Foreword

Following the global financial crisis, institutional investors have been under an increasingly intense spotlight concerning their role – or absence – as active and informed shareholders. The corporate governance failures of boards as well as shareholder oversight that helped contribute to the crisis have triggered a renewed focus not only on the role that institutional investors may play in supporting better governance practices, but also on the policy and regulatory framework that may facilitate or encourage such a role.

This publication, originally developed as a draft "White Paper on Strengthening the Role of Institutional Investors in Latin American Corporate Governance", is a product of years of study, discussion and debate by participants to the Latin American Roundtable on Corporate Governance. It seeks to encourage the emergence of active and informed owners as an important lever for influencing better governance, adapted to the Latin American context.

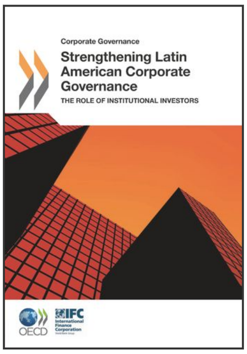
Now entitled, *Strengthening Latin American Corporate Governance: the Role of Institutional Investors,* this report finds that if anything, the role of institutional investors (IIs) in Latin America is even more critical than in many other parts of the world to support the development of well-functioning markets underpinned by sound governance practices. This importance stems from the concentrated ownership structures prevalent in Latin American markets, with dominant controlling shareholders or groups which may be able to steer a disproportionate share of the profits and resources in their direction at the expense of minority shareholders. Moreover, in Latin America's relatively illiquid markets, IIs often have relatively few choices for investment in local equity markets, and local pension funds in particular may be further restricted from investing abroad, thus obliging them to act as long-term owners.

But while in theory IIs have an important stake in promoting good corporate governance to ensure the protection of their minority shareholder interests, the reality of their actions often fall short. This publication identifies some of the reasons behind this gap, and seeks to address them through recommendations aimed at policy-makers, regulators, institutional investors and other market actors.

This publication would not have been possible without the ongoing support and contributions of country consultants and task forces from Argentina, Brazil, Colombia, Chile, Mexico and Peru,[1] and further input from a wider range of Latin and Central American as well as OECD countries in Roundtable discussions. Special thanks go to the Global Corporate Governance Forum and Government of Spain for their ongoing funding support for the Roundtable. Davit Karapetyan of IFC and Daniel Blume of OECD served as lead drafters with support from Cuauhtemoc Lopez-Bassols of OECD. It is published under the responsibility of the OECD Secretary-General, based on consensus support expressed by the Roundtable.

During the last three years, successive drafts of this report have served as a "living document" updated annually to monitor and encourage progress against the recommendations that it contains. With the role of institutional investors identified as an ongoing priority for the Roundtable, this report will continue to provide a framework for tracking and encouraging the development of active and informed ownership in the region in the future.

1 Country-based reports supporting this publication were prepared in consultation with country-based task forces involving the following lead institutions and consultants: **Argentina -** the Center for Financial Stability (Pablo Souto) and the National Securities Commission; **Brazil -** Brazilian Institute of Corporate Governance (IBGC, Adriane de Almeida), and the Capital Markets Investors Association (AMEC) and National Association of Investment Banks (ANBID); **Chile -** the Superintendency of Securities and Insurance, the Superintendency of Pension Funds, and University of Chile Center for Corporate Governance (Alvaro Clarke and Dieter Linneberg); **Colombia -** The Financial Superintendency (Sandra Perea); **Mexico -** the Center for Excellence in Corporate Governance (Jorge Fabre); and **Peru -** the Association of Private Pension Funds and Procapitales (Carlos Eyzaguirre, consultant).



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