of **market integration** to develop strong and sustainable markets in the region, and of working collectively in sharing good practices which could help countries with tremendous resources to “exploit” their untapped potential. In particular, the region has tremendous infrastructure needs and could use capital markets to finance these investments. Hence, regional market integration - which has been defined to include countries from both the Pacific Alliance and Mercosur – could increase the viability of Latin America as a sustainable investment hub. There are, however, many difficult but not insurmountable challenges ahead posed by the difference in currencies and taxation regimes, as well as regulatory arbitrage. On this aspect, Brazil (and Pacific Alliance countries) have been working on a few initiatives, including the creation of a “passport of funds”.
- Additional inputs from this session also highlighted the “inevitable” nature of market integration in today’s interconnected world, for which corporate governance could serve as a common language. This is particularly relevant as we are currently heading towards more uniform rules and admission requirements, as evidenced by the recent decision of the European Commission to determine that certain financial markets such as that of Brazil have equivalent regulatory regimes to those in the EU, which in turn should contribute to market certainty and cross-border activity. However, one of the participants suggested that, if regulatory convergence is indeed becoming a reality in Latin America, this process is currently not being led by regional countries themselves but rather by “outsiders” such as international organizations.
- Another important factor is the systemic risk brought by market integration. As many countries try to develop capital markets as a source of financing to reduce dependence on the banking system, systemic risk may move from the banking system to the capital markets. Furthermore, market integration also means increased systemic risk, as concerns about insolvency and/or lack of transparency can be contagious from one market to another. Such risk can only be mitigated through the establishment of common corporate governance and transparency standards. The need for common standards is further increased by technology and digitalization, which also bring the need to find common definitions for market intermediaries and establish uniform rules on the suitability and categorisation of different intermediaries.
- Finally, this session also underlined the importance of corporate governance in promoting strong equity capital markets, and by doing so also opened the debate on whether markets are promoted by adopting high standards or lower standards of corporate governance. Indeed, if high standards promote investor confidence, they also can engender costs and burdens.

Session 2

- The second session, involving speakers from **Ministries of Finance and Planning, Management and Budget**, revolved around the “**perspectives on barriers and initiatives to support Latin American equity market development**”. Argentina, Mexico and Brazil gave consideration to both domestic and regional conditions that may serve as impediments to greater equity market development.
- In particular, Argentina described the difficulties it is experiencing in trying to boost its capital market after years of inactivity. Currently, Argentina’s financial system is the least developed of the six Task Force countries in the region, but recent, more market-friendly reforms are starting to bear fruits. In particular, the country is expected to end the year with five follow-on equity offerings and one or two IPOs, which represent the greatest number of transactions in the last 10 years. A new, re-organized and consolidated stock exchange, Bolsas y Mercados Argentinos (BYMA), is also enthusiastic and active in promoting corporate governance improvements through their own plans to establish a Novo Mercado-type model adapted to their specific circumstances.

- However, more needs to be done and Argentina's financial system will need to double in size in the next 3 or 4 years in order to get the credit the country needs for its growth. This, in turn, brings real challenges to policy-makers who have to set the conditions for this to happen. Potential lines of actions and policy tools identified by the government include 1) encouraging long-term investment (mainly through tax exemptions); 2) promoting access and usage of high-quality financial services across all segments of the population, to remedy the lack of financial inclusion which is a common issue in the region; 3) boosting liquidity of the local capital market; 4) enhancing investor protection, market transparency and modernising the regulatory framework (which includes the introduction of a new Corporate Governance Code); and 5) accelerating the development of the mortgage market through local capital markets.
- In Mexico, where the stock market is a significant driver of economic growth, challenges are of a different nature: 1) the size of the Mexican capital market is low (in terms of capitalization, traded volume, number of listed companies and IPOs) compared to the country's GDP and levels found in OECD or emerging economies; 2) there is only limited issuance of corporate debt, which is often high-quality. This means that the market only attracts major corporations, with 63% of issuers having a triple-A (AAA) qualification; 3) despite its high quality, there is very little liquidity of corporate debt, which has to do with the fact that the secondary market is very concentrated with very low growth; 4) there is also limited competition between financial intermediaries, stock exchanges and institutional investors. In particular, in Mexico, there is a high concentration of structured instruments (Certificates of Capital development or CKDs) in pension funds, among which the three largest concentrate 56% of total investments. This also implies potential opportunities for listed companies in the insurance industry to participate more in this market; and 5) a general lack of financial inclusion and education in the country, coupled with a lack of "habit of investing", especially in the long-term, and a general perception that "going public is not safe". Specifically, small and medium-sized enterprises (SMEs,) think that the stock market is too sophisticated or costly for them.
- As a result of the identification of these five problems, several mechanisms have been put in place to improve market growth for SMEs in Mexico, including a programme which focuses on four axes: 1) change the regulatory framework of the stock market (which includes, amongst other things, the introduction of a new Stock Exchange and new instruments to make it easier to operate in the market); 2) boost the market through specific programmes on corporate governance. Most companies in Mexico are family businesses and do not have robust CG practices, so the idea is to help them acquire their own CG framework by structuring the corporate debt from short-term to long-term with an interesting rate which would decrease as the company improves its corporate governance. With this framework, these companies could foresee going public after two years; 3) change the investment regime of pension funds and insurers, to increase their appetite for participating in the market. Most particularly, the idea is to bring new incentives to pensions funds to invest in more "risky" businesses; and 4) provide a strategy for financial education which consists of "educating" companies on the options they have in terms of non-traditional financing and busting the myth that the market is too expensive or complicated for them.
- Finally, Brazil's Ministry of Planning, Budget and Management shared its experience with respect to positioning of state-owned enterprises (SOEs) to make use of the market, including through corporate governance improvements, concessions and/or privatization. With regard to corporate governance, Brazil passed a bill on SOE accountability one year ago with the idea of increasing CG standards and promoting transparency in SOEs as a way of increasing the "attractiveness" and credibility of SOEs. At the same time, the Ministry has also worked to increase transparency of SOEs by establishing new indicators which can help give a diagnosis on CG practices in these companies and indicate how well they do when it comes to "internalizing" these new rules. Based on this, a report (or governance index) has been produced to show potential areas for improvement and provide a ranking of these companies.

If they perform well, they will be able to receive a quality certificate, which in turn, might help them get access to the stock market. Another aspect concerns concessions and privatization which are currently considered for many new projects in Brazil, and have the potential to generate an important volume of bonds. Besides privatization, Brazil is also restructuring many of its SOEs, mainly to re-orient them towards their core activities and remove ancillary activities that are not profitable. This has been the case for both Petrobras and Eletrobras for example, which have gone back to their main activities. In the case of Eletrobras, the company is now subject to privatization in the near future.

- Furthermore, additional key points raised in the subsequent general discussion mentioned the frustration of some participants regarding the past financing activities of the state-owned *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) as an impediment for companies to get into the market, as some of them would obtain accessible financing from BNDES instead of using the market. To ease concerns, BNDES shifted its focus more recently, working to support SMEs move to the Bovespa Mais listing segment, and has announced its engagement in enhancing corporate governance in companies the institution owns in its portfolio. This includes, for example, advocating for the appointment of independent board member in all the companies it has a stake in. In addition, BNDES is discussing to invest in funds to help SMEs scale up.

Session 3

- Session 3 was devoted to “**corporate governance and regulatory approaches as a factor in regional stock market integration and equity market development**”, offering **stock exchange and private sector perspectives**. The session focused on priorities for strengthening and improving the framework in Latin America to help stimulate greater use of Latin American equity markets.
- Faced with the absence of many large caps in the region, many jurisdictions seem focused on the objective of attracting SMEs to the equity market through greater regulatory flexibility and a reduction of compliance costs - especially because certain regulations might not be suitable for certain types of companies or market realities. In this context, the Brazilian stock exchange has undertaken a public-private initiative to bring SMEs to the market. The initiative gathered representatives from many different institutions including CVM and BNDES to survey international experiences tailored to capital-raising needs of SMEs. This international benchmarking allowed for the identification of several common trends, which subsequently helped for the preparation of proposals. Many of these proposals were implemented in 2014 and resulted in cost reduction, investor education initiatives, and less stringent CG requirements for companies listed in the Bovespa Mais listing segment (currently 14 companies). Similarly, in Colombia, where SMEs are also important contributors to GDP growth and employment, a research was led by the Colombian Stock Exchange showing that SMEs face challenges in accessing financing and that, as a result of a big concentration of financial groups, they often face differential interest rates (i.e. a more or less good rate depending on the company’s relationship with the bank). As a result, the Colombia Stock Exchange decided to develop and run a marketplace in which SMEs would be able to issue bonds and commercial papers to the general public. This web platform (not operational yet) would be investor-based with an emphasis on individuals and would be disintermediated, with very low disclosure requirements.
- Such initiatives, in turn, brought the question of finding the right balance between legal requirements, regulation, and the actual needs of investors, so as to remain attractive to them. Hence, while regulatory flexibility might be important to attract SMEs, there is a certain limit to respect in order to ensure minimum protection and disclosure to the investor. For certain participants, however, regulatory flexibility is not a good strategy as it would not help attract companies and investors at the same time. Others do not perceive the relevance of trying to bring SMEs to the market, given the fact that the number of listed companies is dropping in most markets while financing through private equity and

venture capital is on the rise. In fact, investors seem less favourable to public markets, channelling a growing part of their portfolios to other types of funds. In this context, creating and developing an IPO market for SMEs becomes a real challenge, especially when considering market intermediaries and their business models: how to make them interested in a much less liquid segment? And is it really useful to invest in developing a public market for SMEs, at all, if private equity and venture capital have a greater potential to address the funding needs of smaller companies?

- Other key points emerging from the discussion included the importance of investor protection and of enforcement.
 - On investor protection, the Colombian Stock Exchange has developed the “IR Recognition Seal” for best practices in investor relations. This programme has been successful because it is voluntary and has led to a significant improvement in all the companies (currently 31) complying with these standards, for which compliance is up to 80%. However, the companies participating in this initiative tend to be the largest and most actively traded. Therefore, increasing the number of companies complying with these standards is a challenge, as the universe of companies with these characteristics is rather limited.
 - On enforcement: despite recent improvements in disclosure in Brazil, some investors continue to raise concerns about weak enforcement of conflicts of interest as well as a lack of effective mechanisms for redress and compensation. Enforcement through private arbitration, though cited as a partial solution in the Issues Note, has been criticized for being “opaque and expensive” in Brazil. This is an issue in Brazil as listing requirements for the Novo Mercado make its use mandatory for dispute resolution, and for some participants basically “eliminates the recourse for small investors” and opens the way for corruption in the form of “green mail”.
- Furthermore, the lack of stewardship from institutional investors has also been identified as one potential problem for financial inclusion and market integration, as this often contributes to poor corporate governance practices. To address this problem, AMEC announced having launched a Stewardship Code in October 2016 and more recently has implemented a Handbook to assist signatories in their journey to better stewardship and to help foster dialogue between companies and investors.
- Furthermore, investment funds, including pension funds, are considered efficient vehicles to provide equity exposure to individuals as well as to stimulate savings. However many of them face important challenges to fulfil this role, as for example in Brazil, where investment funds face higher taxes than individuals. Recent numbers show that the exposure of investment funds to equity currently stands at an all-time low of 4% in the country. Hence, incentives for institutional investors need to be rethought so that they become the vehicles for individuals to get access to the equity markets. In the process, investment funds can become powerful tools for market integration as well. As one participant suggested “it would be much easier to facilitate cross-border risk-taking through these institutions, rather than by creating complex intermediary solutions to allow for individuals to get market access”.
- Finally, this session also highlighted Peru’s efforts to improve the state of its equity market. Despite the existence of several CG instruments, only a limited number of companies have good practices. This is why three years ago, the Peruvian Stock Exchange decided to create a new tool called “The Voice of the Market” to understand the perceptions of all main players in the market on the quality of corporate governance in Peruvian listed companies. While results show that while the market perception of Peru having a poor level of CG practices is widespread, this tool can help regulators as well as companies to get useful information to improve CG practices.

Session 4

- Session 4 focused on “**how to foster greater equity market development**” from a research perspective. Academics and corporate governance institutions that have done work or research on the role of corporate governance in promoting equity market development were invited to present and discuss their findings. First, a representative of the Foundation Getulio Vargas in Brazil shared recent research findings on enforcement in Brazil analysing mainly cases involving the provision of false or misleading information to stock markets. In such situation, investors purchase corporate stock (or other securities) at a higher price than the price justified by the firm’s actual value, which eventually leads to financial losses for investors. Analysing the Brazilian enforcement structure, both from the public and private side, the research reviews how compensation for losses may be considered in Brazil, but finds a limited amount of relevant cases which would allow to understand how enforcement really works in the country. Nevertheless, the research provided some useful insights by showing that courts lack a full understanding of the markets and often harm them, and that public enforcement does not have enough incentives and tools to monitor the market, undermining the effectiveness of enforcement in Brazil. Arbitration (provided that a minimum level of information is disclosed) and settlements were invoked as potential “second best” alternatives.
- Then, CESA, a higher education institution from Colombia, shared findings of research commissioned by the Colombia Stock Exchange, for which they tried to identify ways to get more listed companies in the Colombian market. As an initial step, they identified reasons why CG matters to capital markets: 1) when the quality of institutions is weak, financial liberalization may not yield the desired results; 2) the mitigation of political risk and the development of good quality institutions are important factors in the development of stock markets in emerging markets; and 3) firm-level CG provisions matter more in countries with weak legal environments. Their research also looked at the current phenomenon of delisting to understand the trend, and included in-depth interviews with main institutional investors in the country to understand their perceptions about the market, and ultimately provide a contextualized discussion for the country.
- As a result, they identified nine barriers to the equity market in Colombia: 1) the current situation is beneficial for narrow political/industrial elites who have access to capital through relationship banking. Moreover, the absence of arm’s length finance restricts potential entrants’ access to investment funds and prevents competition in product markets; 2) Banking sector development: in Colombia, most financing occurs in the banking system, which leads to lower growth of stock markets; 3) quality of institutions: good quality regulatory framework is not enough when the enforcement capacity is lacking; 4) changes in the rules of the game: if the rule of law is not well-established, investors will be deterred by the fear of arbitrary changes of rules or expropriation; 5) need for financial literacy for retail and institutional investors; 6) need for better CG practices, at firm level. But this also leads to a tension between the minimum set of CG requirements companies may assume and the difficulties the application of these requirements might pose to them; 7) ownership concentration and the risk of losing control: family firms prefer debt to equity when losing control is an issue; 8) resistance to transparency: potential new issuers are reluctant to disclose relevant information and have not developed good CG practices; 9) regulatory arbitrage; firms capitalize on loopholes in regulatory systems in order to circumvent unfavourable regulation.
- On the basis of these interviews and the identification of these barriers, they recommended to take actions in five areas: 1) Institutional development (e.g. law enforcement, minority shareholder protection); 2) pro-market policies (e.g. tax incentives or tax treatment for new issuers and investors); 3) financial education and literacy (for institutional and retail investors); 4) SMEs market segment with basic CG standards and lower listing requirements; 5) level the playing field between listed and

closely-held firms by strengthening requirements for closely held firms in terms of disclosure and other governance practices. However, it is worth mentioning that this last line of action was rather controversial and was not specifically supported around the table.

- After that, the Center for International Private Enterprise (CIPE), United States, presented its work to support the introduction of better CG standards in MILA countries (Chile, Colombia, Mexico, Peru) and facilitate the use of market forces to incentivise use of such practices. In particular, CIPE has developed a framework to allow for lateral comparisons of corporate governance practices among all MILA countries. To build the framework, they first identified the current comparable recommendations (soft regulations) in terms of CG in each of the four countries and conducted research starting with the 25 most liquid companies in each country to get a snapshot of what the best practices were like. When looking at these policies and standards, they were able to identify about 13 different areas that were standing out as most relevant for comparison. Based on that, they created a platform named Elapedia which allows for comparisons of standards across four criteria: countries, sectors, by types of practices and individual companies. They also made three findings when looking at these four markets: 1) it is easy to see how self-regulatory aspects could be harmonised provided there is commitment from the regulatory side to do so; 2) the information included in the “comply-or-explain” report is not sufficient to portray a clear picture of an issuer’s corporate governance status, so they also used annual reports to understand individual issuers; 3) the self-regulatory practices have to be analysed considering each country’s regulatory framework (which CIPE plans to develop in a follow-up phase of this project). For example, a voluntary recommendation may not be included in a country code if it is already compulsory by law. From a general perspective, they also found out that although market participants express a strong interest in such information, it does not appear to be a high priority for them.
- Finally, a representative from the Corporate Governance Center of the University of Chile shared his experience in working on how corporate governance standards are being applied in Chile. Faced with the lack of reaction from the private sector, regulators have in the last five or six years decided to promote a CG Code, which was subsequently reformed two years ago. The length of the Code, which is based on a comply-or-explain approach, grew from 19 to 99 practices, which did not lead to good results in terms of compliance, bringing the rate down to 30-35%. One of the explanations advanced was that these practices might not be relevant for Chilean companies, or not suitable to the country’s specificities. Furthermore, it was suggested that recent generational changes in family businesses, as well as changes in the ownership structure and control of the Chilean companies, are perhaps a more important factor in the evolution of corporate governance practices and behaviours in Chile, leading to greater diversification and internationalisation.

Session 5

- The fifth session was on “**regulatory perspectives on information gaps and priorities**” and was led by **national regulators** from all countries present at the meeting. Regulators expressed their views on what their priorities were 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. As already mentioned, Argentina is re-creating and re-designing its financial market, and is therefore developing a few reforms to spur a renewed equity market. However, the fact that countries are in varying stages of development raises the question of “how to level the field and find commonalities for harmonization between such different countries?” A first solution could be to look at the experience of MILA countries and see what their challenges were, to see if this experience is replicated at a more regional level. At the same time, Argentina is also working on improving CG practices, in particular by reforming certain underpinnings of the National Securities Commission (CNV) and doubling the efforts in terms of enforcement, while also creating a new CG management

team. Argentinians also created a Task Force on Corporate Governance which is a private-public initiative involving the whole CG ecosystem, and which allows to debate and discuss these issues with relevant stakeholders.

- Brazil is currently considering some reforms as well, principally aimed at reducing the cost of regulatory compliance (and not only for SMEs). In fact, Brazil has experienced many regulatory reforms and a significant increase in disclosure requirements in the last 10 years which has resulted in a regulatory burden and redundancies with overlapping of some duties and regulations between the CVM and Central Bank. Hence, currently the country is looking at what can be eliminated. Regarding the balance between public and private enforcement, which has become an important issue in Brazil, regulators have limited resources and might not be able to deal with some litigations or situations that might occur; this is why private enforcement can be an important complementary channel for monitoring the market, allowing investors to get compensation and inhibiting certain behaviors.
- In Chile, corporate governance is very relevant as the country would like to compete with more developed markets that may be felt as more secure – so best practices are often mandatory according to their company law or based on a comply-or-explain approach. As mentioned before, the Corporate Governance Code was modified in 2015, for which regulators have received a lot of criticism. The initial law – which was based on a comply-or-explain mechanism – did not really generate interest and was more applied as an obligation by companies, who did not perceive the benefits of applying good CG practices and often provided limited explanation with their answers. As a result, the regulator decided to divide the 19 original practices into sub-sections, decomposing each of them to get companies to provide more information through other means. So for the future, regulators in Chile would like to balance the amount of information required from companies because they feel these requirements might be too high for companies and also because many of the solutions put in place for investor protection are in fact not protecting them (e.g. the prospectus: only qualified investors use it and not retail investors because they do not have the tools and capacity for that. So they are working on a simplified version of the prospectus). In addition, the Superintendencia also developed a new process whereby each time they issue a new law, they include citizen participation to get academia and other third parties involved in roundtable discussions, to discuss the new law. In addition to these consultation roundtables, they also would like to produce sustainability reports which would identify policies in terms of social responsibility, the relevant stakeholder groups, etc. However, they observed that when it comes to environmental or societal developments, the market is not really interested or does not perceive these issues as relevant.
- Colombia stressed the importance of analyzing the equity market through all key players' perspectives: namely the issuers, investors, infrastructure providers and intermediaries. From an issuer's perspective, market access needs to be improved; therefore supervisors need to propose facilities for issuers on the one hand, while ensuring investors' trust on the other hand. In particular, there is a need to "make the market easier and cheaper" by standardizing the way of developing and issuing prospectuses to make it easier for investors to use as a reference. With regard to investors, institutional investors in Colombia, as in many other regional countries, are hungry only for triple A (AAA) issuances, making it very difficult for new issuers to access the market. Regulators do not think that this issue needs to be regulated but they want to raise awareness and propose other strategies. With regard to intermediaries, the Colombian government is currently working on a new regulation to improve all the advisory services being provided to identify the risk for clients. Regulators are also working on providing more transparency in costs and transactions and in issuing technological innovation for developing new products to enlarge the investor base. Finally, in terms of infrastructure providers, Colombian regulators believe that it is necessary to optimize the services of negotiations, compensations and liquidation and use the current technological platforms they have developed with the Stock Exchange

to provide more avant-garde tools to increase the base of investors and the volume of transactions in the market.

- Peru discussed its experience incorporating a new Corporate Governance Code four years ago, which updated the reporting to be provided on a comply-or explain basis. The regulator has still to analyze the answers provided through this reporting and identify ways to enhance CG practices based on the analysis of the outcomes of these reports. Here again appears the question of finding the right balance and not falling into overregulation, so regulators decided to look at this issue from different perspectives: 1) regulators have to continue improving CG standards while at the same time making regulation flexible so as to adapt the regulatory framework to the necessities of their markets; 2) for investors, an outstanding issue is financial education. In Peru, it is a priority to provide information on alternatives that people might have in the financial system, and to give all the necessary information to be able to make responsible and adequate financing decisions. Institutional investors in particular have an important role to play in transmitting good CG practices. And 3) intermediaries, which can be thought of as “the sales force of the regulator”, are the ones in the field, and have direct contact with issuers, companies and investors, so it is important to foster competitiveness between them. This is especially important in Peru as the size of the market has gotten smaller in recent years while at the same time the number of intermediaries has increased or remained the same. Finally, there are two additional challenges which Peruvian regulators are concerned with: 1) technological innovation, which has brought several mechanisms for financing, especially cross-border and that implies challenges which are completely different from those we know. So what should be the requirements in order to have adequate control of these platforms without preventing them to develop? And 2) new standards in terms of CG practices (or complementary to CG) which are related to initiatives connected to social responsibility or CSR issues.
- Finally, Mexico (in this case represented by the Ministry of Finance) highlighted that regulatory flexibility might appear like a good idea but that it is probably not the way to go to get more issuers based on their own experience. In Mexico, the Capital Market Law was reformed in 2014, which extended the deadline for so-called SAPIs (*sociedades anonimas promotoras de inversion*)¹, - to meet all CG requirements from 3 to 10 years (before they become listed). The reform also flexibilized the rules for intermediaries and made a few changes to the offence regime (by making investigations more transparent) amongst other things. However despite this new flexible regulatory framework, these efforts have not led to a significant growth of the equity market. There was an increase in terms of numbers of issuers but only a few have resulted in public offerings. Hence, even if working from a CG perspective leads to stronger markets, regulation is not necessarily what prevents markets to mature. The Mexican regulator also led a survey and found out that 20% of corporatized companies did not ask for credit because of the high interest rate and because “going public is too complicated and the regulation is too hard to comply with”. Hence, many times there is a real lack of knowledge of what is in the law, and what applies to companies or not. So instead of working on regulatory flexibility, the Mexican representative offers working from the supply-side to increase the interest in participating in the market by closing the knowledge gap.

¹ A type of corporation which was first introduced in 2005 to accommodate private equity investments and serve as a transition from a closely held corporation into a publicly traded company.

Session 6 (Conclusions)

- For the last session, introductory comments from the Ministry of Economy and Competitiveness of Spain underlined a few key points that stood out from the meeting. After reaffirming the importance of new fintech agents in a globalized world and the challenges they represent to regulators, he discussed the issue of market expansion and the relevance of CG requirements, contrasting two different approaches: one which perceives the issue as a trade-off between the level of regulation and investor protection; and the other which perceives CG requirements as embedded in an inevitable globalization and internationalization process which constantly demands higher normative regulations. It was suggested that the cost of CG requirements for companies should not be placed on the same level as investor protection, as regulations are a prerequisite for the proper functioning of any market; hence the second approach to market expansion is more accurate according to him.
- Finally, using the OECD Issues Paper as a reference, an open discussion followed among all participants to form 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.
- More particularly, the discussion identified several relevant topics where more information would be needed. To obtain such information, it was proposed to drill down on a country-by-country analysis, designating a lead consultant for each country who can work with TF members and other important stakeholders to develop better information in terms of the menu of follow-up research topics listed in the Issues Paper. Out of five issues listed for future work-streams of the TF in the Issues Note, three were identified as a priority for the next phase of research:
 - 1) Developing a better understanding of LatAm market characteristics: i.e. understanding the sources of finance, and the characteristics of both listed companies and those that are seen as potential candidates to make use of the equity markets.
 - 2) Developing a better understanding of market incentives to make use of equity markets (e.g. cost to list, regulatory burdens etc.).
 - 3) Developing a clearer framework for comparing corporate governance standards and practices across the region.
- To support work on the first two priorities, it was proposed to develop an on-line survey of a sample of companies (listed, non-listed and cross-listed) and relevant institutional investors in each market. Selective follow-up interviews would also be conducted to develop a better understanding of corporate and investor perceptions and priorities on the issues being studied by the Task Force. This will be supplemented by information that Task Force members will be asked to provide on existing research and data available on these topics in their jurisdictions.
- To address the third priority on providing comparable information on corporate governance standards and practices across the region, information currently available in the [OECD Corporate Governance Factbook](#) on Argentina, Brazil, Chile, Colombia and Mexico will be used and updated as necessary with additional input to be requested from Peru, which is currently missing from the Factbook, to provide a Latin American-focused comparative framework.

- Developing a better understanding of enforcement and of the dynamics of cross-listing did not appear as a priority for investigation at this stage, but might be given stronger consideration in the future, particularly if results from the next phase of research show that they are also important factors to consider.
- Input to this work from Task Force members will be sought at different stages before an updated and more comprehensive report is prepared for the next meeting of the Task Force and Roundtable to take place on 11-13 June 2018 in Buenos Aires.