

Equity Market Development in Latin America

Enhancing Access to Corporate Finance



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About this report

This report provides an overview of equity markets in six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru), along with recommendations to support development of equity markets and access to finance for corporations in the region. It draws upon the results of a comparative OECD survey of investor and company perceptions of the costs and benefits of participating in these six markets, and the state of their regulatory frameworks and corporate governance practices. The report was developed as part of the work of the Equity Market Development Task Force of the Latin American Roundtable on Corporate Governance, and was presented at the Task Force and Roundtable meetings held in June, 2018 in Buenos Aires. The report benefited from input received during discussions at the meetings and written comments received from Task Force participants. It has subsequently been updated to take account of more recent developments and available data.

The report builds on the analysis and results of six country reports prepared by local experts in corporate governance, which are available on the [OECD-Latin American Roundtable on Corporate Governance web page](#). The report was prepared by Pablo Souto of Global Outcomes, under the supervision of and with input from Daniel Blume, Senior Policy Analyst of the OECD Directorate for Financial and Enterprise Affairs. Special thanks are extended to the consultants responsible for country reports on Argentina (Pablo Souto), Brazil (Maria Helena Santana and Luciana Dias), Colombia (Andrés Bernal), Chile (Carla Meza), Mexico (Marta Vaca Viana) and Peru (Andrés Bernal). Thanks also to Arijete Idriji, OECD Policy Analyst, for the co-ordination of the on-line survey of companies and investors, and for the support and input provided by the securities market regulators of each of these jurisdictions. This work was also made possible thanks to the funding support of the Government of Spain, the Argentina Securities Commission, and BRAiN – Brazil Investments & Business.

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Executive summary

The years following the 2008 global financial crisis saw a global shift in capital from US and European markets towards emerging markets in Asia. The Latin American and Caribbean (LAC) region has not benefited from this shift. Domestic markets in the region have struggled to attract new companies to go public, which means that these markets have remained highly concentrated around a relatively low number of listed companies largely dominated by company groups.

The institutional framework and macroeconomic stability are critical elements in facilitating equity market development. Although LAC countries have made significant progress in both areas, policy makers and market participants still need to embark on further reform processes. The objective of this report is to enhance the understanding of the state of development of LAC equity markets and barriers to their development. It presents the results of a survey and follow-up dialogue with key stakeholders, including companies and investors, in Argentina, Brazil, Chile, Colombia, Mexico and Peru, in order to identify priorities for reform and solutions to support further progress.

The survey results show that a process of wider dissemination of information on the costs and benefits of participating in capital markets could support further market development. This applies particularly to non-listed companies, which may overestimate the costs (compliance with rules applied to listed companies and tax implications, for example) and underestimate the benefits (how much cheaper capital could be if they went public). Information campaigns and peer-learning activities, where already listed firms (champions) share their experiences could help in filling this information gap.

Non-listed firms perceive the entry fees to be high (IPO one-time costs, especially investment banking fees), while stock exchange fees were not cited as a critical concern. No objective evaluation has been undertaken of whether IPO-related fees in the region are above the average compared to other regions. If, however, the perceptions of high fees are correct, possible explanations could be (i) the lack of competition between financial service providers and (ii) the conflicts of interest of financial groups that both lend money and underwrite public offers.

The survey revealed the potential for efficiency gains in relation to regulatory burdens and the costs of compliance. Although the specific areas targeted for improvement differ between countries, the streamlining of regulatory requirements and harmonisation have been cited as a priority in most countries. As such, the challenges and constraints facing larger companies and SMEs are not identical; burdens may be proportionally higher for smaller companies. This suggests scope for proportional and flexible approaches to regulation that take size and other characteristics of companies into account.

With respect to corporate governance practices in place, the survey results indicate that the region is generally seen to be performing well. However, the region is still perceived to lag behind the practices of most OECD countries, a factor that could discourage further participation by international institutional investors in the domestic markets. Both listed

firms and investors hold similar views on the areas of practice that deserve priority attention by firms, notably with respect to minority shareholder protections, including practices involving related party transactions. With respect to transparency, however, investors cite it as the area requiring greatest improvement, while companies indicate transparency as their greatest strength.

Most survey respondents indicated low liquidity as a critical issue to be addressed. Low liquidity might be explained by:

- High ownership concentration and the dominant presence of company groups;
- The availability of other sources of funding at concessional terms (sometimes through state-sponsored programs);
- Banks playing a conflicting dual role (both as direct lenders and underwriters of bonds and equity), which may lead them to encourage potential issuers of equity to use other sources of finance.

This report notes that one of the rationales for the harmonisation of regulatory requirements and integration of markets (like the Integrated Latin American Market -- MILA) is to spur liquidity. But if market integration does not result in attracting new issuers or securities, the impact on liquidity may be minimal. Domestic investors may continue to favour the companies in their own market, considering their perception (in many cases) that the domestic companies' corporate governance practices are better than or equal to foreign ones in Latin America, and that they will have better access to information in their own markets. Liquidity may be reshuffled to some extent if they invest more abroad, but no new liquidity enters the market. This suggests that moves toward market integration should not focus only on harmonisation. Finding ways to attract new issuers and securities to the market must also be a central preoccupation of such efforts in order to impact liquidity.

Finally, the report concludes that additional analysis and review would be useful in order to better understand the barriers to equity market development and possible actions to address them. This could include:

- A better understanding of the regional financial market structure and its main actors (investment banks, brokers, other underwriters), the pool of investors available to participate in capital markets, and non-financial corporations' capital needs and their sources of financing.
- Building a better understanding of stock exchanges' business models and their incentives to attract new stock issuers versus advancing other business opportunities.
- An evaluation of recent developments with respect to corporate governance-related enforcement - both public and private as well as in the use of arbitration - including the impact and potential use of digital technologies.
- Exploring what aspects of transparency are most important to maintain investor confidence, while also taking into account how the burden of such disclosure can be minimised. Considering the mismatch between investors' demand for transparency improvements and company perceptions that their own transparency practices are high, further analysis and dialogue is needed, including cost-benefit analysis of regulatory requirements and the quality of information disclosure.

Taking account of the above conclusions, the OECD Latin American Corporate Governance Roundtable and its Task Force on Equity Market Development are continuing to work to review and support equity market development in the region. While continuing to take account of the broader context, priority will be given to enforcement of corporate governance-related requirements and transparency.

Chapter 1. Introduction

This report is the product of an ongoing effort by the OECD's Latin American Corporate Governance Roundtable and its Task Force on Equity Market Development to review and support the strengthening of Latin American equity markets and their corporate governance standards. The Roundtable's Task Force, which convenes representatives of government policy ministries, regulators, stock exchanges and private sector stakeholders from Argentina, Brazil, Chile, Colombia, Mexico and Peru along with other selected experts, was established in 2017 to enhance understanding of the state of development of Latin American equity markets, with a view to identifying shared priorities for achieving further progress consistent with the G20/OECD Principles of Corporate Governance (OECD, 2015b).

The report reflects a recognition that a good corporate governance framework can support the development of equity markets in the countries of Latin America, facilitating access to capital for enterprises that supports economic growth. The size of equity markets in the six Latin American countries is relatively small as a percentage of GDP in comparison to Europe and Asia, which means that companies are not benefitting to the same extent from raising capital through stock exchanges, even less so following the 2008 crisis.

The global financial crisis exposed limitations to relying solely on bank loans or other shorter-term financing and retained earnings to meet investment needs. Moreover, equity finance has a positive impact on innovation and productivity. Some sectors in the economy may be less suited to be financed by bank debt. Companies looking to innovate and grow may have difficulty obtaining loans for a promising e-commerce or start-up idea, or to make use of other non-tangible assets. As noted in Isaksson and Celik (2013), "Equity finance plays a unique role in supporting corporate innovation and growth. Because equity capital has only a residual claim on corporate earnings, it can be used to finance projects with uncertain and long-term returns, such as research, product development, innovation, or the opening of new markets. The transferability of shares in the public equity market allows for the separation between the investment horizon of the individual saver and the investment horizon of the corporation, so that a promising research project or product innovation does not have to be stopped because a shareholder has an immediate need for cash."

A related concern is that if local equity markets are not an attractive financing source for the country's largest and profitable firms, and they instead rely on bank debt as their primary financing source, this may have a crowding out effect that reduces the availability of such funding for small and medium-sized enterprises (SMEs) and households.

Moreover, once companies access equity markets through an initial public offering (IPO), they may also facilitate access to bond markets and open up the possibility of obtaining further finance through secondary offerings at relatively lower costs. Access through secondary public offerings outweighs the capital raised in initial public offerings worldwide. More importantly, it has been shown that secondary public offerings represent a key source of financing during good and bad economic times. The OECD (2015c, 2018a)

reviewed global trends for non-financial companies' access to finance and found that the total amounts raised in both advanced and emerging economies through secondary offerings were particularly high following the crisis in 2009, reaching nearly USD 500 billion, when other finance sources were less available.

While the benefits of accessing equity capital may be recognised, 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 growth financing for companies. 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 reflected in the legal framework and its enforcement, or in actual practices adopted, 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.

The *G20/OECD Principles of Corporate Governance*, OECD (2015b), 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 that supports a well-functioning capital market.

Some attempts have already been made to identify these gaps and to take steps to address them. For example, recent work of the OECD Corporate Governance Committee has looked at how greater regulatory flexibility may be tailored to address differing circumstances and conditions for different types of companies and other market participants (OECD, 2018b). Within Latin America, increasing attention is being given to strengthening regional market integration and harmonising standards to facilitate region-wide share trading and a wider pool of investors for IPOs. 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, which agreed in 2018 to establish a “fund passport” that facilitates cross-border share trading among mutual funds in both jurisdictions. The emergence of “*Multilatinas*”¹ functioning in multiple markets has further reinforced the interest in considering the possibility of more harmonised 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.

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 Task Force first met in Sao Paulo in October 2017 to begin discussing these issues 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 information gaps that require further research to develop more informed views.

As part of the recommendations of the Task Force, the OECD conducted a survey of listed and non-listed firms and institutional investors in all six countries. The results of the survey

– along with discussions and exchanges with key market players – were analysed to help identify key issues that are a drag on the development of domestic capital markets, building and elaborating upon the first report that was prepared to serve as background for the discussion of the first Task Force meeting. This report puts together both inputs and is meant to facilitate consideration of public policies and private initiatives aiming to overcome the existing challenges.

The report is structured as follows:

After this brief introduction, **Chapter 2** reviews global capital markets developments in the aftermath of the 2008-09 global financial crisis, and how Latin American equity markets have evolved in comparison to other regions.

Chapter 3 provides an overview of relevant literature about the determinants, consequences and risks associated with the development of capital markets, and reviews the key issues that have been identified as deterrents for the development of Latin American capital markets.

Chapter 4 presents the key results of the survey that was conducted in the six countries, exploring some commonalities and differences across institutions and/or countries.

Chapter 5 describes some of the more significant country-specific and regional efforts aimed at overcoming the identified issues, including corporate governance initiatives that have been designed for building investor confidence, attracting issuers or facilitating cross-border investment in the region. The concluding

Chapter 6 identifies the issues that were found to be the most relevant for policy-makers and market participants alike, as a result of the survey, stakeholders' insights, and analytical work.

Note

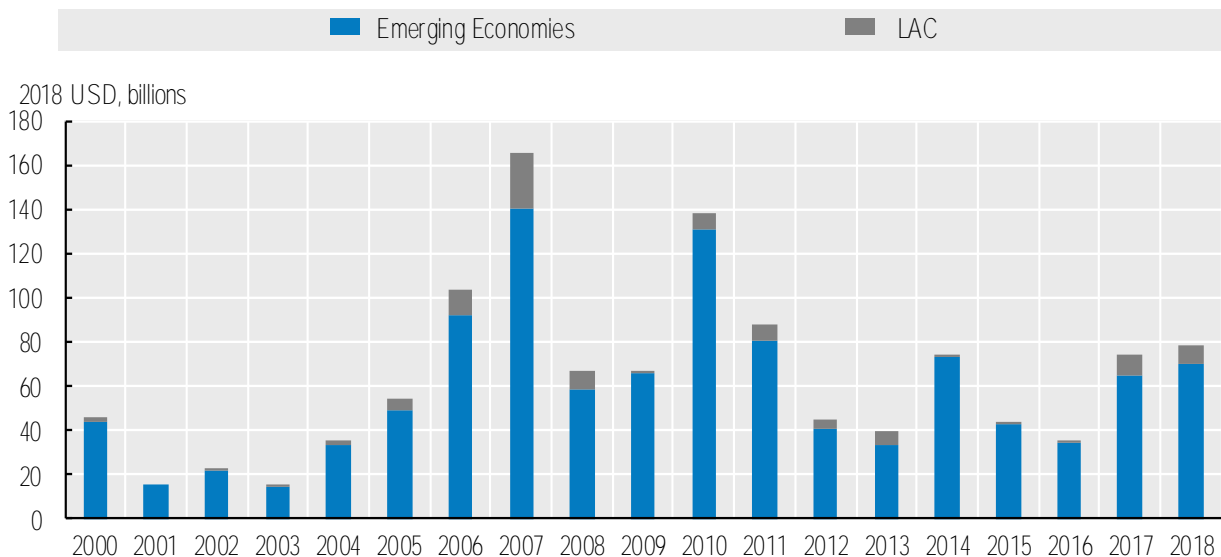
¹ This term refers to Latin American companies that have outgrown their home markets and become multinational.

Chapter 2. Equity market developments

Public equity markets have experienced significant changes since the beginning of the millennium. On the one hand, some advanced economies have seen a decline in the number of publicly listed companies and a decrease in the overall number of initial public offerings. In the last 17 years, advanced economies like the United States, Germany, United Kingdom and France have lost in total more than half of their listed companies. In addition, the amount of capital raised globally through IPOs has shifted towards emerging economies. During the 1995-2001 period, almost 90% of the capital raised in the form of IPOs was allocated to advanced economies; whereas from 2008-2017 that number dropped to 53%. In other words, emerging economies have moved from being responsible for less than 20% to more than 50% of the total capital allocated worldwide to new listed companies (OECD, 2017d).

Unfortunately, the Latin American and Caribbean (LAC) region has not benefited from the global shift in capital allocated towards emerging markets (see Figure 1). The initial public offering activity in emerging markets is driven mostly by Asian economies and not by LAC emerging markets. More importantly, the activity in the region has been lacklustre since the financial crisis in 2009, although there has been a slight rebound during the last two years. Brazil has been responsible for most IPO activity in the region, while the rest of the region has shown modest signs of activity in the past few years.

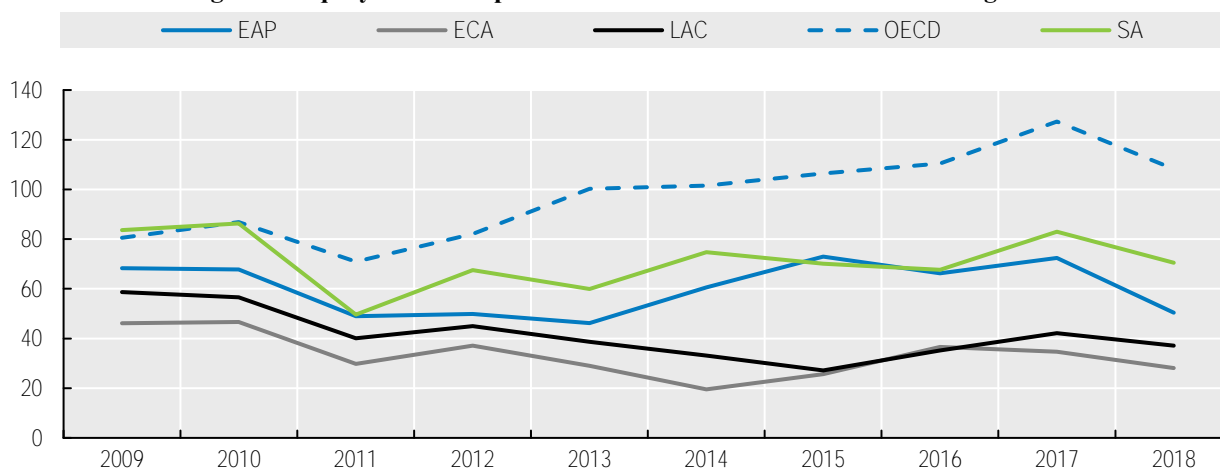
Figure 1. Initial public offerings (IPOs) by non-financial corporations in LAC and emerging markets



Source: OECD Capital Market Series dataset.

Latin American equity markets exhibited some dynamism during the first decade of 2000, with listed companies' market capitalisation as a share of GDP rising from 28% of GDP on average for the period 1995-2000, to 52% of GDP for the period from 2005 to 2010 (OECD, 2013)¹. Such growth allowed the region to start reducing the gap with other developing and developed markets. However, following the global financial crisis, the region's equity markets have experienced a slow recovery during the post-crisis period (Figure 2). At the time of the crisis, the non-OECD countries of Europe and Central Asia (ECA) had the lowest ratio of market capitalisation to GDP, while in 2016 this unfortunate position was held by the LAC region as a consequence of the above-mentioned slower recovery path.

Figure 2. Equity market capitalisation as a share of GDP – Selected regions

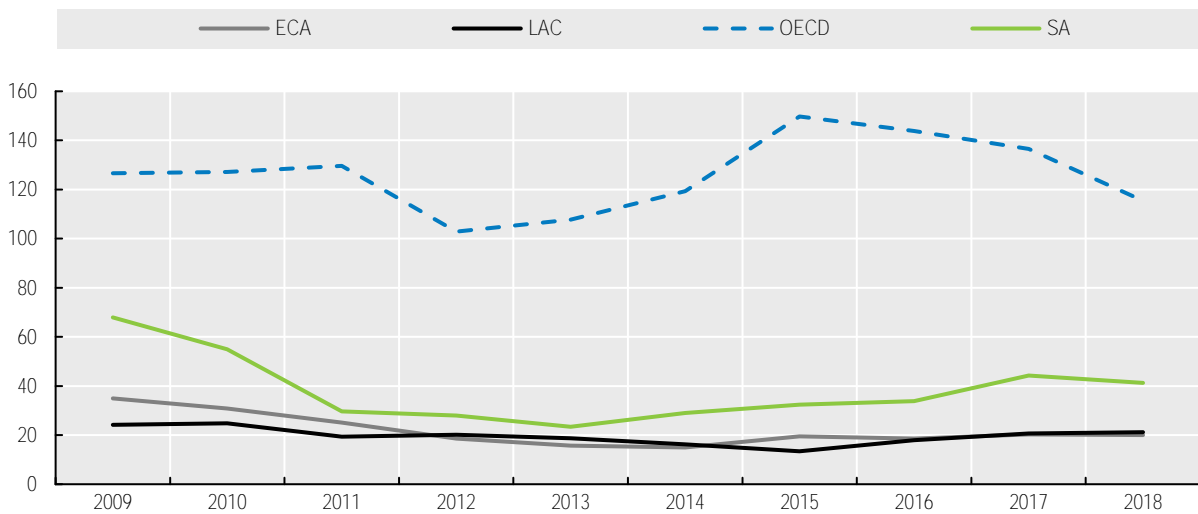


Note: LAC: Latin America and the Caribbean; SA: South Asia; EAP: East Asia and Pacific; ECA: Europe and Central Asia; all developing regions exclude high-income countries

Source: World Development Indicators

The advances made in the decade before the crisis, when LAC managed to increase its total market capitalisation (as a share of global market capitalisation) from 1.6% to 6% between 2000 and 2012, have not been sustained more recently. More recent figures show a marked retreat to 2.6% of market capitalisation as a share of global market capitalisation in 2018.^{2,3} Moreover, these trends are common to all six LAC economies under analysis. The increasing use of capital markets by Asian companies has not been shared by either the western developed economies nor by the LAC region.

Latin American markets are characterised by a high level of ownership concentration and the existence of large industrial and financial conglomerates (OECD, 2013; Lefort, 2005). This has resulted in relatively low levels of free float and contributed to lower liquidity than in other regions, as measured by equity trading volumes as a percentage of GDP. Low liquidity in turn can have negative consequences in terms of price formation, share price volatility and further inhibit investment. Compared to 2009, OECD markets as a whole have increased their liquidity. As per Figure 3, LAC and the other regions have lower liquidity levels compared to 2009. However, Latin American markets have started a slight trend to recover liquidity during the last three years.

Figure 3. Equity market traded volume as a share of GDP – Selected regions

Note: LAC: Latin America and the Caribbean; SA: South Asia; ECA: Europe and Central Asia; all developing regions exclude high-income countries.

Source: World Development Indicators.

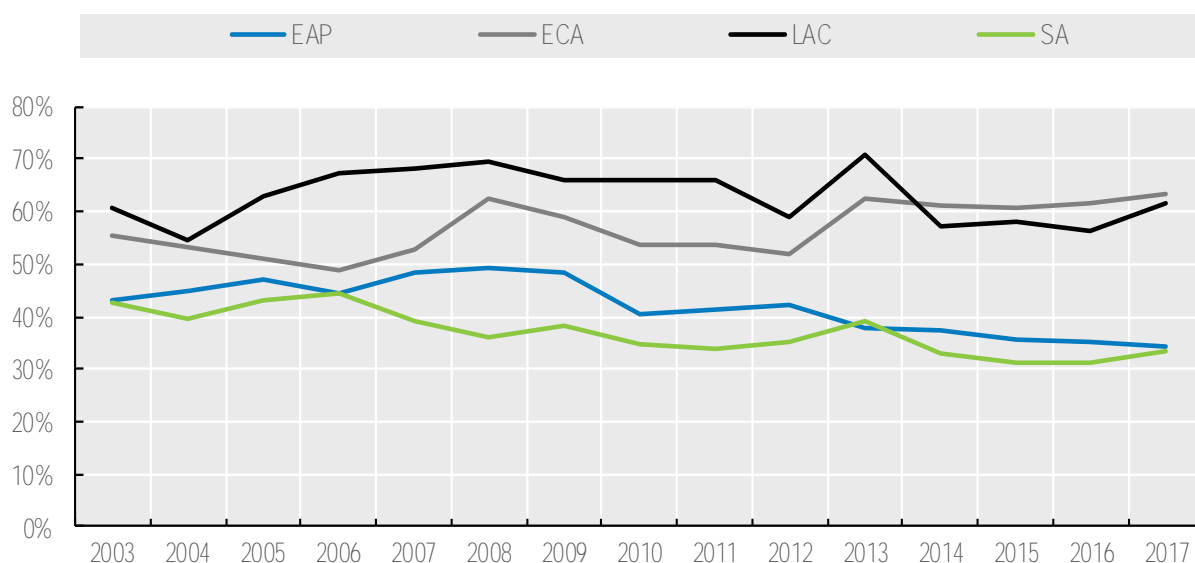
As shown in Figure 3, LAC and ECA are the regions with the lowest liquidity ratios; on the other hand, South Asia – the other region that has not yet recovered its pre-crisis liquidity levels – still enjoys high liquidity ratios (over 30% of GDP) that have doubled those in LAC and ECA. Within the region, only Brazil exhibits liquidity indicators that are similar to the South Asian average but still far from other developing and developed economies.

In sum, since 2009, LAC had the lowest liquidity ratio compared to other regions and has not improved its secondary markets activity. In some countries, such as Argentina and Peru, liquidity ratios are extremely low, averaging 0.5% and 1.6% respectively over the 2012–2016 period. According to WEF (2016), low liquidity “[...] increases transaction costs for market participants, prevents participation of certain investor types and increases risks.”

A similar picture can be described when looking at the number of listed companies; both LAC and ECA are the two developing regions where the number of listed companies in 2016 remained below the number they had back in 2009. Although within LAC, there are some asymmetries: on the one hand, Argentina, Chile, Brazil and Colombia have not yet recovered the number of domestic listed companies, whereas Mexico and Peru have managed to increase such figures.

Equity markets in LAC and ECA not only suffer from a decreasing number of listed companies and low liquidity, but also exhibit higher market concentration ratios in terms of the market share held by the 10 largest listed companies in each market compared to other developing regions, as per Figure 4. Moreover, market concentration in LAC has remained stable over the last 13 years whereas in regions where the number of listed companies have grown (EAP and SA), concentration has declined. LAC has also exhibited a steady share of concentration in equity market volume traded, compared to rising trading volumes in the South Asia region during the last two decades.

Figure 4. Equity market concentration - Selected regions (market capitalisation of 10 largest companies as share of total market capitalisation)



Note: LAC: Latin America and the Caribbean; SA: South Asia; EAP: East Asia and Pacific; ECA: Europe and Central Asia; all developing regions exclude high-income countries

Source: World Federation of Exchanges

These high market concentration levels are a symptom of the dominant presence of large companies, which is further indicated by the average market capitalisation of domestic companies. The average market capitalisation of domestic companies in LAC was USD 1.6 billion over the 2012-2016 period, similar to the OECD average of USD 1.8 billion for the same period. Taking into account some volatility in year-to-year valuation, the average market share concentration has remained relatively stable in LAC over the last decade, contrary to EAP where it has increased significantly.

In addition to ownership concentration, some participants of the Roundtable claim that another factor that could help to explain the relative low liquidity in Latin American equity markets is that liquidity has itself moved to other markets, through the listing in more developed ones, such as the US and certain European markets. In a context where liquidity is key for investors, the region has “repatriated” some of the liquidity that it lost in the previous decades, but still there is much to be done. As per latest figures, in most LatAm countries, the traded volume in the domestic equity market represents between 55% and 70% of total trading (including home and abroad) with the notable exception of Argentina where the domestic market only accounts for 18% of total trading.⁴ In this respect, the empirical evidence on the impact of Latin American cross-listing in US and other foreign markets is not conclusive.⁵

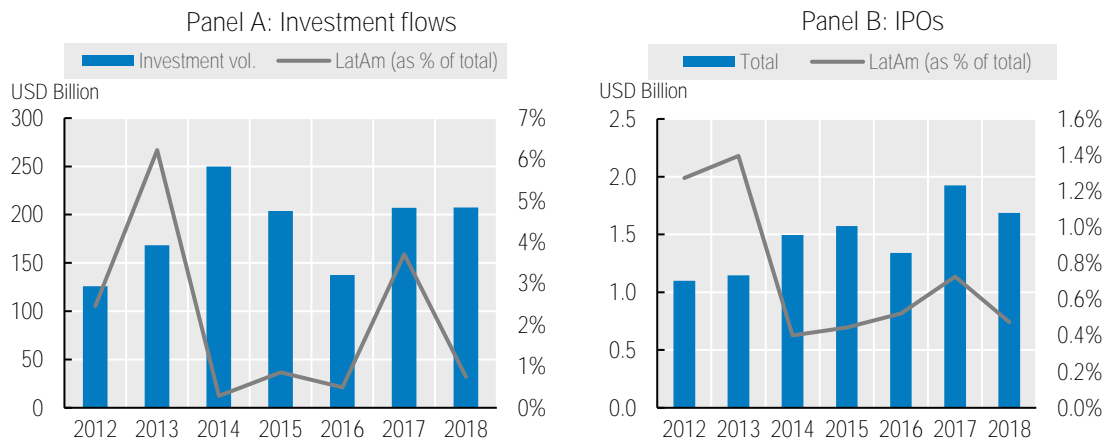
The availability of a vast array of securities from the same issuer and other financial instruments can facilitate risk assessment and risk management. If investors have the ability to see prices for bonds, stocks, credit default swaps and other instruments from the same issuer, and the market for treasury instruments, money markets and currency is liquid enough, investors have the necessary tools to manage their portfolios more efficiently. Such markets end up attracting more investors. In particular, the literature has identified bond markets as a complement to equity markets that in turn reinforce each other. Such complementarity (positive correlation between the development of sovereign and corporate

bonds markets) has been reported in Laeven (2014) for a large number of developed and developing economies; in fact, he claims that when it comes to domestic currency corporate bond markets, the existence of a developed sovereign bond market is needed as a catalyst for the former to develop, since the latter provides a reference yield curve and liquidity.⁶

Another instrument that has attracted much attention in many markets around the globe is Exchange Traded Funds (ETFs). Despite the positive effect they have on the liquidity of the individual stocks, concerns have been raised about the effect that their growth and use of passive investment strategies has had in reducing the focus on individual companies' fundamentals and corporate governance. An additional concern is that ETFs, along with high frequency trading (HFT) including algorithm-based trading have served to concentrate trading on the largest and most liquid companies, reducing the availability of investment for smaller companies (OECD, 2015c). The development of such investment vehicles is still at a relatively early stage in Latin America, but with significant differences within the region. Mexico, and Brazil to a lesser extent, are the two countries that account for the largest volume of ETF trading within the region, representing almost 98% of total trading volume in Latin America. Overall, ETF trading represents a minor share of equity trading in most countries except Mexico, where the ratio reached a significant 14.1% of Mexico's total trading volume as of 2017.⁷ By comparison, Colombia's ETF trading volume was 5%; Brazil 2.3%; Peru 1.8%; and Chile just 0.5%, despite leading the region in the number of ETF's listed for trading at 265. No ETFs are yet listed in the Argentinean exchanges.

Considering the above trends, it has been a challenge for domestic markets to attract new companies to issue new shares. After an influx of IPOs in the region in the mid-2000s – led by Brazil – equity markets have experienced a sustained decline in IPOs particularly following the international financial crisis. The decline in IPO activity has been a common feature in developed economies during the 2014–2016 period, particularly for non-financial and growth companies (OECD, 2017d). As mentioned before, Asian emerging economies have become the largest users of capital markets since early 2000. OECD (2017d) found that emerging economies have seen a growing share of technology and healthcare companies accessing the public markets in search of capital. Asian non-financial corporations were responsible for 21% of the capital raised through IPOs in 2000 to 45% in 2017 (OECD, 2018a). Emerging economies in Latin America have not followed the same trend; non-financial corporations in the region are using capital markets less than before to finance their growth prospects. As documented in Figure 7, the relevance of Latin American companies' IPOs is still low at the global level; since 2012, average investment flows channelled through domestic exchanges due to IPOs represented 2.34% of global flows, for a region that accounts for 4.4% of world GDP. Although the number of LatAm IPOs (as a share of total IPOs) began recovering back in 2015, the recovery has been somewhat uneven, rising in 2017 before returning to lower levels again in 2018.

OECD (2015a) describes the challenges posed by the presence of large company groups with concentrated ownership. OECD work highlights that conglomerates, in their early stages, were often dominated by financial institutions with an important rationale for the group to serve as a vehicle for corporate finance not being supplied by the capital markets. While more analysis would be required to confirm this perception, such conglomerates appear to continue to serve as a source of finance for companies in the region, in particular through mergers and acquisitions that may serve as a substitute for more direct finance through local stock markets.

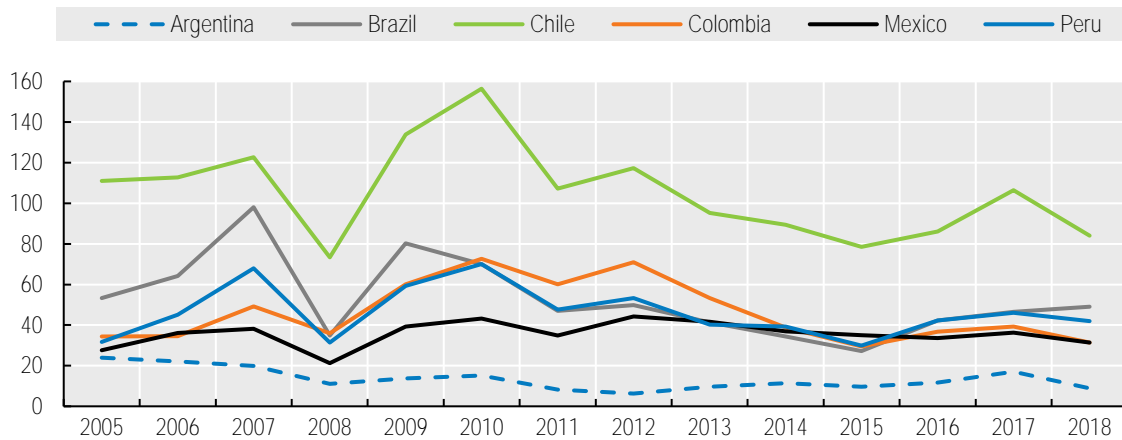
Figure 5. Investment flows and IPO volume in Latin America

Source: World Federation of Exchanges.

As mentioned by OECD (2013), Latin American capital markets had embarked on a process of domestic consolidation and regional integration with the exception of Argentina, where several exchanges co-existed. A legal reform passed in 2012 was intended to consolidate Argentinean markets, but progress towards this goal only became apparent in 2017 with the launching and public listing of ByMA. With this move, the stock exchanges in the six largest capital markets in Latin America had – to a large extent – completed the domestic consolidation process and the listing of their own shares on the public markets. This general trend of consolidation within national boundaries has recently been challenged in Mexico, where a new trading venue - Bolsa Institucional de Valores - has been launched. The benefits of further integration between those markets – including the MILA venture launched by stock exchanges and the broader Pacific Alliance initiative featuring a more comprehensive approach to capital market development that includes equity and fixed income markets – is still an issue of debate in the region.

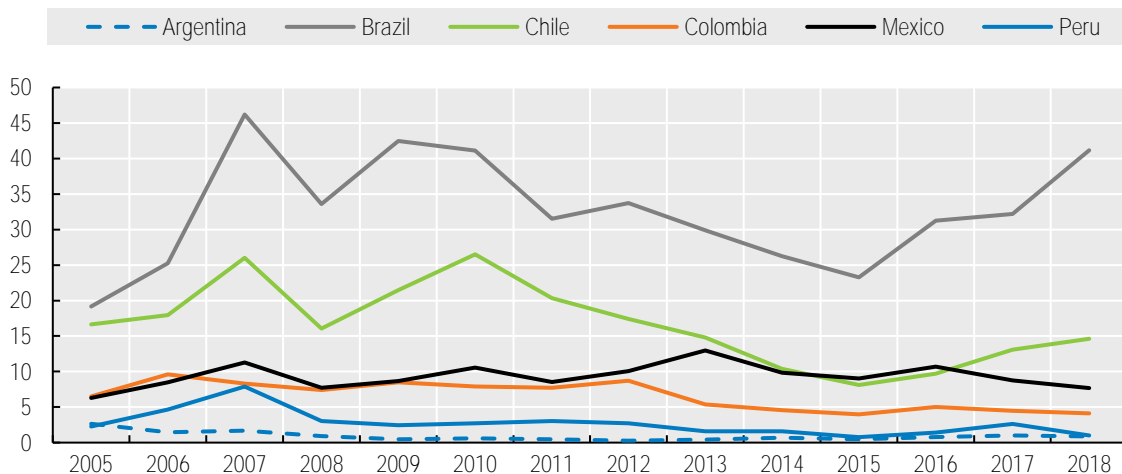
A snapshot of LatAm big six

In such a global context, the evolution of domestic markets key indicators across the six LatAm countries under analysis is highly correlated, as per Figure 8. Despite exhibiting different levels of market capitalisation (as share of GDP) – with Chile leading the region, followed by Brazil, Colombia, Mexico and Peru with similar figures, and Argentina with the lowest ratio – their trends have been similar over the last decade. By 2018, none of the countries had recovered the pre-crisis market capitalisation levels. Since 2007 – including a big drop following the 2008 crisis – this indicator has been on a downward trend that has seemed to revert around 2015, but still insufficiently to reach the levels prevailing during previous peaks prior to the crisis and in 2010.

Figure 6. Market capitalisation of the six LatAm countries (as share of GDP)

Source: World Federation of Exchanges and World Bank.

Similar trends may be observed regarding the liquidity of equity markets (see Figure 7), where 2015 marks a change in a declining trend that had started back in 2008. As will be presented later, the relative low liquidity of domestic equity markets has been identified as a deterrent for market development.

Figure 7. Liquidity measured by traded volume as share of GDP for the six LatAm countries

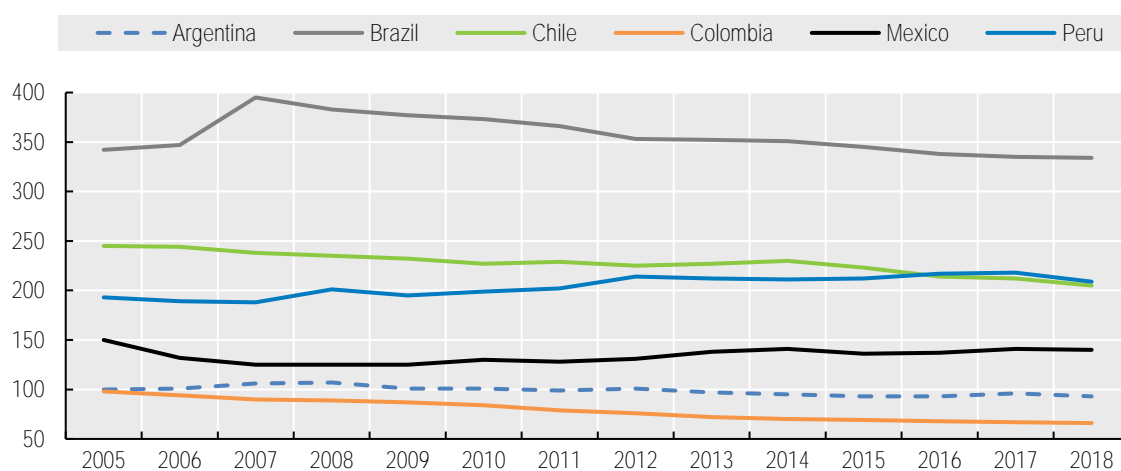
Source: World Federation of Exchanges and World Bank.

A partial explanation of such low liquidity indicators refers to the “export” of liquidity to markets where domestic issuers are cross-listed through depositary receipts, typically in NYSE, Nasdaq and LSE. It is worth noting that countries exhibiting the lowest liquidity ratios are those where the share of trading abroad (for example, through ADRs) over total trading value is relatively higher. At one extreme, ADRs trading value account for 31% of total trading value in Brazil, whilst such figure peaks at 82% in Argentina, which could claim that liquidity is being drained out through cross-listing. For the other four countries, the indicator hovers around 40%. Such figures have remained relatively stable over the last five years, except in Peru where trading abroad has been losing ground in favour of the

domestic market. On the other hand, cross-listing has a positive impact on the valuation of companies (see Doidge et. al. 2007); moreover, there could be an extra valuation effect for those companies with the most liquid ADRs, the so-called “liquidity premium”.⁸

The evolution in market capitalisation ratios shown in Figure 8 appears to be driven mostly by stocks’ valuation rather than by changes in the number of listed corporations. As seen in Figure 10, the number of issuers has been declining in Argentina, Brazil, Chile and Colombia, whilst Mexico and Peru show a higher number of domestic listed companies in 2018 compared to 2007.⁹ Interestingly, the crisis doesn’t seem to have had a significant effect on the number of issuers. As mentioned earlier, the companies listed in the region are usually large companies, comparable in average size with OECD listed corporations, which were resilient enough to overcome the effects of the crisis.

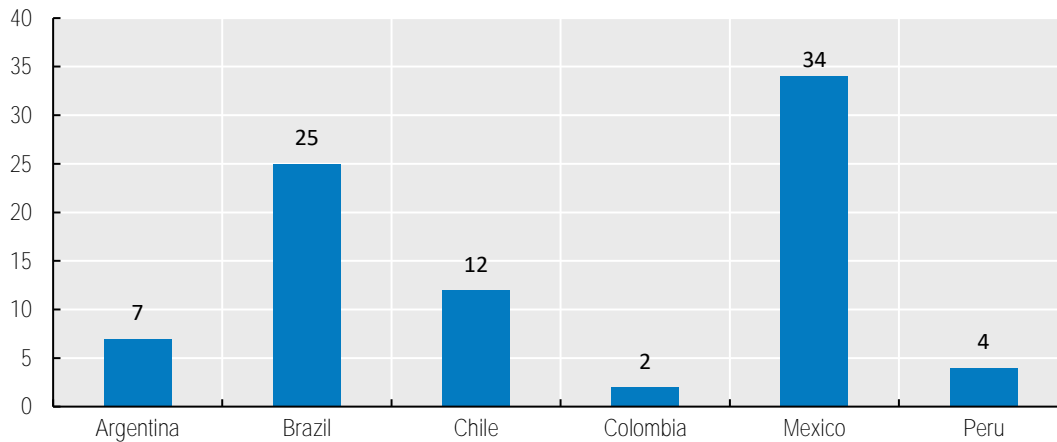
Figure 8. Number of domestic listed companies



Source: World Federation of Exchanges and World Bank.

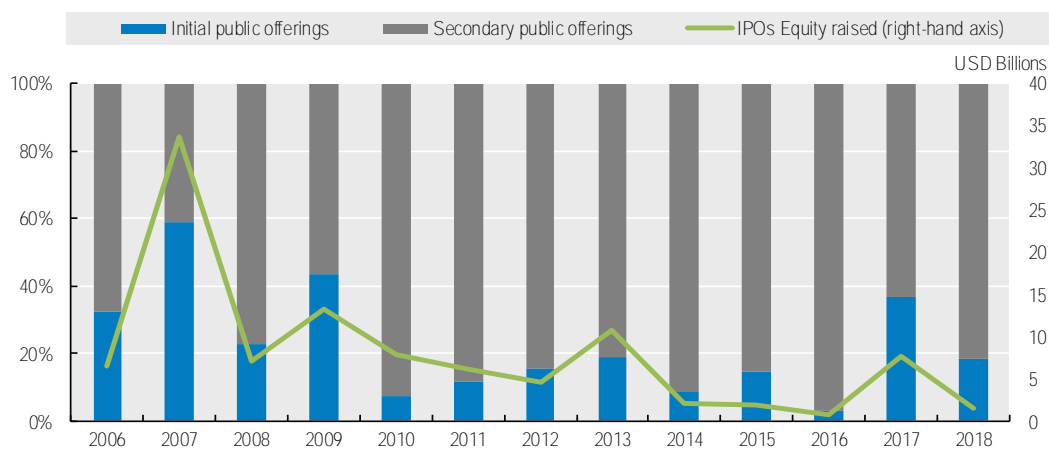
The number of issuers is also low in international comparisons, when using another comparable metric. From a sample of 22 upper-middle income countries in Asia, Africa and Europe, there is an average of 35.3 listed firms per million of inhabitants, whilst the average for the LatAm big six is 4.3; Chile tops this indicator with 12.4 public companies per million of inhabitants, followed by Peru (6.8), Argentina (2.1), Brazil (1.7), Colombia (1.4) and Mexico (1.1).

Such low figures are – along with some delisting processes - the consequence of a modest performance of the region in IPO activity.¹⁰ In particular, there have been 84 IPOs for the period 2012-2018 (see Figure 9) which, as previously reported, saw a boom of IPOs in other emerging economies following the 2008-2009 financial crisis, in particular by Asian firms. Within this total, both Brazil and Mexico led the region, accounting for almost three-quarters of regional IPOs.

Figure 9. Number of domestic IPOs (2012-2018)

Source: World Federation of Exchanges, FIAB and country reports.

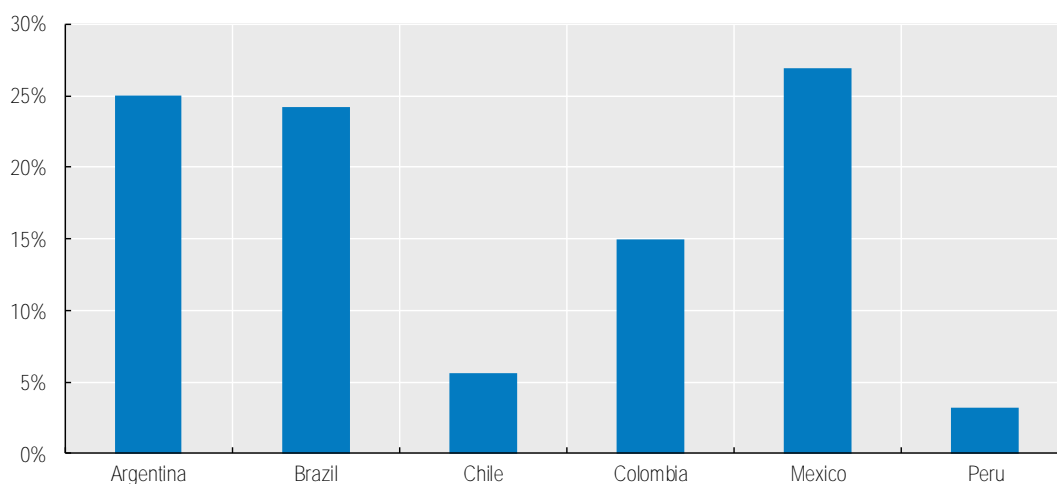
In terms of capital raised, the 2008-09 financial crisis affected the primary markets in the region (see Figure 10). Before the crisis, equity raised by new issuers through IPOs amounted to over USD 33 billion in 2007 alone. Since then, it has dropped to a record low of only USD 0.7 billion in 2016. As mentioned before, 2017 showed a significant increase in equity raised through IPOs in domestic markets, which was partially reversed in 2018. Following the global trend, secondary public offerings outweigh the capital raised in initial public offerings for financial and non-financial corporations. According to OECD (2018a) the USD 10 trillion raised in secondary offerings since 2000 have almost tripled the amount raised through IPOs. Even during the financial crisis the amount of capital raised through secondary public offerings was significant, USD 1 trillion globally in 2009. LatAm markets followed a similar trend after the crisis with more than 90% of the capital being raised through secondary offerings. Again, 2017 marked a change in this feature, and the equity issues observed in the region appear to be more balanced in terms of new and already listed companies.

Figure 10. Equity raised through IPOs and secondary offers (2006-2018)

Source: FIAB and World Federation of Exchanges.

The extent of depository receipt activity in each jurisdiction was also considered as part of the overall equity market picture in Latin America. As of April 2018, there existed 172 domestic firms with depository receipts programs in foreign exchanges. As expected, Brazil accounts for the largest share of those programs (81 companies), followed by Mexico (38), Argentina (24), Chile (12), Colombia (10) and Peru (7). It should be noted that not all of those companies have active trading in foreign markets, whereas most of them are also listed in the domestic markets. In certain countries, the proportion of firms with depository receipts over companies listed in the domestic market is significant (see Figure 11).

Figure 11. LatAm companies with depository receipts programs (as % of companies listed in the domestic market, April 2018)



Source: World Federation of Exchanges, Citibank and Bank of New York Mellon.

The relationship between depository receipts programs and domestic liquidity is not straightforward in the LatAm countries shown here. Countries with a high proportion of firms with depository receipts programs exhibit relatively higher liquidity ratios (e.g. Brazil), while others show poor liquidity indicators (Argentina). In other cases, a low proportion of depository receipts is associated with both relatively high liquidity (Chile) and low liquidity (Peru). As mentioned before, fully understanding the impact of depository receipts programs on domestic liquidity would require further empirical research.

Finally, another potential culprit for the low liquidity phenomena is that of concentration. Concentration takes two forms in LatAm markets. On the one hand, ownership concentration where firms have a large controlling shareholder and therefore have few shares left for trading (low free-float). On the other hand, there is trading concentration in which only a few and large companies are actively traded, usually those included in the local index.

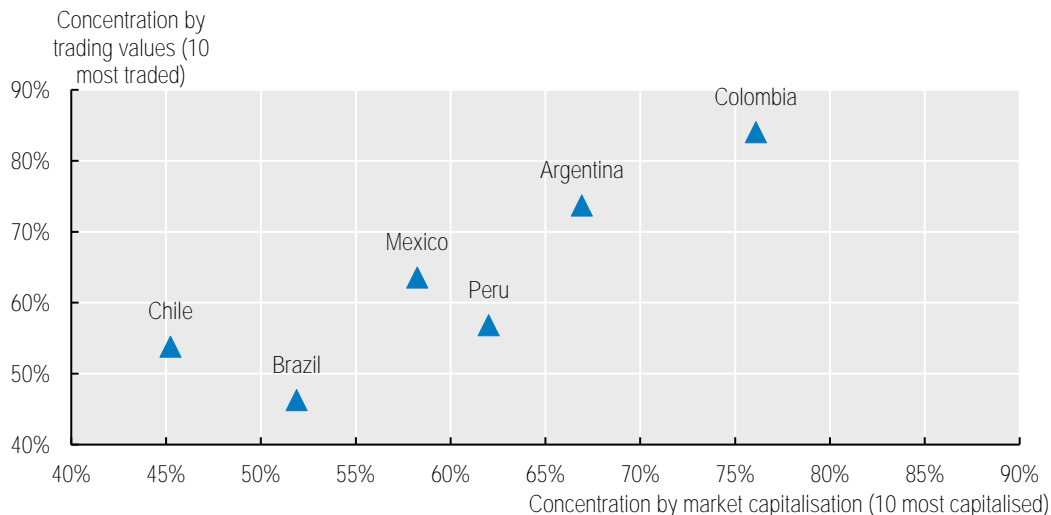
Listed companies in Latin America are characterised by a concentrated ownership structure. It must be recognised that Latin America in this respect is not alone, as most OECD and G20 countries also exhibit varying degrees of concentrated ownership in the hands of different type of investors. Even in countries such as the United Kingdom and United States, historically recognised as markets with dispersed ownership structures, ownership is currently concentrated in the hands of a relatively small number of large institutional investors (OECD, 2018a). In Latin America, OECD (2015a) concluded that

ownership concentration and the formation of company groups are closely related and could be seen as two sides of the same coin in the regional corporate landscape.

Although there are no consolidated and systematic data for this indicator, point indicators are reported in the respective country reports pointing to a high degree of ownership concentration. For example, 70% of non-financial listed firms in Chile are part of a company group with a controlling shareholder; in Brazil, 79% of the 50 most traded companies have a controlling shareholder (or shared control); in Argentina eight out of the ten largest listed companies (by market capitalisation) declare having a controlling shareholder; and in Colombia, controlling shareholders retain more than two-thirds of total shares of the largest companies. Given that those two elements have not changed much after the crisis, they could partly explain the depth of domestic equity markets, but do not explain the poor performance of these markets since the crisis. The impact of concentrated ownership structures on the development of capital markets continues to be a subject of debate within academic research.¹¹

The six LatAm countries under analysis exhibit higher market concentration than more developed OECD markets as well as East and South Asia, but similar to emerging Europe and Central Asia. The average market capitalisation of the 10 most capitalised domestic listed firms represented 60% of total market capitalisation in the region¹² for the period 2009-2018; Chile shows the lowest ratio (45%), while Colombia is at the other end with a concentration figure of 76%. Trading volumes depict a similar picture. The values traded of the 10 most traded companies accounted for 64% of total trading for the same period. Brazil exhibits the lowest value (46%), followed by Chile (54%) while Colombia is again with the highest concentration indicator (84%). As per figure 12, there is a clear relationship between concentration measured either by market capitalisation or trading values; in any case, the numbers suggest that a relatively small number of companies are predominant in Latin American markets, both in terms of their value and their trading activity.

Figure 12. Market concentration in LatAm (2009-2018 average)



Source: World Bank and FIAB.

Notes

¹ The OECD's 2013 review of trends and factors impacting on Latin American equity market development focused on seven Latin American markets: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru.

² Data from World Federation of Exchanges

³ It must be noted at the outset that the performance of equity markets is strongly influenced by overall economic conditions (while not the only determinant). As the *OECD Latin American Economic Outlook* (OECD, 2017c) concludes, "The tailwinds that propelled economic growth in LAC in the past decade are gone. The region is undergoing a prolonged economic slowdown. Weak global growth prospects, low commodity prices and tight financing conditions have undermined the potential for the region's growth."

⁴ Using data from Citibank 2017 Report on Depositary Receipt Services.

⁵ On the one hand, some authors found a detrimental effect of ADRs issuance on domestic market development; see for example Levine and Schmukler (2007) and Moel (2001). On the other hand, more recent papers claim the opposite (beneficial) effect, such as Fernandes (2009) and Hales and Mollick (2014). Finally, Karolyi (2004) found no net effect whatsoever.

⁶ While some initial analysis was done of data from the World Federation of Exchanges on bond trading in the region, it has not been included in this report due to incomplete and non-comparable information. In particular, it has not been possible to obtain reliable data due to the important role that OTC trading may take in some jurisdictions, for which data was not readily available.

⁷ Far from the 2015 record of 34.2%

⁸ See Chafkin (2007) for a primer of this "liquidity premium" effect.

⁹ In the case of Peru, the fact that certain institutions (such as banks) are mandated to go public could explain part of this feature.

¹⁰ Data for domestic IPOs was obtained from the IPOs database elaborated by the World Federation of Exchanges. However, in certain cases authors of country reports report different values that could be validated with other sources. We have also cross-checked WFE data with that of FIAB. Reported figures are those that best fit such incomplete available information.

¹¹ Laeven (2014) and La Porta et. al. (2006) argue that concentrated ownership is a deterrent to capital markets development. At the regional level, Claessens et. al. (2000) provide evidence of this effect in the case of Brazil. Evidence of no significant relationship between ownership concentration and capital markets development is provided - among others - by Gilson (2006) and Roe (2002).

¹² Market concentration in South Asia averaged 35%, in East Asia and Pacific it was 39%, whilst in Europe and Central Asia it was 57%, similar to LatAm figures.

Chapter 3. A compelling case for equity market development

Investment in physical capital and accumulation of human capital are – along with technological advances – the key drivers for long-term economic growth; resources to support both should come from both domestic and foreign savings. The role of financial markets is to efficiently channel resources from savers to investors. By doing so, they not only mobilise resources but promote higher savings that translate into higher investment, but also facilitate entrepreneurship and innovation, enhance monitoring of corporations, and allow for more effective risk management and diversification.

Yet, access to finance has been identified as a major constraint for growth in selected Latin American countries. Data from the Enterprise Survey of the World Bank show that more than 40% of firms acknowledge access to finance as a deterrent for growth in Argentina, Brazil and Colombia; such figure is less relevant in Mexico (30%), Chile (18%), and Peru (9%). The survey also points out that a trifling part of investment is financed through equity markets; the regional average is around 2% over the last decade. Similarly, the World Economic Forum indicator on the ease of access to financing through domestic capital markets renders similar results. Over a sample of 137 countries, only Chile ranks near the top of the list (#17), while the rest of the regions ranks poorly (Mexico is #64, Peru is #69, Brazil is #72, Colombia is #77 and Argentina is #106).¹

Hence, channelling capital from savers to corporations is an important pillar for sustained long-term economic growth and development.² Empirical evidence suggests that there is a close correlation between growth and finance,³ although there continues to be academic debate about the direction of causality. Nevertheless, much of the empirical work leans towards the hypothesis of causality running from financial development to economic growth.⁴ In that context, some research points to the possibility of a two-way dynamic causality between economic growth and finance development at different stages of economic development.⁵

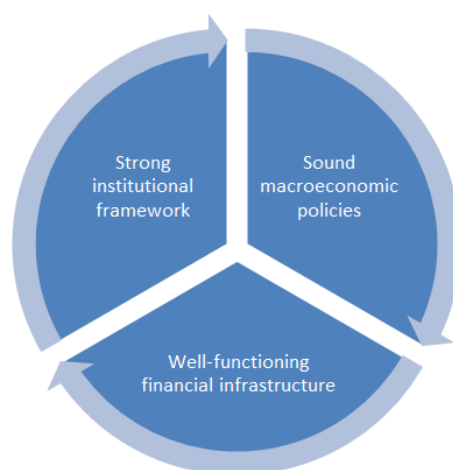
Financial markets play that role directly, by allowing investors, (insurance companies, mutual funds, pension funds, retail investors, etc.) to allocate their resources through financial intermediaries (banks, investment banks, asset managers, brokers, etc.) to promising business ventures. The balance between these actors depends upon a number of economic and institutional elements. A long academic and policy debate has taken place with respect to the benefits of a financial system based on banks vis-à-vis one that is based on the capital markets. The evidence suggests that both capital markets and banks are complements in promoting economic growth. The right balance between both depends on certain idiosyncratic features within each country and their corresponding stage of development. However, within academia and among policy circles, empirical evidence has led to a focus on the importance of overall financial development.⁶

However, financial markets can also be a source of instability and crisis, as evidenced by the recurring financial crises in the developing and developed economies.⁷ Unlike other sectors in the economy, disruptions in the functioning of financial markets have a systemic impact in almost all areas of the economy, with long-lasting welfare effects. The 2008-

2009 crisis again put this topic at the top of the global agenda (Law, 2010). As a result, a compelling case has been made with respect to the need to develop an efficient regulatory and supervisory framework for the financial system, intended to minimize the risks derived from it. To establish a proper balance between market-driven and regulatory/supervisory actions is perhaps one of the most difficult tasks for policy-makers around the globe.⁸ The more regulated the system is, the less prone to innovation and growth it becomes, and at the same time moral hazard problems arise, jeopardizing the long-term stability of the financial system. But less regulation could also have a toll on the economy, given the apparent market failures that are spread through the financial systems. In such a context, it is hard to identify an optimal regulatory-supervisory framework, since many of its features would depend upon a number of idiosyncratic characteristics of each country.

There is a three-pillar structure that promotes the sustainable development of financial markets, according to Laeven (2014) (Figure 13).⁹ First, the institutional framework (including the regulatory framework mentioned above) provides a mechanism to protect investors' and creditors' rights, which encompasses timely enforcement of laws and rules¹⁰; second, macroeconomic stability that facilitates the role of unit of account and the long-term nature of most financial contracts¹¹; and third, a well-functioning infrastructure to ensure transparent, efficient, secure and timely execution of operations.

Figure 13. Pre-conditions for sustained capital markets development



Source: Laeven (2014).

Despite significant improvements in the region across those elements during the last two decades, there is room for further strengthening of all three elements. For the institutional framework, all countries – except for Chile – exhibit indicators well below OECD averages; in terms of macroeconomic stability all countries – except for Argentina – show values similar to OECD averages. For financial infrastructure, no precise indicator exists, but proxy estimations indicate that only Argentina has values below OECD standards.¹²

Over the last decade, most countries in the region have implemented sound macroeconomic policies, which have included the opening up of capital as a cornerstone of the policy mix. However, technological advances in the financial industry and the internationalisation of financial markets continue to pose a challenge to the development of domestic capital markets, in terms of competitive advantages of foreign markets, and the potential need to focus on certain *niche* markets.

On the one hand, larger flows could result in lowering the cost of capital for firms and individuals and enhance risk-sharing, therefore facilitating market access to traditionally credit-constrained sectors (SMEs, entrepreneurs, households).¹³ On the other hand, the possibility to tap international capital markets could result in large and high-quality domestic firms migrating their financing to those markets, and therefore reducing the availability of the most liquid and sound stocks and bonds in the domestic market. The net effect is still ambiguous and subject to further research (Laeven 2014).

The review conducted in the previous chapter showed that the dynamism observed by domestic equity markets prior to the 2008-2009 crisis could not be sustained after the global turmoil. For the years prior to the crisis, the OECD (2013) identified five elements that explained such dynamism, namely: macroeconomic stability, increasing terms of trade, low international interest rates (high level of global liquidity), improved legal and regulatory protections for investors, and better corporate governance practices among many Latin American companies. When global financial conditions deteriorate (or stagnate), then it became increasingly difficult for domestic firms to raise capital.

At the same time, discussions and debates at the Roundtable came to conclude that there continued to exist factors hindering the development of capital markets (OECD, 2013). The most relevant were:

- Foreign exchange controls were cited as a major barrier in Argentina to foreign investment in the stock market, distorting the costs of financing (these were largely dismantled in 2016-17).
- It was suggested that many companies are reluctant to list, especially in smaller markets, due to concerns that increased disclosure will have negative impacts on tax liabilities or other government intervention in business operations.
- Companies may also be concerned that disclosure requirements could put them at a competitive disadvantage vis-à-vis their non-listed (and in some cases multinational) competitors.
- Family founders may also have concerns about loss of control of the company, and may decide that the costs of listing and complying with regulatory and disclosure requirements are higher than the benefit they may receive from cheaper access to capital obtained on the market.
- There are also challenges on the demand side in attracting investors for smaller companies, and in the absence of liquidity, about the potential volatility of share prices.

Despite the marked improvements (reforms) in the legal and regulatory frameworks and the enhancement of the protection of investors' rights that the region embarked on over the last years, the continuation of such reforms is critical. In most cases, it could be argued that the region hasn't gone through reversal episodes over the last two decades when it comes to reforms aimed at promoting investors' confidence. But the risk is still there and hence it is important to acknowledge that such reforms would have the bulk of their impact in the long-term; building investor confidence is an ongoing process that requires continued attention by policy-makers.

Although full agreement exists regarding the need to have well-regulated capital markets, the specifics of the best enforcement framework are not yet clear, at least from an academic perspective; the role of public enforcement vis-à-vis private mechanisms is still a topic of debate.

On the one hand, LaPorta et al. (2006) find that laws mandating public disclosure and facilitating private enforcement through liability standards benefit the development of securities markets, while public enforcement of securities laws has little impact. This suggests that securities laws that empower the market by setting mandatory disclosure and liability standards are to be preferred over laws that focus primarily on regulatory enforcement of laws. Similar conclusions have been elaborated by the World Bank (2006).

On the other hand, Jackson and Roe (2009) find that disclosure does indeed correlate with capital markets development, but so does public enforcement. In fact, they claim that public enforcement is more important than private liability standards as elements that foster the development of capital markets.

Such debate is of utmost importance for policy-makers in developing economies, provided the hard budget constraints faced by regulators. In such circumstances, relying on private mechanisms could provide more room for enforcement, but at the expense of limiting the impact of the more relevant tools policy makers have at their disposal. Finding a proper balance is more a matter of art than science, requiring country-specific elements to be taken into account. A key factor to consider in determining such a balance is the efficiency and quality of the court system in handling private actions.

In a comparative study conducted by Eichengreen and Luengnaruemitchai (2006) on creditor and investor rights, the time and costs of contract enforcement, and transparency were identified as driving forces explaining the relatively more developed capital markets in Asia vis-à-vis Latin America. Those forces have had an impact in facilitating the level of integration among Asian capital markets, particularly bond markets, hence further reinforcing the development virtuous circle.

A number of challenges to foster equity market development were identified by the OECD (2013), namely:

- Achieving the balance between regulation aimed at ensuring minority shareholder protection and investor confidence, while maintaining the necessary flexibility for companies to adopt practices tailored to their specific circumstances, and minimizing the costs and compliance burdens that may deter companies from making use of equity finance opportunities.
- Ensuring effective and efficient enforcement of corporate governance rules through regulatory institutions; and predictable and timely court processes.
- Shifting the focus of board improvements from static analysis of board member composition to a more dynamic focus on how it functions and how it can most effectively tackle the issues of greatest importance to the company, such as strategy, risks and value creation.
- Developing a corporate governance culture for both listed and non-listed firms that is based on the value that good corporate governance can create for an enterprise, rather than simply adopting formalistic structures and processes to meet third party requirements.
- Addressing the corporate governance challenges associated with conglomerate structures, particularly in relation to disclosure and review of related party transactions.
- Considering the potential for listing of state-owned enterprises to spur equity market growth, while at the same time ensuring that the state acts according to high

corporate governance standards in its role as owner, setting a positive example for other listed companies in the market.

- Considering the state's role as a direct source of investment in companies – whether through the equity markets or through more direct corporate finance – and its implications for the viability and attractiveness of equity market financing for corporate investment needs.
- Considering the use of corporate bond markets as an intermediate vehicle to enhance corporate governance and disclosure while providing family founders with the means to maintain full company control, which may ultimately facilitate later consideration of listing.
- Considering the establishment or promoting the use of SME listing segments with fewer corporate governance requirements, as some markets in the region have already done, and considering the impact of the tax code on incentives to list. Differing definitions of SMEs and lack of good, comparable data may be hindering a full understanding of the necessary steps to facilitate their access to finance in the region.

A comparative study conducted by the World Economic Forum (WEF, 2016) identified a number of additional initiatives or opportunities for private and public action that could foster the development of capital markets in Colombia. Many of those initiatives are also relevant for and applicable to most of the other Latin American countries, as per the OECD Roundtable conclusions cited before. In particular, the WEF study calls for:

- Promoting issuer and retail investors' education.
- Simplifying the listing process and costs and evaluating the convenience of developing specific market segments related to company size.
- Strengthening minority shareholders rights protection mechanisms.
- Expanding the investor base and their investment options by allowing certain participants to increase their activity in equity and risky markets.
- Streamlining the processes for foreign investors to participate in the domestic market.
- Increasing market liquidity through the removal of unnecessary regulatory restrictions aimed at mitigating risk (e.g. on transactions that typically require leverage) while fostering sound risk management practices at the intermediaries' level.
- Generating cost efficiencies (economies of scale) in the market through lower regulatory compliance costs, horizontal and vertical integration of infrastructure providers, and simplifying tax operations.

As it emerges from the abovementioned studies, many of the actions that are needed are circumscribed to the market infrastructure and the institutional framework pre-conditions. Similarly, in terms of market infrastructure, Laeven (2014) cites fixed costs (listing requirements, transaction costs and fees, taxes, the costs associated with hiring an internationally recognised auditor among others) as elements that are particularly acute in developing markets, mostly affecting small and medium size firms and investors.¹⁴ The Laeven study further cites the quality of information disclosed by issuers as weak.

In addition to these structural features, once countries have successfully implemented sound macroeconomic policies and confirmed their willingness to implement sustained market-friendly reforms in a context of increasing financial internationalisation, new demands from issuers and investors may have arisen. Provided that these new demands are not yet met, they could help to explain the poor performance of domestic capital markets in LAC after the crisis. For example, could it be attributed to firms being reluctant to raise capital in a more challenging macroeconomic environment? Has the cost of capital increased for firms? Have investors become more demanding in terms of the institutional framework (including corporate governance), market infrastructure, or financial products available (market completeness)?

To conclude, a long-term perspective may be needed when assessing the development of domestic capital markets in Latin America over the last years. As it has been put by Laeven (2014), "...there are no quick fixes: the development of markets is a gradual and interactive process, stretching over long periods of time". Within that context, it is important for policy makers to be supportive of sound macroeconomic policies, sustaining an investor-friendly institutional framework and facilitating the development of an efficient financial market infrastructure.

Moreover, it could be the case that the development of certain markets becomes inefficient due to market size, transactions costs, among others. In those cases, a pragmatic approach is needed and the convenience of regional and/or international integration should be evaluated. The MILA is a vivid example of this approach; only time will tell whether integration in this case is the optimal solution, but more information is needed to provide a conclusive assessment.

Notes

¹ Data obtained from the 2017-18 Global Competitiveness Report by the WEF

² For a review of relevant theoretical literature, see Dollar and Meh (2002)

³ Earlier studies date back to Goldsmith (1969) and Shaw (1973); more recent quantitative assessments could be found in King and Levine (1993a; 1993b), Levine et. al. (1999), Beck et. al. (2000). Evidence for Latin America is analyzed in Christopoulos and Tsionas (2004) and Roubini and Sala-i-Martin (1991).

⁴ See Levine et. al. (op. cit.) and Calderon and Liu (2002).

⁵ Greenwood and Jovanovic (1990).

⁶ See Levine and Zervos (1998), Beck et. al. (op.cit.), Demirgüç-Kunt and Levine (2001).

⁷ Some references in this regard are Rajan (2005), Ranciere et. al. (2005), Arcand et. al. (2012), and Cecchetti and Kharroubi (2015).

⁸ Beck et. al. (2003)

⁹ Demirgüç-Kunt and Levine (op.cit.), Laeven (2014)

¹⁰ La Porta et. al. (1997 and 1998)

¹¹ Huybens and Smith (1999), Boyd et. al. (2001), Khan et. al. (2001)

¹² For the institutional framework, we use the Rule of Law indicator estimated by the World Bank for the year 2016; for macroeconomic stability, we use the average inflation over the period 2015-2017, while for the functioning of markets, we use the availability of financial services indicator elaborated by the World Economic Forum, obtained from the 2017-18 Global Competitiveness Report.

¹³ See Borenstein et. al. (2006).

¹⁴ We should keep in mind that larger firms and investors are those most benefited by financial internationalisation, since they can choose to raise capital or invest resources in most developed markets without incurring significant costs.

Chapter 4. Survey results: key stakeholder perceptions of Latin American equity markets

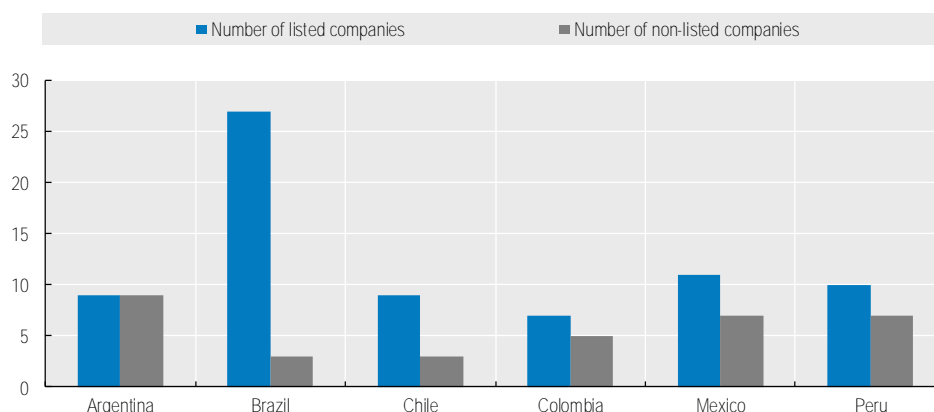
To further address the issues mentioned in the previous chapter, the Task Force mandated the OECD to conduct a survey on access to equity markets in Latin America of listed and non-listed companies and institutional investors (pension funds, insurance companies, mutual and investment funds, etc.) operating in the analysed markets (Argentina, Brazil, Chile, Colombia, Mexico, Peru). The templates of the questionnaires are provided in Annex A. In this chapter, the most relevant results are summarised at an aggregate level, while more detailed and country-specific information is reported in the respective country reports, complemented by information gathered through interviews with key stakeholders (firms, investors, regulators, capital market experts, etc.).¹

The demand for capital: listed and non-listed companies

In the case of listed corporations, 74 companies participated in the survey; the country break-down is shown in Figure 14. Almost two-thirds of respondents are part of a company group, in line with previous findings (OECD, 2016); half are parent companies and the other half are subsidiaries. Most respondents are exclusively listed in the domestic market (50 companies), while eight companies have their shares listed domestically and in foreign markets through ADRs, six are only listed abroad, and finally four are only listed abroad through ADRs programs.

In the case of non-listed firms, we obtained responses from 34 companies (see country break-down in Figure 14). Half of the sample was part of an economic group; similarly to listed companies, half of those being part of a group are parent companies, and the other half are subsidiaries. Only four companies operate in the domestic market and abroad (two are from Brazil, one from Argentina and one from Chile).

Figure 14. Listed and non-listed firms participating in survey (per country of residence)

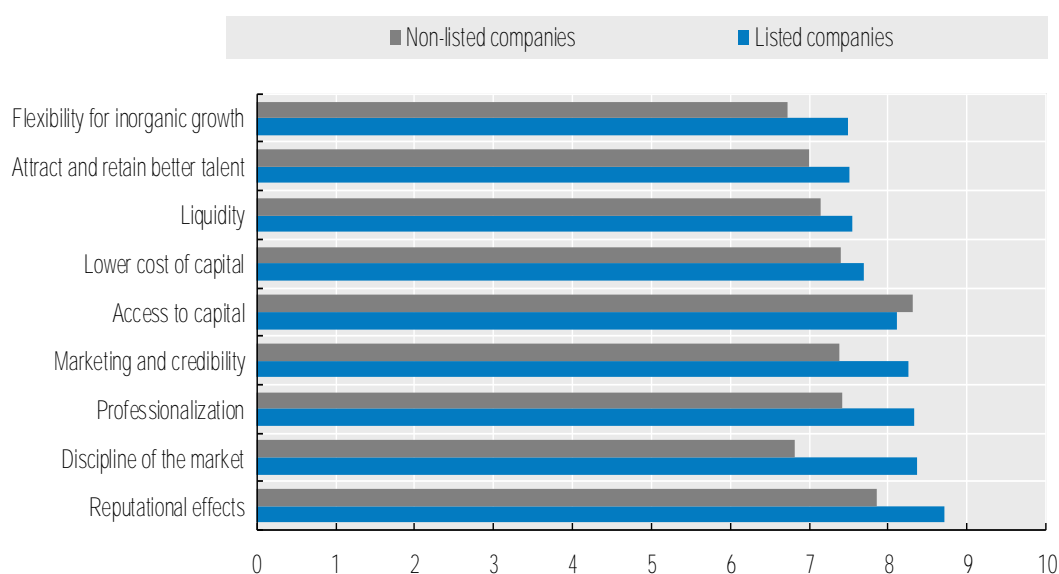


Source: OECD Survey on access to equity markets in Latin America.

The prevalent ownership structure of the sample of listed companies confirms previous findings of a concentrated ownership. More than 57% of respondents declare that having a controlling shareholder best described their ownership structure; having a dispersed investor base has been declared by 34% of surveyed firms. State-owned companies account for only 8% of surveyed firms. In the case of non-listed firms, family-owned (which resembles that of a controlling shareholder, but at a group-based level) is the salient characteristic of respondents, accounting for 57%; another 20% declare having a controlling shareholder, while only 3% (1 firm) has a dispersed investor base.

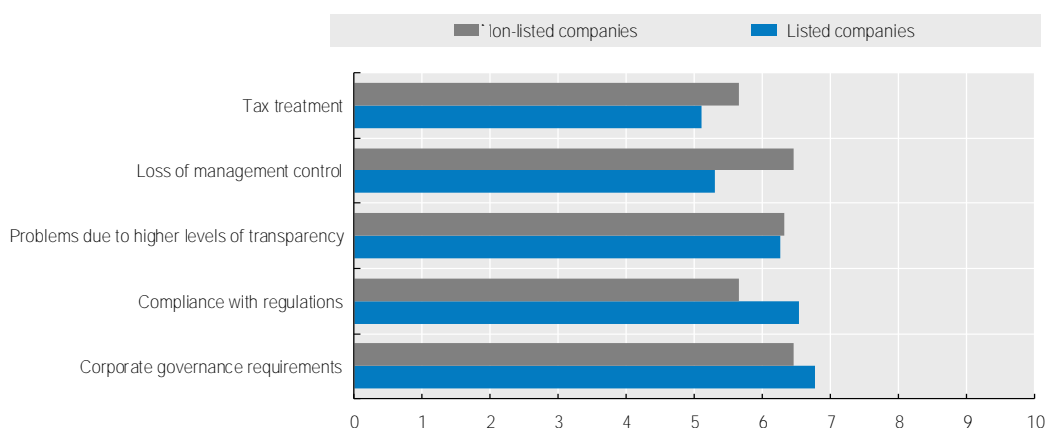
The benefits of having developed capital markets and the growth and investment opportunities that open up for companies when going public were discussed in the previous chapters. The canonical view of access to capital as the salient value of being listed is identified as the top benefit by non-listed, while rated slightly less highly by those already listed (see Figure 15). As expected, listed firms attach higher values to each of the potential benefits of being listed, except for access to capital. The so-called soft benefits (reputational effects, discipline of the market, professionalisation of the company, marketing and credibility) are those acknowledged as most relevant by listed firms, but of less importance by non-listed.

Figure 15. Benefits of being (going) public (0-10 scale)



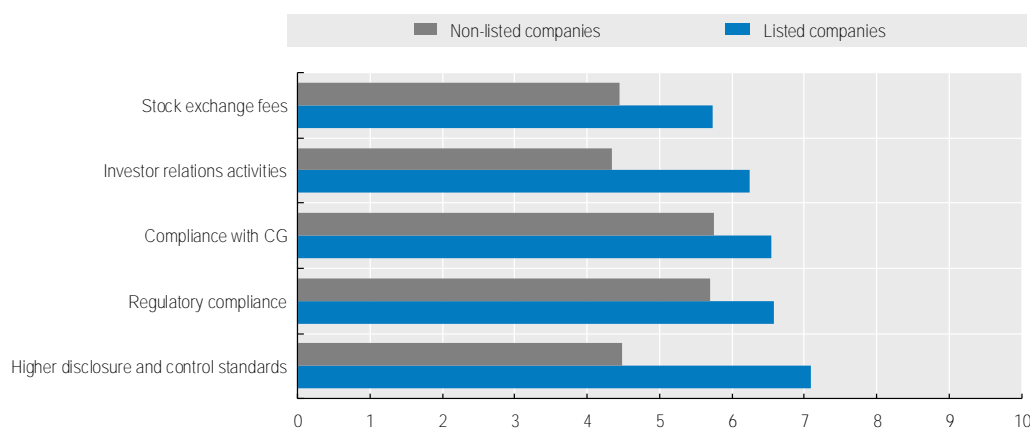
Source: OECD Survey on access to equity markets in Latin America.

In a similar fashion, the perception of the risks of going (being) public differ between the two groups (see Figure 16). On the one hand, the relevance of the costs or risks associated with compliance with new regulations and adoption of sounder corporate governance practices appear to be underestimated by non-listed firms, both in absolute and relative terms. On the other hand, the tax consequences of being listed and the risks associated with losing control are credited with a higher risk by non-listed companies than the risk as evaluated by listed companies based on their actual experience.

Figure 16. Risks of being (going) public (0-10 scale)

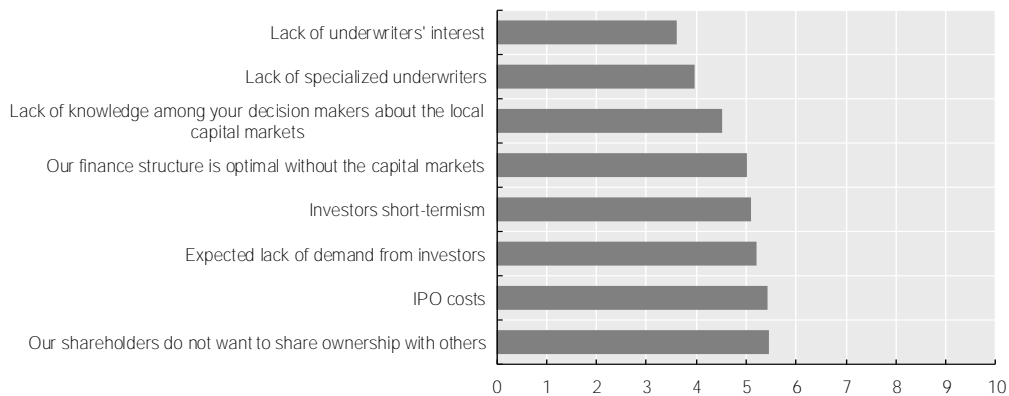
Source: OECD Survey on access to equity markets in Latin America.

Figure 16 provides an ex-ante perception among non-listed companies of what the risks of going public are. When it comes to the actual costs of being listed – or similarly, the perception of the potential costs of being listed that could deter non-listed firms from going public—there are also interesting differences among the group of companies (Figure 17). Items linked to compliance obligations and engagement with investors rank high as a cost for those already listed, a feature that doesn't seem to be fully acknowledged by private companies. A similar argument could be made for the stock exchange fees but in this latter case, such cost receives low scores in terms of its relevance as an overall and ongoing cost of being listed, by both groups.

Figure 17. Costs of being (going) public (0-10 scale)

Source: OECD Survey on access to equity markets in Latin America.

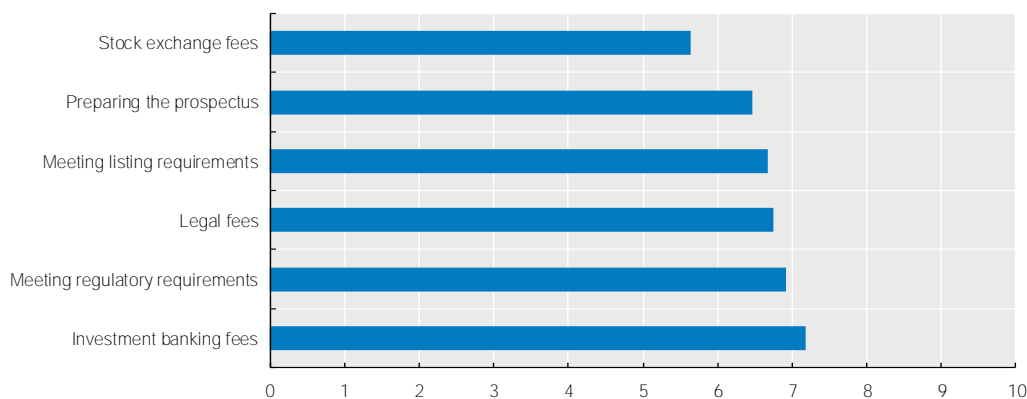
Not reported, but listed firms consider tax treatment as the least relevant cost of being public. Also, non-listed companies were surveyed regarding additional potentially relevant deterrents for going public (see Figure 18). They recognize that their current shareholders are reluctant to allow other investors to participate in companies' equity; that the process for going public is costly; and perceive investors as uninterested and/or short-sighted which could imply that they perceive the market will not value the shares as they do.

Figure 18. Deterrents for going public, perceptions of non-listed companies (0-10 scale)

Source: OECD Survey on access to equity markets in Latin America.

Another interesting interpretation of the results of the costs is comparing them with the benefits that listed firms attach to being a public company. Provided that the scores given to benefits and costs are perceptions, when comparing for each firm the average benefit they estimate for being public vis a vis the average cost, the results show that 82% of listed companies gave higher scores to benefits relative to costs. In fact, the average benefit calculated for the respondent firms (67 companies) was 8.0 whereas the average cost was 6.2. The companies that gave a higher score to costs rather than benefits are based in Argentina, Brazil, Mexico and Peru; in particular, 33% of Peruvian firms and 29% of Argentinean firms fall into this category.

Although a quantitative assessment of the costs of the IPO process was beyond the scope of this survey, we surveyed which of the typical IPOs costs were more (and less) relevant for firms already listed. The results, as per Figure 19, show that fees charged by investment banks rank at the top of the costs during the IPO process. At the other extreme, stock exchange fees are perceived as the least significant cost. A striking finding in this respect is that investment bankers' fees rank first within the IPO costs in all countries but Chile. In a similar fashion, stock exchange fees are regarded as the least relevant cost during the IPO process in all six countries but Mexico. Legal fees rank second in half the countries (Argentina, Mexico and Peru).

Figure 19. The costs of going public, perception of listed companies (0-10 scale)

Source: OECD Survey on access to equity markets in Latin America

The critical relevance of investment banking fees that the survey highlights for Latin America matches similar concerns in many other markets, as per OECD (2017e). Global concentration levels in such industry varies between 63% and 85% (depending on the market of the services provided: M&A, IPOs, secondary offerings, syndicated loans, investment and non-investment grade corporate bonds) for the top-20 investment banks. At the highest end, the 85% of the volume of non-investment grade corporate bonds issued globally in 2016 was underwritten by the top-20 investment banks. Since the 2008 crisis, China and other Asian banks have gained ground in the investment banking industry at the expense of US and European institutions. The OECD study claims that such concentration may lead to collusion and therefore higher fees (relative to a competitive market). This is particularly acute in the case of IPOs, where the underwriting fees are approximately 10 times larger than those charged for the issuance of corporate bonds, both in the US and Europe.² Moreover, underwriting fees represent almost two-thirds of the total costs of an IPO in the US.

The results of Table 1 show the expected bias in which companies (both listed and non-listed) see themselves as performing better than their counterparts perform when it comes to corporate governance practices. However, the results also reveal that listed firms attach higher scores to their own corporate governance than the scores attached by non-listed firms. Moreover, the perception of the country-level corporate governance practices is somewhat better when asking listed firms.

Table 1. Perception of corporate governance practices at the firm- and country-level (0-10 scale)

	Own company		Country level	
	Listed	Non-listed	Listed	Non-listed
Transparency	8.89	8.28	7.24	6.43
Protection of minority shareholders	8.58	7.47	7.15	5.71
Control environment	8.55	7.80	7.20	6.68
Board effectiveness	8.08	7.70	7.26	6.96
RPTs regime	8.00	7.87	7.11	6.58
Board practices	7.91	7.50	7.29	6.96

Notes: Board practices refer to board nomination, selection and remuneration; RPT refers to related-party transactions. Non-listed companies' ranking of corporate governance quality in their country is with respect to listed companies.

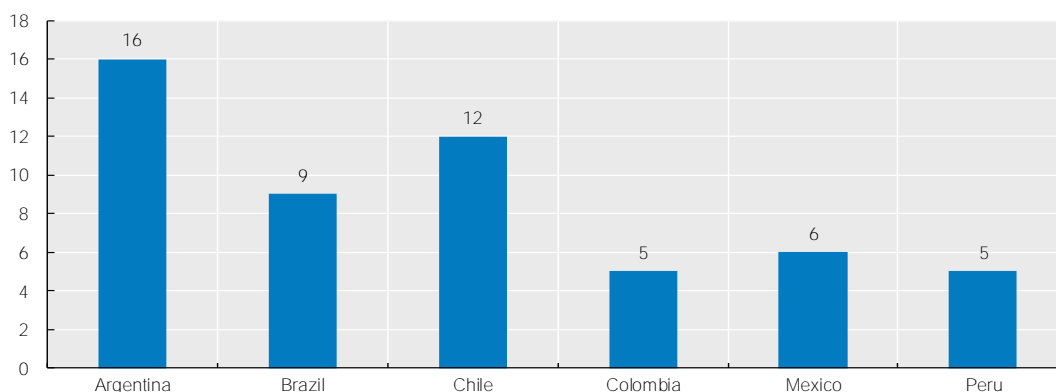
Source: OECD Survey on access to equity markets in Latin America.

Transparency is the corporate governance area that both groups of firms consider as their greatest strength. At the other end, board practices is where both groups perceive their greatest weaknesses; for non-listed, that is also true for the protection of minority shareholders. Some exceptions to this general finding are worth noting. In the case of listed firms, Argentinean companies see themselves as performing worse than the country practices in the area of board practices and related-party transactions; in Chile, results show that listed companies consider themselves as performing worse than other listed companies in the board effectiveness area. For the group of non-listed firms, Argentinean companies also perceive themselves as underperforming the country practices in the area of board practices; in Mexico, a similar result exists in the case of board effectiveness and related-party transactions.

The supply of capital: Investors

The survey was sent to approximately 276 institutional investors that mainly operate in domestic markets, such as pension funds, insurance companies, mutual funds and hedge funds, and asset managers among others. We obtained responses from 53 investors in all six countries (see Figure 20). Approximately one-third of respondents are insurance companies, and another third are pension funds; mutual funds account for 25%. 70% of investors declared to be part of a financial conglomerate, providing further support for the relevance of groups in the domestic market.

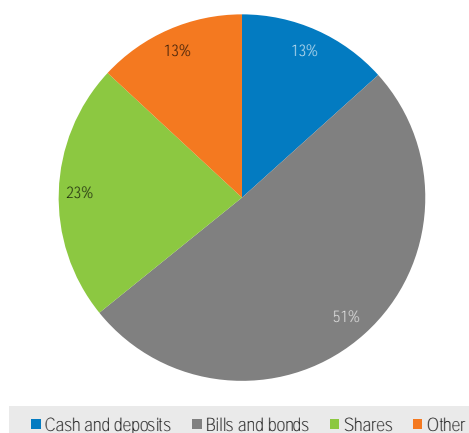
Figure 20. Institutional investors (by country of residence)



Source: OECD Survey on access to equity markets in Latin America.

The allocation of their portfolios is home-biased; average investments in local assets represent 85.7% of total assets under management. Out of the domestic investments, fixed-income instruments accounts for the lions' share of assets; equity represents almost a quarter of their portfolio (see Figure 21). Interestingly, pension funds – that hold mostly long-term liabilities – only allocate an average of 15% of their portfolio to equity. Brazilian investors (hedge funds, equity funds and mutual funds) are those with higher exposure to equity; in some cases, equity represents more than two-thirds of their total portfolio.

Figure 21. Institutional investors' portfolio allocation (by type of asset class)



Source: OECD Survey on access to equity markets in Latin America.

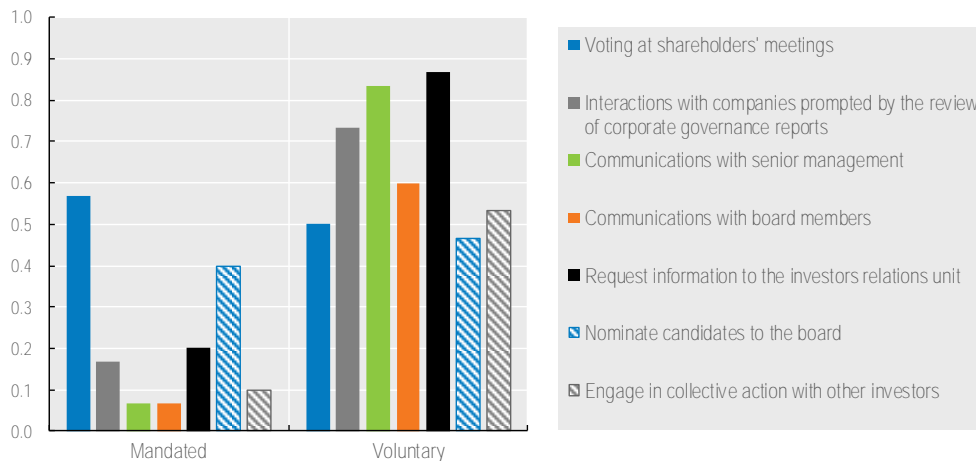
Investment in equity is mostly managed actively, with 36 investors using this approach. Regulations (caps or minimums) on overall equity exposure affect their investment strategy in 30 cases, whereas another 24 investors are also subject to caps on individual holdings.

Direct holdings are the preferred instrument to gain equity exposure; more than 50% of the equity investment is held directly in stocks. This is true for all type of investors and across countries – except for Mexico where ETFs are the dominant mechanism to invest in equity.

In addition, 17 investors responded to have traded domestic shares in foreign regulated markets (typically in the US, such as NYSE and Nasdaq) and liquidity is the key reason for doing so (it scored 8.9 on a 0-10 scale). Lower trading costs (with a score of 7.6) and better depositary services (7.4) ranked next as reasons for trading abroad. When looking at the residence of the investors searching for liquidity abroad, we see that they are located in all six countries (although in the case of Mexico it was only one investor).

A majority of investors reported active engagement with investee companies (57% declared such engagement). As reflected in Figure 22, voluntary practices are dominant in this respect; legal and/or regulatory requirements are binding only in some cases of voting at shareholders' meetings and near to binding when nominating candidates to the board. In all other methods of engagement, the voluntary practice prevails over regulatory mandates. A hypothesis could be made in this respect regarding fiduciary duties and potential claims, since the results suggest that investors are prone to engage with companies in a more “soft” way (interactions/communications) whereas engagement that involves a decision-making (vote, nominate), the voluntary action by investors is less relevant.

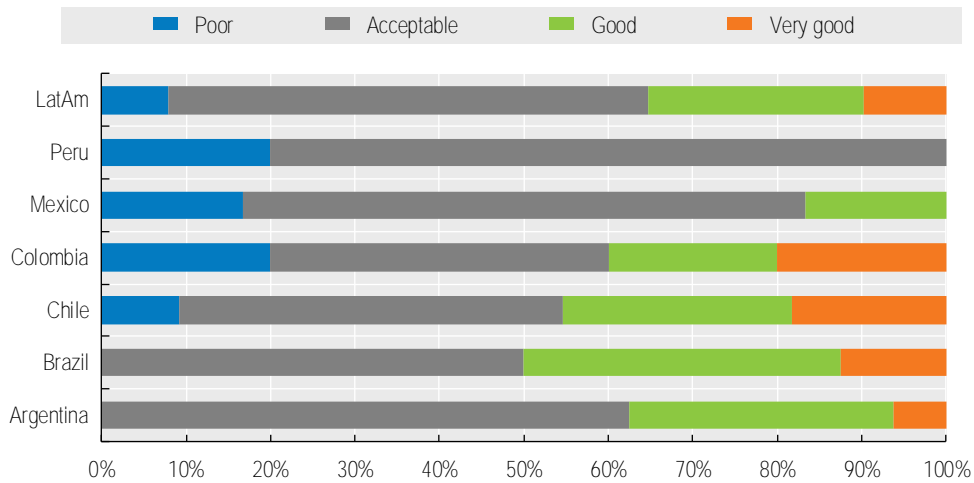
Figure 22. Methods and reasons for engagement with investee companies



Source: OECD Survey on access to equity markets in Latin America.

At an aggregate level, the majority of investors perceive that listed companies have an acceptable commitment to good corporate governance practices (see Figure 23); and this is true in all six countries. The perception of a poor commitment is low in aggregate (less than 10% of respondents), with Colombia and Peru showing around 20% of poor qualifications. Brazil and Chile take the lead with almost half of respondents perceiving such commitment as good or very good.

Figure 23. Investors' perception of commitment to good CG practices by investee companies (as % of respondents)



Note: Option very poor was not selected by the respondents, thus is not shown in the figure.

Source: OECD Survey on access to equity markets in Latin America.

Although ranking such practices as acceptable at the domestic level, they largely consider that local firms exhibit better practices than their LatAm peers. Table 2 shows the evaluation of domestic investors (rows) about the relative quality of corporate governance practices in foreign markets (columns). Cells with values equal to 0.5 represent the case in which investors in a certain country regard the corporate governance practices in foreign markets as similar to those at the domestic level; a value higher than 0.5 means that domestic corporate governance practices are regarded as better than those abroad, whereas values lower than 0.5 mean that domestic practices are evaluated as poorer than those abroad.

Table 2. Investors' perception of domestic quality of CG practices compared to foreign markets (0-1 scale)

		Investing in							OECD	Non-OECD
		Argentina	Brazil	Chile	Colombia	Mexico	Peru			
Investors from	Argentina		0.44	0.31	0.31	0.31	0.38	0.33	0.58	
	Brazil	0.81		0.75	0.75	0.75	0.75	0.42	0.50	
	Chile	0.75	0.75		0.69	0.69	0.65	0.25	0.75	
	Colombia	0.75	0.42	0.31		0.42	0.69	-	0.50	
	Mexico	0.75	0.88	0.50	0.63		0.50	0.42	0.50	
	Peru	0.63	0.63	0.25	0.50	0.50		-	0.50	

Note: A value of 0.5 represents the case in which investors from a particular country consider the local corporate governance practices similar to foreign markets practices; a value higher than 0.5 means that domestic corporate governance practices are considered better than those abroad; a value lower than 0.5 mean that domestic practices are considered poorer than those abroad.

Source: OECD Survey on access to equity markets in Latin America.

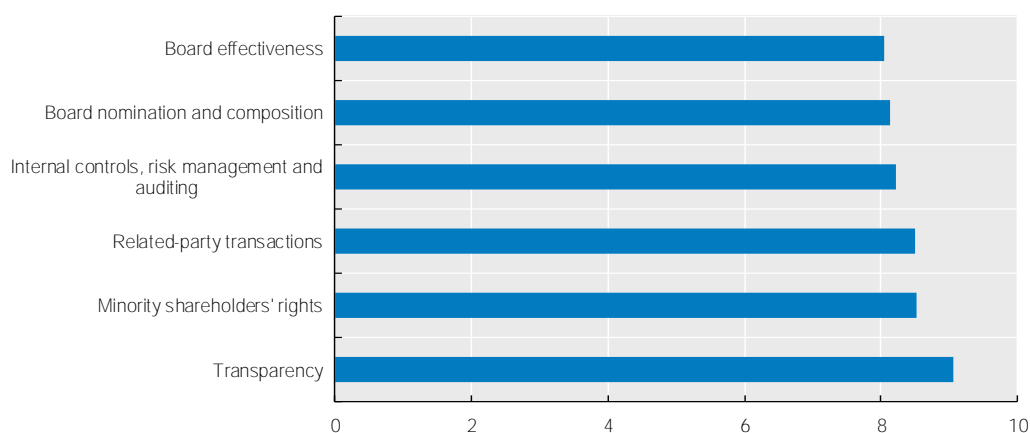
Investors across the six countries consider the quality of the domestic corporate governance practices as lower than compared OECD countries' practices. However, they do consider the domestic corporate governance practices equal or better than those implemented in non-OECD countries. In addition, Brazil, Chile and Mexico are the countries where local

investors consider domestic practices as of equal or higher quality than those prevalent in any other LatAm market. Both types of perceptions could strengthen the equity home-bias effect³ observed in their portfolio investments – where investors prefer domestic assets to foreign assets – and make regional integration harder to achieve.

Corporate governance practices are viewed as a key component of investment decisions in all six countries. They receive an average valuation of 8.6 (on a 0-10 scale); Mexican (9.0) and Argentinean (8.8) investors gave the higher importance to corporate governance practices, followed by Peru (8.6), Chile (8.5), Colombia (8.4) and Brazil (8.2). Despite these encouraging results, still 40% of respondents affirm that better corporate governance practices would not (or are unlikely to) prompt them to increase their equity exposure.⁴

Although domestic investors consider corporate governance practices as largely acceptable at the domestic level, they nevertheless have identified priority areas where they consider there is room for further improvements (Figure 24). Transparency practices and, to a lesser extent, the protection of minority shareholders' rights and RPTs, are the areas that received higher values in terms of priority. Board-related issues are seen as less imperative. Transparency ranks at the top in four countries (Argentina, Brazil, Chile and Mexico), while in Colombia the highest priority was attached to the protection of minority shareholders' rights, and in Peru it was the RPT practices.

Figure 24. Investor's ranking of CG areas for improvement (priority on a 0-10 scale)

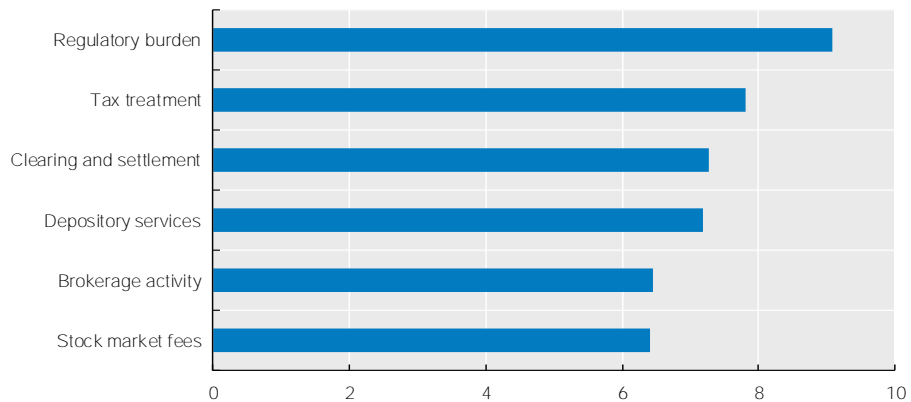


Source: OECD Survey on access to equity markets in Latin America.

Dynamism from the side of investors also requires trading to be as efficient as possible. In this respect, only 25% of investors identify domestic trading costs as a significant barrier for further developing equity markets; another 25% consider those costs as not significant. Half of respondents consider trading costs as a barrier, but one that is not of much significance. Colombian and Mexican respondents expressed the greatest concern about trading costs, with 50% considering them to be a significant barrier for further developing equity markets. Argentinean respondents were close to the regional average; in Brazil and Peru, a majority of investors consider trading costs as a barrier but not significant; in Chile they are largely regarded as not being a barrier. Overall, these results suggest that – on average – domestic equity markets are not expensive for trading. However, improvements could be made in this area, particularly in Colombia and Mexico.

A starting point for reducing trading costs should be regulatory burden, according to the perception of investors (Figure 25).⁵ At the other end, stock market fees and brokerage activity are perceived as areas where costs have (relatively) low room for further reductions; a finding that is consistent with the perception of companies regarding the low importance of stock market fees.

Figure 25. Investor's ranking for reducing trading costs (priority on a 0-10 scale)



Source: OECD Survey on access to equity markets in Latin America.

Finally, investors find it difficult to invest in small- and medium-size companies (SMEs) due to liquidity issues. On a 0-10 scale of relevance, liquidity obtained 9; and such high values are present in all six countries. Lack of analyst coverage of those type of firms ranks second at the regional level (scoring 4.4), whereas trading fees (2.4) and not being part of an index (2.3) rank much lower.

Notes

¹ It is important to note that when showing averages for certain indicators, we have calculated a simple average for the complete sample. We acknowledge that sample size effect may affect the results, including, for example, to bias towards the average of the country(ies) with the largest number of respondents. Also, in certain questions more than one response was marked, and therefore the sum of some binary indicators do not add up to one. In addition, it must be noted that not every participant responded to all questions. In sum, no claim is suggested of statistical significance or representativeness of the sample. Rather, the objective was to gain more general insight into the perspectives of key market participants.

² Data provided by OECD (2017e) shows that IPOs underwriting fees (median) in the US amount to 7% of total proceeds (4% in Europe) whilst in the case of corporate bonds they represent 0.65% of total proceeds (0.4% in Europe).

³ See Tesar and Werner (1995)

⁴ It could be that -- due to regulations aimed at limiting risk exposure -- some investors are prevented to increase their equity position. However, we saw that -- on average -- investment regulations are not the most significant component of portfolio allocation. Lack of availability of shares with sufficient liquidity could be an additional reason.

⁵ These results should be taken with caution, since only 11 investors (from Ar, Br, Me and Pe) responded to this question.

Chapter 5. Latin American regional and country-based initiatives to promote equity market development

The relatively poor performance and ranking of Latin American markets in comparison to other regions and global trends should not be taken as an indicator of inattention or lack of action in the region to try to promote greater equity market development. Some of the inactivity can certainly be attributed to underlying economic conditions, as noted above.

Recent corruption scandals (e.g. Petrobras, Odebrecht, etc.) involving listed companies in a number of different Latin American countries have probably also contributed to greater hesitation on the part of investors.

Nevertheless, policy-makers, regulators, stock exchanges and other market participants have undertaken a range of initiatives aimed at strengthening Latin American equity market developments, either on a regional or country-specific basis. These can be categorised as:

1. Corporate governance-related initiatives aimed at increasing investor confidence;
2. Initiatives aimed at encouraging businesses to use equity markets; and
3. Initiatives aimed at reducing barriers to cross-border trading and investment.

While some of these initiatives do not fit cleanly into a single category and may address multiple aspects, an initial attempt has been made below to briefly highlight some of the better known and more recent initiatives undertaken across these categories.

It must first be noted that the overall legal and regulatory requirements in each country provide the main framework for the functioning of markets in the six participating Task Force countries. These generally include legal requirements set out in company laws, securities laws and related accounting and audit laws. These legal requirements may be seen as the first line of defence for investor protection, as failure to respect them can, at least theoretically though not always in practice, result in enforcement actions to compel companies to comply.

These legal requirements are generally complemented by voluntary corporate governance codes, either written or officially endorsed by each country's regulator, in order to provide a formal mechanism aimed at encouraging adoption and communication to the market of good corporate governance practice, on a voluntary, "comply or explain" basis. The frameworks and processes followed in each of the six task force countries are covered in considerable detail in the Latin American Corporate Governance Roundtable's 2016 report, *Strengthening Corporate Governance Codes in Latin America* (Chaher, 2016).

These codes, while voluntary, provide an important mechanism to support institutional investors' understanding of listed company practices, to facilitate their ability to take into account companies' corporate governance practices as part of their decisions on how to allocate their portfolios for investment, or to engage with companies on corporate governance issues. In some countries, including Chile, Colombia and Peru, regulators have established requirements for pension funds to vote in shareholder meetings and/or to take corporate governance into account in their investment decisions. In the case of Brazil, an

attempt has been made to encourage institutional investors to become active investors in the market through the development of a stewardship code by the Association of Capital Market Investors (AMEC). On the other hand, the OECD's work in this area (and annotations in the G20/OECD Principles) have suggested that institutional investors follow a wide range of business models, and that for some it will not be cost effective to become actively engaged in the corporate governance of the companies they invest in. Mandatory requirements therefore face the risk of becoming box-ticking exercises if the investors do not perceive the benefits of their engagement. Nevertheless, disclosure of corporate governance practices against voluntary codes can reduce the costs for investors to access and make use of such information.

The additional initiatives described below represent some of the more visible actions that had been taken to provide complementary elements to the legal and regulatory frameworks alluded to above, but should not be considered a comprehensive inventory at this stage in the Task Force's work.

Latin American initiatives to promote greater investor confidence

The Novo Mercado, Prime and BYMA initiatives (Brazil, Mexico and Argentina)

One of the best-known initiatives in the region for strengthening investor confidence in equity markets, at least in its initial years, was the Novo Mercado initiative in Brazil, launched at the end of 2000. While the Novo Mercado experience is now well known not only in Brazil but regionally and globally, it is worth summarizing briefly some of its main components and impacts. Brazil's stock exchange, then known as BOVESPA,¹ established three special corporate governance listing segments that issuers could sign up to in order to demonstrate to the market their adoption of higher than legally required corporate governance standards.

Among the standards adopted at the highest "Novo Mercado" level were requirements for companies to:

- Issue only common shares (one share, one vote) and no preferred (non-voting) shares;
- Provide tag-along rights to minority shareholders ensuring that in case of takeovers they are offered the same price as the controller;
- Ensure that at least 20 percent of the board is independent;
- Use International Financial Reporting Standards or US Generally Accepted Accounting Principles;
- Follow more stringent requirements for disclosure of related party transactions and information on trading among company insiders and the controlling group;
- Commit to resolve disputes through an arbitration chamber established at the Exchange in order to bypass Brazil's slower and less predictable court system; and
- Maintain at least 25% free float.

At the slightly less stringent listing level 2, companies followed the above standards with the exception that they were allowed to maintain preferred non-voting shares, which nevertheless were provided tag-along rights guaranteed to receive 80% of the price received

by the selling controlling shareholder and voting rights for certain key decisions taken in the general meeting. Level 1 was focused mainly on enhanced disclosure requirements, along with the 25% free float requirement. By 2002, BOVESPA instituted a requirement that all new listings on the market register at least at Level 1.

Following an initial quiet period, the IPO boom that followed in Brazil in the mid-2000s is well known. A handful of companies signed up to the highest levels in 2002 and 2003. Then the number of companies listing at Novo Mercado level began doubling annually, to seven in 2004, 18 in 2005, 44 in 2006, and 92 in 2007. At the time, Brazil became known as a global best practice success story, demonstrating how mechanisms that allowed companies to make legally binding commitments to higher corporate governance standards could attract stronger investor interest, higher share prices and entice companies to come to the market (Santana et al., 2008).

However, in the decade since Brazil's market peak of 64 IPOs in 2007, Brazil has not been able to sustain the same success. The number of IPOs dropped to just 4 in 2008 amidst the global financial crisis, and has not been higher than 11 in any year since (including just 1 per year in 2014 to 2016).

Some market participants have argued that in recent years, legal frameworks in Brazil and in other countries have continued to evolve towards higher corporate governance standards, meaning that companies on the higher listing segments no longer stand out to the same extent they once did. For example, every Task Force country in the region now requires financial reports to be filed according to IFRS, and some, such as Chile, already prohibit or sharply limit the use of non-voting shares. Sensing a need to take action to maintain its reputation for being at the leading edge with its corporate governance standards, the BM&F BOVESPA Exchange sought to enact additional measures beginning in 2008 to strengthen investor protection for companies on the top tier. These efforts met with mixed success, as companies already listed on the Novo Mercado and other tiers voted not to enact a number of the measures, and the reforms were only partially enacted in 2010. A new set of amendments to the standards was approved by companies on the special listing segments in June 2017. They entered into force in January 2018 and included the streamlining of current rules and also new requirements; adjusting the definition of independent directors, establishing stricter rules related to internal audits and audit committees, mandating companies to hold conference calls after releasing financial statements, and other adjustments of takeover and free float requirements were adopted.

Meanwhile, other stock exchanges in the region have also undertaken initiatives to promote better corporate governance. These initiatives have been beneficial in publicizing and signalling to investors the efforts of companies to adopt or improve corporate governance standards. In Mexico, firms adopting good corporate governance are rewarded with lower (risk-adjusted) interest rates for financing provided by Bancomext (Mexican development bank). This initiative, called Corporate Governance Certification Program or PRIME, was launched in 2017 by the Bolsa Mexicana de Valores (BMV), the Mexican Association of Equity Intermediaries and Bancomext, targeting medium-sized and large companies that obtain a corporate governance certification and have the intention to go public over the medium- to long-term.

Argentina's newly formed stock market, *Bolsas y Mercados Argentinos* (ByMA), has created its own version of Novo Mercado by establishing a segment available only to companies with high standards of corporate governance. In December 2018, BYMA announced the launching of the panel that includes two listing segments, namely GC and GC+. In parallel, Argentina has recently (May 2018) passed a legal reform of the Capital

Markets Law (Ley de Financiamiento Productivo) with the purpose of developing new financial instruments and attracting more companies to the market, including through enhanced integration of the large number of regional exchanges in the country and through consideration of tax incentives (tax legislation passed by end-2017). This reform also removed some of the barriers established back in 2012 that were identified as major constraints to further attract new companies to the market. Also, the CNV has enacted new regulations aiming at facilitating the creation and expansion of crowdfunding platforms for growing companies.

Other Stock Exchange Initiatives

Colombia's Stock Exchange (*Bolsa de Valores de Colombia*) has established a specific Investor Relations Recognition (IRR) designation for companies that follow higher than legally required standards of disclosure, constituting 32 issuers (debt and equity). The BVC certifies them on an annual basis as Investor Relations Quality Issuers, and includes them in a BVC index known as COLIR as a way to facilitate investor trading of these issuers' stocks (OECD, 2017a). Among the standards issuers commit to are:

- Having an investor relations officer (IRO) available to interact in English and Spanish (an IRO is not required by regulation, nor to list).
- Disclosure of quarterly consolidated balance and income statement (consolidation is only required annually by law).
- An updated website with high standards of information, both in English and Spanish, including among others:
 - i. Corporate structure (including subsidiaries local and off-shore);
 - ii. Corporate governance documents (governance code, ethics code, AGM and board regulation);
 - iii. Copy of the comply-or-explain report of the *Código País*;
 - iv. CVs of directors and officers;
 - v. Social responsibility commitments;
 - vi. Copy of material information sent to SFC;
 - vii. List of equity analysts that follow their stock.
- Quarterly events (conference calls) required to investors.

The Peruvian stock exchange (*Bolsa de Valores de Lima*) Good Corporate Governance Index was created in 2009 with an aim to provide greater visibility to firms which implement good corporate governance practices in relation to Peru's voluntary corporate governance code (Chaher, 2016). A small number of audit firms approved by the stock exchange are hired each year to make assessments of “*the appropriateness of [firms'] compliance [with] the code*”. They do this according to a standardised methodology which was adjusted after the country code was updated in 2010. These assessments are used to generate an individual score for each company, which becomes one factor contributing to that company's standing within the index. Other factors included are the liquidity of the company's stock, and the findings of the *La Voz del Mercado* report, a survey of capital markets stakeholders and local corporate governance experts. This survey is intended to reflect the market's opinion regarding corporate governance compliance of the main listed

companies. The Peruvian framework has provided the market, especially investors, with a set of tools to assess the value of the practices recommended by the code. In addition, the stock exchange and EY give interested issuers individual feedback on their *La Voz del Mercado* results, thus, contributing to awareness raising and capacity building. Peru has complemented an issuer-driven model in which companies have to report their progress, with a market demand-driven one based on polling market participants, thus generating a robust and practice-driven focus. SMV has recently announced an intent to reinforce the market incentives to participate in the Good Corporate Governance Index by offering a reduction in stock trading fees to companies in the index.

Mexico has also embarked on the process of developing metrics to facilitate investors' assessments of corporate governance practices. The IPC Sustentable (ESG Index) – launched in 2011 – is a stock market index, composed of 30 firms that are committed to higher sustainability standards, including corporate governance practices. Since its inception, improvements in the quality of those practices have been recorded. More recently, the Business Coordinating Council (CCE) announced the new, revised version of its Code of Corporate Governance Practices that was approved by the regulator (CNBV), the stock exchanges (BMV and BIVA), and other relevant players in the Mexican equity market. This new version of the Code includes matters regarding women on boards, and the concept of social value creation in a company's objective; ultimately, it is expected to continue aligning domestic corporate governance practices with recognised global standards.

In the case of Chile, a similar approach to provide heightened visibility to firms committed to sustainable businesses – including good corporate governance practices – was put in place in 2016. In this case, the Santiago Stock Exchange entered into a partnership with S&P Dow Jones Indices to create the Dow Jones Sustainability Chile Index (DJSI), currently composed of 26 companies, and which is the first of its kind using the Dow Jones Sustainability Indices methodology and the Santiago Stock Exchange's IGPA1 Index (Indice General de Precios de Acciones) as the underlying basis. As it is the case with the Mexican ESG Index, the DJSI measures the performance of companies that meet minimum sustainability requirements, as defined in long-term environmental, social, and governance criteria, assessed through an annual Corporate Sustainability Assessment or CSA.

Certain limited comparisons have been carried out seeking to link commitments made by companies to higher corporate governance standards to their better performance or higher share values (for example, a review of performance of members of the Latin American Companies Circle between 2005 and 2008²); and tracking of the performance of companies in the Novo Mercado index. Whether such results can be replicated in other markets such as in relation to the Lima and Colombia stock exchange initiatives, would require further review and analysis. In particular, if such higher performance exists relative to other companies in those same markets, the question to address is whether it can reasonably be attributed to higher corporate governance standards or may be attributed to other factors such as company size, liquidity, sector, risk levels or other factors. A broader question is whether such initiatives have any positive impact on efforts to attract new companies to the market, or whether, to the contrary, companies considering listing may see the higher standards adopted by leading companies as too expensive or burdensome to entice them to follow the same path.

Initiatives aimed at encouraging businesses to use equity markets

An earlier initiative was undertaken in 2012 and 2013 when Brazil's stock exchange joined forces with Brazil's securities regulator (*Comissão de Valores Mobiliários – CVM*) and other government entities and market stakeholder groups in an inter-agency public-private "Technical Committee" to review and compare international practices aimed at attracting small and medium enterprises with growth potential to the market. Brazil's Mais listing segment – launched in 2005 for small and medium enterprises – experienced little demand in its initial years despite relaxed, transitional requirements for listing. The Mais listing segment (including Mais Level 2) had 17 issuers as of December 2018, while the number of companies listed on the Novo Mercado, Level 1 and Level 2 have risen to a combined total of 187.

The Technical Committee developed a number of recommendations elaborated in a 2013 presentation to the Latin American Corporate Governance Roundtable, including several aimed at facilitating company access to the market. These included simplifying the process and reducing the costs of IPOs; reducing listing maintenance costs; and developing and implementing an issuer education programme. The group also suggested analysing alternative models for access to the market with additional discounts and access restricted to super-qualified investors. Other recommendations sought the establishment of equity funds permitting investment in eligible companies. Market incentives recommended by the group included the provision of IPO guidance free of charge; exemption from registration analysis fees and listing maintenance fees; sponsorship of research reports for a period of 2 years; and a reduction in the offering settlement fee applied to issuers. Adjustments in tax incentives were also advocated. By 2014 most of these initiatives had been implemented; alas, the economic slowdown of the Brazilian economy in 2015 and 2016 hampered the conduct of a proper assessment of the impact such measures may have in facilitating SMEs access to capital through stock exchanges.

In Mexico, the Bolsa Mexicana de Valores (BMV) and the Instituto Mexicano de Ejecutivos de Finanzas (IMEF) joined forces and set up the BMV's Ambassadors Programme to address the problems faced by many companies that are located in the provinces and lack access to specialised accounting and financial services, and corporate governance advisors. The Programme then facilitates such access to companies that are not located in large cities, providing information and technical support needed to participate in capital markets.

A new trading venue in Mexico, the Bolsa Institucional de Valores (BIVA), was granted regulatory authorisation to operate in August 2017. The new stock exchange began operations in July 2018. Supported by state-of-the-art technological infrastructure, and strategic partnerships with foreign institutions, BIVA is meant to contribute to the development of the domestic capital markets through enhanced competition and the attraction of a new set of issuers and investors.

The Argentina Capital Markets Reform initiative, already described above, also may be categorised as a reform with the major objective of enticing new issuers to join the market.

In addition, Colombia and Peru both launched comprehensive initiatives to support capital market development in 2018 that were ongoing during 2019. In Colombia, the government established a Colombia Capital Markets Mission, comprised by outside experts, to engage in stakeholder consultation and analysis before developing an extensive set of recommendations issued in August, 2019. The Mission's report featured 64 recommendations and 210 proposed actions addressing eight thematic areas.

Recommendations addressed a range of sub-topics applying to investors as well as issuers, including on corporate governance, participation of state-owned enterprises in capital markets, development of education programmes, support for regional integration, etc.

In Peru, a Capital Market Advisory Council was established in August, 2019, with the aim of promoting dialogue among its participants from the public and private sectors to support development of the securities market. Its members include representatives of market demand (issuers), supply (investors including pension funds, insurance companies and investment and mutual funds), market infrastructure (brokerage firms, the Lima Stock Exchange and Cavali), and the Securities Market Superintendence, which serves as the Technical Secretariat of the Council. Five working groups have been established, including one focused on environmental, social and corporate governance issues which aims to support a higher standard of corporate governance and sustainability in the Peruvian market. The group has developed a list of 49 proposed actions, and will work in its next phase to promote their implementation.

Initiatives aimed at encouraging regional, cross-border trading

The Colombian, Lima and Santiago stock exchanges joined together to begin operation of the Integrated Latin American Market (MILA) in 2011, seeking through the unification of their platforms to increase the range of options and liquidity they offer to issuers and investors.³ MILA works, for example, by allowing a Colombian investor to purchase shares in a Chilean listed company by using a broker in Bogota. The three stock exchanges' initial aim was to promote their combined markets as an attractive alternative to Brazil and Mexico, the region's two larger markets. However, the three founding members' market capitalisation and trading volumes have remained well below those of Mexico and Brazil. In August 2014, Mexico formally became the fourth member of MILA, further increasing its overall size, number of issuers and trading volumes, so that MILA markets' overall size now is similar to that of Brazil (market cap) and much larger in the number of listed companies, while still falling well short of Brazil's trading volumes (see Table 3).

Table 3. Integrated Latin America Market (MILA)

	Market cap (USD Bn)	Domestic listed companies	Traded volume (equity, USD Bn)
Peru BVL	93	209	3
Colombia BVC	104	66	15
Chile BCS	251	205	55
Mexico	385	140	96
MILA	833	620	169
Brazil B3	917	334	811

Source: Ibero-American Federation of Stock Exchanges 2018 data.

Stock exchange officials concede that the integration initiative has not led to the increased trading volumes that some had hoped for. Differences remain among the participating countries in terms of regulatory, tax and tariff policies, despite recent efforts to facilitate cross-border transactions such as the mutual recognition of fixed and variable income securities issuances and the eventual development of a “passport of funds” for managers of mutual and investment funds. However, the initiative has also led to increased co-ordination among the participating countries' regulatory authorities, and it could ultimately lead to convergence in regulatory and best practice standards as well as strengthened cross-border enforcement among the participating countries' regulatory authorities (Mendoza,

2014b). Indeed, a similar initiative of a “passport of funds” between Argentina and Brazil has been reported between the CNV and CVM.⁴ The Colombian government reported to the OECD during its accession process that MILA has also helped to consolidate and deepen the process of financial integration among these members of the Pacific Alliance. Outside MILA, and in addition to the “passport of funds” initiative already mentioned, Argentina and Brazil are taking steps to further integrate their markets such as the agreement between ByMA and B3 that would allow the former to make use of the latter trading platform for derivatives.

The work of MILA has been taken up in a range of publications developed with the support of the Inter-American Development Bank (see for example, Perry, G. 2016; and Larrain Rios, G. 2016a and 2016b), calling for strengthened financial integration and regulatory harmonisation to support increased cross-border investment for the development of equity markets in the region. While much of this work has focused particularly on the Pacific Alliance (MILA) countries of Chile, Colombia, Mexico and Peru, some of it has undertaken a broader comparison involving also Argentina and Brazil. The work of the Task Force on Equity Market Development is not intended to duplicate this work, but to serve as a complementary forum for reflection among policy-makers, regulators and participants, looking more closely at the issue of how approaches and frameworks for corporate governance are similar or differ across key markets in the region, and what the implications may be.

Notes

¹ BOVESPA subsequently changed its name to BM&F BOVESPA following a merger in 2008, and most recently following an additional merger in 2017 adopted its current name of B3.

² See OECD/IFC, (2009).

³ The discussion of MILA in this chapter is excerpted from the OECD Corporate Governance accession review of Colombia (OECD, 2017a).

⁴ <https://www.spglobal.com/marketintelligence/en/news-insights/trending/higmtm7khwuesjcyt5tioq2>

Chapter 6. Key findings and conclusions

Key findings

The work of the Latin American Equity Market Development Task Force reflects an understanding of the important role that equity finance plays in supporting economic growth, and on the potential to enhance access to such finance in the Latin American region. The focus of the Task Force stems from a recognition of the limitations of relying solely on retained earnings, bank loans or other shorter-term financing to meet investment needs, and the positive impact of equity finance on innovation and productivity (see the introduction and Chapter 3 for more information).

The institutional framework and macroeconomic stability are critical elements in facilitating the development of equity markets. The region has made significant progress in both areas, and therefore the impact of shocks on the market has converged towards other developing and developed economies. This progress should not preclude policy makers and market participants from embarking on much-needed reform processes. The initiatives mentioned in the previous chapter are a vivid example of that.

The capital-raising landscape is undergoing profound changes. We cannot take for granted that companies will find IPOs as the optimal mechanism to access new sources of capital. Technological advances have made it easier for other sources of capital to expand. Crowdfunding, large institutional investors stepping into private equity and venture capital funds, the possibility of direct listing in public exchanges, private placements, and other mechanisms are gaining ground in financial markets. The impact that cryptocurrencies, blockchain-based software services and initial coin offerings will have on capital markets remains to be explored, but a more competitive environment should be expected by traditional market intermediaries.

In light of those initiatives, the results of the survey and follow-up dialogue with key stakeholders (firms, investors, regulators, capital market experts, etc.) help to shed additional light in terms of areas where further action could be taken, both within the public and private domain. It should be noted that although these results are valid for all types of firms in search of financing through equity markets, the challenges and constraints facing larger companies and SMEs are not identical, and a more detailed analysis may be required for a full understanding of the constraints and challenges related to making equity finance accessible to SMEs. Some common features are presented in this chapter. Summaries of country-specific details are available on the web page for the [OECD-Latin American Roundtable on Corporate Governance](#). Recommendations agreed on this topic by the Latin American Corporate Governance Roundtable in 2013, summarised in Chapter 3 of this report, also continue to remain relevant for consideration.

Recommendations to support equity market growth in Latin America

Survey results show a need for education and cultural change to fully reap the benefits of capital markets...

There is a need for stakeholders to embark on a wider process of dissemination of the costs and benefits of participating in capital markets, to promote a “**capital markets culture**”. Those outside the market think that quantitative elements (more and cheaper capital) are the most relevant; but for those already in the market, qualitative elements such as the impact on professionalisation, market discipline, credibility and reputation were those that created value for firms going public.¹

Non-listed firms interested in going public may under-estimate the pre-conditions required for going public. Their levels of professionalisation and preparedness for dealing with a new set of stakeholders may require additional capacity. Also, they may overestimate the tax implications and the risk of losing control if going public. On the contrary, the results of this study suggest that they may underestimate the requirements and the cost of compliance with new regulations once in the public domain. **Information campaigns and peer-learning activities, where listed firms (champions) share their experience and lessons learned could help in filling this “culture” gap.** Even more, since the survey results have shown these companies assign higher ratings on average to the benefits than to the costs and risks of going public. Yet, for the time being, they have decided to remain in the private domain. It is important from a public policy perspective **to closely work with these firms to remove some of those cultural barriers and develop realistic expectations of how listing their shares may impact their businesses, but also about other financing mechanisms provided by stock exchanges that could serve as entry-points into the market, particularly for growth companies.**

It’s interesting to see that – on average – listed firms also gave higher scores to the benefits rather than to the costs of such a decision.² However, this is not the case in about one-third of listed firms in Argentina and Peru, suggesting that their decision about going public could now be different, once knowing its full impact. De-listing has been a market feature over the last decade in developed markets, but not in all developing markets. Latin America has been subject to this global trend.

Entry fees to the market for IPOs are perceived as high by both listed and non-listed companies...

Non-listed firms perceive that the entry fees are high (IPO one-time costs), with investment banking fees topping the list of perceived deterrents to issuing IPOs in every country except Chile. On the one hand, investment banks’ and legal firms’ fees are regarded as high by listed and non-listed firms alike. We are not in a position to assert that such costs are high; more research and information in this area could inform the policy discussion. However, both listed and non-listed companies coincide in perceptions that suggest that there is room for action in this area. OECD (2017c) presents evidence for other markets on how expensive these IPO fees can be. In the meantime, at the regional level the Colombian regulator and the stock exchange are evaluating policies to streamline such costs. The presence of only a few entities with this type of expertise and/or the potential for collusion among them could help explain such perception. If the market for such specialised services is not competitive, then it would come as no surprise that fees are higher than a competitive price. The potential conflict of interest arising from the fact that such underwriting services are mostly provided by the same institutions that act as banking lenders, may support the

hypothesis of overpricing of those fees; the extensive presence of company groups with financial arms in the region reinforces this argument.

In the case of stock exchange fees, we have not conducted a quantitative survey of their actual levels, but both non-listed companies and those already in the market (listed firms and investors) don't attach much significance to such fees as a deterrent for further development of the market.³ Interestingly, Mexico is the only country where stock exchange fees are not regarded as of low importance; this finding could provide some insights about the recent initiative for the launching of a new exchange in the country.

Companies also confirmed concerns about regulatory burdens of being listed...

The regulatory burden and the costs of compliance are identified as areas where policy-makers have room to achieve further efficiency gains. Both listed firms and investors express a coincidence in this respect. The particularities of the specific areas for improvements would certainly differ between countries, but streamlining and regulatory harmonisation have been cited as recommendations in most countries. In this context, it is important to note that the *G20/OECD Principles of Corporate Governance* emphasise the achievement of corporate governance *outcomes*, rather than prescribing the specific detailed policies and practices needed to achieve those outcomes, to allow for due consideration of the idiosyncratic factors that are relevant for each market.

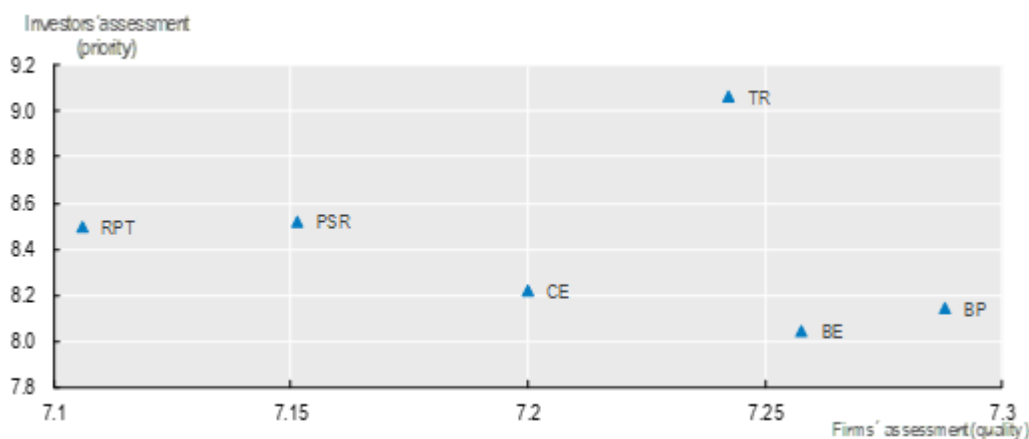
Indeed, the increasing role that alternative sources of financing have had over the last decade could indicate the benefits of going public have evolved at least in some cases, so that further consideration may be needed to ensure that the regulatory burden and other associated costs do not exceed the benefits of publicly listing. Capital markets regulators are therefore encouraged to conduct economic analysis when issuing new rules under an effective regulatory policy framework. Such burdens – often involving significant fixed costs – may be proportionally higher for smaller companies in some cases. This suggests scope for consideration of proportional and flexible approaches to regulation that take account of differing company size and other characteristics.

Market participants generally rate corporate governance as good or acceptable, but investors still cite concerns, particularly with respect to transparency...

In the particular area of corporate governance, there is some consensus among surveyed investors and companies that the region is performing relatively well in terms of the practices in place. However, there is a clear perception that the region still lags behind the practices of OECD countries, a factor that could discourage further participation by international institutional investors in the domestic market; investors that could help in contributing to further liquidity. As per Figure 26 below, there seems to be a coincidence between listed firms' perception of the current status of practices vis a vis investors' perception about the areas that deserve priority attention by firms, notably on the high priority and lower quality assigned to minority shareholder protections including frameworks for related party transactions. As it is clear from the graph, such coincidence exists in all areas but transparency (to which investors assign the highest priority while companies suggest that it is also of relatively high quality).⁴ The lack of standardised metrics for transparency in most markets prevents an analysis of whether this discrepancy is based on fact. The development of such metrics (at a country - or regional - level) could help to fill this gap. With respect to variations in perception regarding disclosure requirements and practices, greater attention could be given to a cost-benefit analysis of

potential modifications to disclosure requirements, both to consider ways to reduce regulatory burdens as well as to enhance quality of disclosure.

Figure 26. Matching of CG practices by firms and investors



Note: BE stands for board effectiveness, BP for board practices (nomination, selection and remuneration), CE for control environment, PSR for protection of minority shareholders' rights, RPT for related-party transactions, and TR for transparency

Source: OECD Survey on access to equity markets in Latin America.

Low liquidity and how to improve it remains an underlying priority for further consideration...

Finally, low liquidity has been popping up everywhere by everyone as a critical issue to be addressed. In fact, this is the reason that investors trade abroad stocks that are found in their own domestic markets, creating a vicious circle of liquidity being drained out. The extreme case of Argentina is illustrative of domestic liquidity being largely exported to US markets. In addition to macroeconomic and institutional factors, our findings suggest low liquidity is reinforced by: i) high ownership concentration and the dominant presence of company groups (which are closely linked); ii) the availability of other sources of funding at concessional terms (sometimes through state-sponsored programs and/or subsidised lending); and iii) banks playing a conflicting dual role (both as direct lenders and underwriters of bonds and equity), coming together to facilitate the use of alternative – and not necessarily efficient – sources of funding.

...and regional integration provides one pathway towards deepening Latin American markets

One of the rationales for the integration of markets (like MILA) is to spur liquidity. But if market integration does not result in attracting new issuers or instruments to the table, then investors will be faced with the same instruments and issuers as before, not necessarily impacting on liquidity. Domestic investors may continue to favour the companies in their own market, considering their perception (in many cases) that the domestic companies' corporate governance practices are better than or equal to foreign ones in Latin America and that they will have better access to information in their own markets. Liquidity may be reshuffled to some extent if they choose to invest more abroad, but no new liquidity enters the market. This suggests that moves toward market integration should not focus only on harmonisation. **Finding ways to attract new issuers and securities instruments to the**

market must also be a central preoccupation of such efforts in order to have an impact on liquidity. Success in doing so should also have a positive impact on attracting new investors to the market.

Future work could shed further light on identifying and addressing issues for reform in the region

Several challenges lie ahead. This report provides some evidence of areas where public and private initiatives are needed. Nevertheless, a number of areas deserve further analysis. Future work of the Task Force and Roundtable could help to:

- **Elaborate a better understanding of the regional financial market structure and its main actors (investment banks, brokers, other underwriters)** involved in bringing companies to the market, financing and trading their shares, and the associated costs. Such understanding would facilitate a review of current regulatory and listing requirements and arrangements to identify areas where reforms may be needed and the flexibility and proportionality approach could be applied.
- **Develop further understanding of the pool of investors available** to continue participating in capital markets activities or to join the market in the near future. Existing evidence shows that institutional investors play a key role in developing a sustainable and long-term capital market. Institutional investors, in their role of buy and hold investors, provide stability and depth to develop a sound capital market. Funded pension funds in the region will certainly continue growing in terms of assets under management and any reform aimed at developing the capital market should follow their evolution closely.
- **Build a better understanding of stock exchanges' business models.** Stock exchanges are a key element of the financial system infrastructure. Apart from the important role stock exchanges perform in providing listing, trading, clearance and settlement services, they play a key role in setting rules and enforcing them. As such, they can help develop and promote the capital market. During the last 20 years the industry itself has undergone significant changes in their corporate structure and business models. In addition, technology has affected how market information flows, how market participants interact and how stock exchanges function. Therefore, understanding stock exchanges' business model in the region (which have become for-profit entities over recent years) may provide further insight into the incentives they face in the context of attracting new stock issuers versus advancing other market segments that may be more profitable, such as the derivatives market, ETF trading or information and IT services.
- Another area of work that merits further focus involves **recent developments related to corporate governance-related enforcement** - both public and private as well as in the use of arbitration - as a particular area that has evolved since the OECD last carried out its review in 2009, notably in relation to the impact and potential use of digital technologies. How enforcement is handled when involving cross-border cases may also be worth examining more closely, particularly if the region is moving in the direction of encouraging increased cross-border trading.
- Further consideration should also be given to exploring what aspects of **transparency** are most important to maintain investor confidence, while also taking into account how the regulatory burden of such disclosure can be minimised. Survey results revealed a mismatch between investors' demand for transparency

improvements and company perceptions that their own transparency practices are high, pointing to a need for further analysis and dialogue on this issue. To sort through these differences, a greater focus on cost-benefit analysis of regulatory requirements and the quality of information disclosure is needed.

Finally, considering that the way corporations finance themselves has been changing rapidly, future research could focus on developing a better understanding of non-financial corporations' capital needs and their sources of financing. Understanding how corporations currently access and use different financing sources, other than public equity, to finance their growth objectives, whether it is through bank loans, public debt, private equity, venture capital, crowd funding or even initial coin offerings for blockchain related ventures is a key consideration for assessing any further recommendations. Comparable data on their relative volumes and trends in use was difficult to obtain in the development of this report and would require a much more thorough review and analysis of databases along the lines of OECD equity market reviews of Italy and Portugal. However, it must also be noted that such work is resource intensive and would require substantial additional funding.

Taking account of the above conclusions, the OECD Latin American Corporate Governance Roundtable and its Task Force on Equity Market Development have agreed to continue to work to review and support equity market development in their upcoming work programme. Reflecting priorities of the group, the work will focus particularly on the latter two issues of enforcement of corporate governance-related requirements and transparency.

Notes

¹ Of course, if those “soft” elements do indeed create value for firms, then it is natural to think that companies would ultimately access broader sources of capital at a lower cost

² Those numbers could not be directly compared, but they do provide some subjective insights on the matter.

³ We acknowledge that stock exchange fees paid by listed firms are different from those paid by investors trading in those markets; our assumption is that if fees are high or low, they are so for both types of clients.

⁴ Ideally, all points should lie on a downward-sloping line, reflecting the fact that if firms regard a certain area (let's say board effectiveness) as being implemented in compliance with high standards (e.g. high quality), also investors attach a low priority to improvements in that area.

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Annex A. Questionnaire templates used for the survey

For companies

1. What is the Name of your *company*: _____
2. Which of the following options better defines the ownership structure of your company:
 - a. The company is family-owned / controlled
 - b. The company is state-owned
 - c. The company has a dispersed investors base
 - d. The company has a controlling shareholder
 - e. Private equity investors own more than 5% of the company's capital
 - f. Foreign investors own more than 5% of the company's equity capital.
 - g. Other (please specify: _____)
3. Which of the following options better defines the status of your company:
 - a. Non-listed (Privately held company)
 - b. Publicly listed company
4. Is your organisation part of an economic group?
 - a. Yes
 - b. No
5. (*If answers yes to question no. 4*): Please specify if you are part as a parent or subsidiary company
 - a. Parent
 - b. Subsidiary

Only for Listed Companies

1. How are your company' shares available to investors?
Please select all applicable answers
 - a. Listed in a local stock exchange
 - b. Listed in a foreign stock exchange
 - c. Listed via depositary receipts in a foreign stock exchange

2. Please provide the structure of the Shareholders' Equity and Liabilities from the balance sheet as of the end of 2017, in millions USD:

<i>Current liabilities</i>	In millions USD
Account payables	
Short-term debt & current portion of long-term debt	
Other current liabilities	
<i>Long-term liabilities</i>	
Long-term debt	
Other long-term liabilities	
Total liabilities	
<i>Shareholders' Equity</i>	
Common stock	
Retained earnings	
Other	
Total shareholders' equity	

3. How would you rate the benefits your company has obtained from being listed?
Please consider a scale from 1 to 10, in which 1 means "Very low" and 10 is "Very high benefits".

Benefits	1	2	3	4	5	6	7	8	9	10
Access to capital (availability when needed)										
Reputational enhancement and raised profile										
Lower cost of capital										
Provision of exit and liquidity to early-stage investors										
Discipline of the market										
Professionalisation of the company										
Ability to attract and retain better talent										
Marketing and credibility with stakeholders										
Flexibility for inorganic growth strategy (Mergers and Acquisitions)										

Benefits	1	2	3	4	5	6	7	8	9	10
Other (please specify: _____)										

4. If you have some additional thoughts about the current or potential benefits from being listed, please do it here:

--

5. How would you rate the following costs related to the IPO process. Please consider a scale from 1 to 10, in which 1 means “Not important at all”; and 10 means “Very important”.

IPO costs (one-time)	1	2	3	4	5	6	7	8	9	10
Investment banking fees										
Legal fees										
Stock exchange fees										
Preparing the prospectus										
Necessary adjustment to meet regulatory requirements										
Necessary adjustment to meet listing requirements										
Other (please specify)										

6. If you have some additional thoughts or comments about the impacts of costs associated to the IPO process, please do it here:

--

7. How would you rate the following costs your company has incurred from being listed? Please consider a scale from 1 to 10, in which 1 means “Very Low”; and 10 means “Very high” or “Excessive”.

On-going costs	1	2	3	4	5	6	7	8	9	10
Compliance with securities regulation										

On-going costs	1	2	3	4	5	6	7	8	9	10
Compliance with corporate governance regulation										
Compliance with audits and controls										
Stock exchange fees										
Tax treatment										
Investor relations activities										
Other (please specify)										

8. From your point of view how important are the following risks or consequences of being a publicly listed company?

Please consider a scale from 1 to 10, in which 1 means “Not important at all” and 10 means “Very important”.

Risks or consequences	1	2	3	4	5	6	7	8	9	10
Loss of management control										
Cost of compliance with regulation										
Problems due to higher levels of transparency										
Corporate governance requirements										
Tax treatment										
Other (please specify:)										

9. In your experience, what are the main obstacles preventing the access to the equity capital market? Please elaborate in one paragraph

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10. How would you rate the level of development or sophistication of corporate governance in your company?

Please consider a scale from 1 to 10, in which 1 means “Very low”; and 10 is “Very high”.

Components	1	2	3	4	5	6	7	8	9	10
Board nomination, composition and remuneration										

Components	1	2	3	4	5	6	7	8	9	10
Board effectiveness										
Related-party transactions regime										
Transparency / level of financial and non-financial information provided to stakeholders										
Minority shareholders' rights and protection										
Internal controls, risk management and audits										

11. How would you rate listed firms' commitment to good corporate governance practices in your country?

Please consider a scale from 1 to 10, in which 1 means "Very low"; and 10 is "Very high".

Components	1	2	3	4	5	6	7	8	9	10
Board nomination and composition										
Board effectiveness										
Related-party transactions										
Transparency										
Minority shareholders' rights										
Internal controls, risk management and audits										
Other (please specify:)										

What would you recommend to regulators to facilitate companies' access to the local capital market?

12. Do you have any additional observations to help our study (especially initiatives or projects from other institutions e.g. stock exchanges, corporate governance institutions or investor associations, among others).

Only for Non-listed (privately owned) companies

1. Year of incorporation: _____
2. Which is the country of incorporation of your company?
 - a. Argentina

- b. Brazil
 - c. Chile
 - d. Colombia
 - e. Mexico
 - f. Peru
 - g. Other (please specify)
3. Please mark the countries in which your company has operations:
- a. Argentina
 - b. Brazil
 - c. Chile
 - d. Colombia
 - e. Mexico
 - f. Peru
 - g. Other (please specify)
4. To which industry does your company belong?
- a. Financial
 - b. Industrial
 - c. Retail
 - d. Oil, gas or mining
 - e. Other (please specify)
5. What is your company's annual income (in USD) :
- a. For 2015: _____
 - b. For 2016: _____
 - c. For 2017: _____
6. Please provide the structure of the Shareholders' Equity and Liabilities from the balance sheet as of the end of 2017 in millions of USD:

<i>Current liabilities</i>	In millions USD
Account payables	
Short-term debt & current portion of long-term debt	
Other current liabilities	
<i>Long-term liabilities</i>	
Long-term debt	
Other long-term liabilities	
Total liabilities	
<i>Shareholders' Equity</i>	
Common stock	

Retained earnings	
Other	

Total shareholders' equity	
----------------------------	--

7. How would you rate the following factors that might deter your decision from becoming a publicly listed company?

Please consider a scale from 1 to 10, in which 1 means “Not at all important”; and 10 is “Very important or deterring factor”.

Factors	1	2	3	4	5	6	7	8	9	10
Lack of knowledge among your decision makers about the local capital markets										
IPO costs (one time cost including prospectus, regulatory compliance, legal fees, investment banking fees, etc...)										
Additional corporate governance requirements										
Ongoing cost of being listed (regulatory compliance)										
Stock exchange fees										
Our finance structure is optimal without the capital markets										
Our shareholders do not want to share ownership with others										
Transparency and disclosure of information										
Investors activism (short-termism)										
Expected lack of demand from investors										
Lack of specialised underwriters										
Lack of underwriters' interest										
Other (please specify:)										

13. How would you evaluate the potential benefits of listing your company?

Please consider a scale from 1 to 10, in which 1 means "Very low benefits"; and 10 means “Very high”.

Potential benefits	1	2	3	4	5	6	7	8	9	10
Access to capital										
Reputational enhancement and raised profile										
Lower cost of capital										
Liquidity for current shareholders										
Discipline of the market										
Ability to attract and retain better talent										
Professionalisation of the company										
Marketing and credibility with stakeholders										
Flexibility for inorganic growth strategy (Mergers and Acquisitions)										
Other (please specify:)										

14. If your company decides to go public, how important would you rate the following risks and costs of being a public company?

Please consider a scale from 1 to 10, in which 1 means “Not important at all”; and 10 means “Very important”.

Potential risks or costs	1	2	3	4	5	6	7	8	9	10
Risk of losing management control										
Cost of compliance with regulation										
Cost of higher information disclosure and transparency										
Corporate governance requirements										
Tax treatment										
Other (please specify:)										

15. How would you rate the level of development or sophistication of corporate governance in your company?

Please consider a scale from 1 to 10, in which 1 means “Very low”; and 10 is “Very high”.

Components	1	2	3	4	5	6	7	8	9	10
Board nomination, composition and remuneration										
Board effectiveness										
Related-party transactions regime										
Transparency / level of financial and non-financial information provided to stakeholders										
Minority shareholders' rights and protection										
Internal controls, risk management and audits										

16. How would you rate LISTED firms' commitment to good corporate governance practices in your country?

Please consider a scale from 1 to 10, in which 1 means "Very low"; and 10 is "Very high".

Corporate governance dimension	1	2	3	4	5	6	7	8	9	10
Board nomination and composition										
Board effectiveness										
Related-party transactions										
Transparency										
Minority shareholders' rights										
Internal controls, risk management and audits										
Other (please specify: _____)										

17. What would you recommend to regulators to facilitate and promote companies' access to the local capital market?

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18. Do you have any additional observations to help our study (especially initiatives or projects from other institutions e.g. stock exchanges, corporate governance institutions or investor associations, among others).

19. If you would like to receive the report that will be produced with the results of this survey, please add your email address below and we will be glad to send you an electronic version when the report is published in 2018.

For institutional investors

1. Which type of institutional investor corresponds to your institution?
 - a. Pension fund
 - b. Mutual fund
 - c. Hedge fund
 - d. Insurance company
 - e. Other (please specify: _____)

2. In which country is your institution based?
 - a. Argentina
 - b. Brazil
 - c. Chile
 - d. Colombia
 - e. Mexico
 - f. Peru
 - g. Other (please specify: _____)

3. How much are your institution's assets under management (end-2017, in USD)?

4. Please indicate the allocation of your portfolio (end-2017, in %)

		Percentage
a. Foreign assets:		
	i. Foreign assets invested in cash and deposits:	
	ii. Foreign assets invested in bills and bonds:	
	iii. Foreign assets invested in shares:	
	iv. Foreign assets invested in other	
b. Domestic assets:		
	i. Domestic assets invested in cash and deposits:	
	ii. Domestic assets invested in bills and bonds:	
	iii. Domestic assets invested in shares:	
	iv. Domestic assets invested in other	

5. Of your equity investments (foreign and domestic), please indicate the allocation by investment products (end-2017, in %)
 - a. Stocks (direct holdings)
 - b. Mutual funds _____
 - c. Hedge funds _____

- d. ETFs _____
- e. Private equity funds _____
- f. Investment funds _____
- g. Other (please specify): _____

6. How is your equity investment strategy defined?

Please select as many as applicable:

- a. Regulations set a cap on equity investment
- b. Regulations set a cap on individual instruments
- c. Index-based strategy
- d. Actively managed strategy
- e. Other (please specify): _____

7. Is your institution part of an economic group or financial conglomerate?

- a. Yes
- b. No

8. Over the last year, have you traded in non-Latam foreign regulated markets (e.g. NYSE, LSE) shares of locally listed companies?

- a. Yes
- b. No

9. (If answer yes to question no. 8) How would you rate the importance of the following elements for doing so?

Please consider a scale from 1 to 10, in which 1 means “Not important at all” and 10 means “Very important”.

Elements	1	2	3	4	5	6	7	8	9	10
Tax treatment										
Liquidity										
Trading costs (brokerage, stock exchange fees, etc.)										
Depository services (security, costs, etc.)										
Protection of minority shareholders' rights										
Regulatory burden on investors' activity										
Other (please specify)										

10. Does your institution regularly engage with investee companies?

- a. Yes
- b. No

11. (If answer yes to question no.10): What type of engagement do you have as shareholder of listed firms and what is the reason for doing so?

Please select as many as applicable:

	Legal/regulatory mandate	Voluntary practice
Voting at shareholders' meetings		
Interactions with companies prompted by the review of Corporate Governance reports		
Communications with senior management		
Communications with board members		
Request information to the investors relations unit		
Nominate candidates to the board		
Engage in collective action with other investors		
Other (please specify)		

12. How would you rate listed firms' commitment to good corporate governance practices in your domestic market?

- a. Very good
- b. Good
- c. Acceptable
- d. Poor
- e. Very poor

13. 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?

	Much lower	Lower	About the same	Higher	Much higher
Argentina					
Brazil					
Chile					
Colombia					
Mexico					
Peru					
Other OECD countries					
Other non-OECD countries					

14. How would you rate the importance of corporate governance on your investment decision? Please consider a scale from 1 to 10, in which 1 is "Not important at all"; and 10 means "Very important".

1	2	3	4	5	6	7	8	9	10
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15. Would better corporate governance practices lead you to increase your exposure to domestic equity?

- a. Yes
- b. No
- c. I don't know

Please explain your answer in one paragraph.

16. From the following corporate governance areas, how would you rank them in terms of priority to be improved?

Please consider a scale from 1 to 10, in which 1 is “Very low priority”; and 10 means “Very high priority”.

	1	2	3	4	5	6	7	8	9	10
Board nomination and composition										
Board effectiveness										
Related-party transactions										
Transparency										
Minority shareholders' rights										
Internal controls, risk management and auditing										
Other (please specify)										

17. Are trading costs a barrier to further develop the domestic equity market?

- a. Yes, significantly
- b. Yes, but not significantly
- c. No

18. (If answers yes to question no. 17) how would you rate the importance of the following areas so as to lower those costs?

Please consider a scale from 1 to 10, in which 1 is “Not important at all”; and 10 means “Very important”.

	1	2	3	4	5	6	7	8	9	10
Brokerage activity										
Clearing and settlement										
Depository services										
Stock market fees										
Regulatory burden										
Tax treatment										
Other (please specify)										

19. What are the bottlenecks to invest in smaller listed companies?

- a. Liquidity
- b. Trading fees
- c. No analyst coverage
- d. Not part of the index
- e. Other: _____

20. Are there any other additional issues/elements that are relevant to further the development of domestic equity markets?

21. What would you recommend to regulators to facilitate and promote the participation of institutional investors in equity markets?

22. In case you would like to make any observations to help our study (especially initiatives or projects from other institutions, e.g. stock exchanges, corporate governance institutions or investor associations, among others).

Please use the space provided below:

Name of your institution:
(will remain confidential)

If you would like to receive the report that will be produced with the results of this survey, please add your email address below and we will be glad to send you an electronic version when the report is published in 2018.

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