

# LATIN AMERICA SECURITIES FINANCE USER GUIDE 2020



ARGENTINA

BRAZIL

CHILE

COLOMBIA

MEXICO

PERU



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## Executive Summary

**COVID-19**, the disease that knows no boundaries and does not discriminate by race, color or religion, has crippled economies across the globe and redefined the term “work from home.” Technology has stepped to the forefront to keep the wheels of progress moving, and never have Central Banks and International Monetary Organizations worked so tirelessly to provide the necessary liquidity required to keep so many businesses solvent.

Latin America, a region fighting economic headwinds even before the pandemic, is fighting its own COVID-19 surge as this guide goes to press; however, years of strong reserve management, prudent policy decisions and ample technology investments have allowed initiatives in capital markets to move forward. This was never more evidenced than by the amount of sovereign debt that came to market and was sold in the months after the pandemic broke in March. Mexico and Peru alone issued over \$9 trillion in debt, providing not only needed liquidity but, maybe more importantly, the confidence of offshore investors.

EquiLend and RMA are proud to publish the 2020 edition of our successful Latin America Securities Finance User Guide. Our partners across the region did a great job building off last year’s inaugural publication, providing increased depth on both the equity and fixed income markets. In addition to Argentina, Brazil, Chile, Mexico and Peru, the major addition for this year is the section on Colombia, which was not included in 2019. Our regional partners recognized the need to adapt and made the necessary regulatory, legal and technology changes that will allow foreign investors to access the full breath of capital markets strategies that would require the ability to borrow, lend or finance Colombian equities.

Perhaps the most notable headline in the region is from Mexico, which at the end of 2019 enacted regulatory changes aimed at increasing liquidity in the equity markets in what is viewed as a first step toward a true cross-border securities lending product. With the increases in sovereign debt issuance we mentioned above, Mexico has seen an increase in the need to provide financing for those holdings. In 2019-20, significant progress has also been made in obtaining local currency financing for both sovereign and corporate debt issuance. Many other exciting developments have taken place across the region—please read on to learn more about them.

Finally, we offer our sincere gratitude to the many individuals and firms who contributed their expertise to this guide. In particular, we want to thank Jill Rathgeber, BNY Mellon; Billy Ochoa, Santander; the Bolsa de Valores de Lima and Cititrust Colombia. Without their help this user guide would not have been possible.

Please enjoy the Latin America Securities Finance User Guide 2020. If you have comments or suggestions, please feel free to share them with us. We look forward to our continued work alongside the banks, brokers and exchanges in Latin America to support the growth of the regional securities finance markets.

For any questions, feedback or additional information about this user guide, please contact:

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# ARGENTINA

1 ARS=0.014 USD

as of June 25, 2020



## General Market Overview

Argentina's financial markets have undergone significant change following the enactment of Law No. 26.831 (Capital Markets Law) in 2012. This created a new legal and regulatory environment and fostered the integration of exchanges and markets in order to boost scale and improve trading efficiency. This law also removed the functions of the Bolsas while leaving all duties to the Mercados, significantly simplifying the landscape in the process.

Consolidation within the industry has been ongoing, and currently the following exchanges offer a variety of products and services:

- Bolsas y Mercados Argentinos (BYMA) for stocks, fixed income securities and derivatives
- Mercado Abierto Electrónico (MAE) for public and private fixed income securities
- Mercado a Término de Buenos Aires (MATBA) for spot and futures on commodity products
- Rosario Futures Exchanges (ROFEX) for financial derivatives
- Mercado Argentino de Valores (MAV) for SME fixed income products

Within this context, the former Mercado de Valores de Buenos Aires (MERVAL) and the Buenos Aires Stock Exchange (BCBA) joined forces to create BYMA, currently the country's largest stock exchange in terms of trading volume, number of trades and market capitalization. It is the only exchange that lists equities, trades nearly 40% of fixed income and also offers various derivatives products.

All registered markets in Argentina are regulated by the CNV (Comisión Nacional de Valores) as defined by Argentinean law.



## Exchange Highlights

103	<b>NUMBER OF COMPANIES LISTED ON BYMA,</b> INCLUDING SIX NON-ARGENTINE COMPANIES
24	<b>COMPANIES WITH ADRs OR GDRs</b>
US\$62.7BN	<b>MARKET VALUE OUTSTANDING</b> (AS OF DECEMBER 2018)

## Equities

As a result of macroeconomic volatility and high inflation, in the past Argentinean companies were forced to rely on retained earnings or short-term bank loans for financing. Reforms undertaken beginning in the 1990s permitted large firms to access international equity financing through the issuance of American Depositary Receipts (ADRs), and today nearly 90% of the country's equities trading volume derives from that source.

The main goal of BYMA is to repatriate some of that volume back to Argentina to be traded locally, as well as to act as a hub for firms seeking access to equity financing. In 2018, BYMA launched a new securities lending program, one of several initiatives aimed at improving market access and, in turn, boosting trading volume. Subsequent capital raisings through IPOs totaled US\$1.4 million (2019).

## Fixed Income

Historically, fixed income has accounted for some two-thirds of capital market trading volume, with leading issuers including the Sovereign Republic and the Provinces (sub-sovereigns), as well as private companies. There is a full range of investable securities with different terms and maturities (fixed and variable coupon rate, amortizing and bullet bonds, Treasury and central bank bills, among others). A number of securities are issued and payable in USD, particularly for sovereign and sub-sovereign financing. Nearly 40% of total trading volume occurs on BYMA's exchange, with the remaining volume trading on the MAE.

## Exchange Growth Expectations

BYMA is focused on improving trading-cycle efficiencies aimed at increasing both domestic and foreign investor participation. BYMA recently adopted Millennium IT, a world-class trading platform used by the London Stock Exchange and other global stock markets, and has earmarked improvements to its order management and direct market access systems to handle the anticipated increase in order volume following the MSCI's recent reclassification from emerging to frontier market. Additionally, BYMA is expecting to narrow the gap in trading volume and total listed companies relative to competing markets.

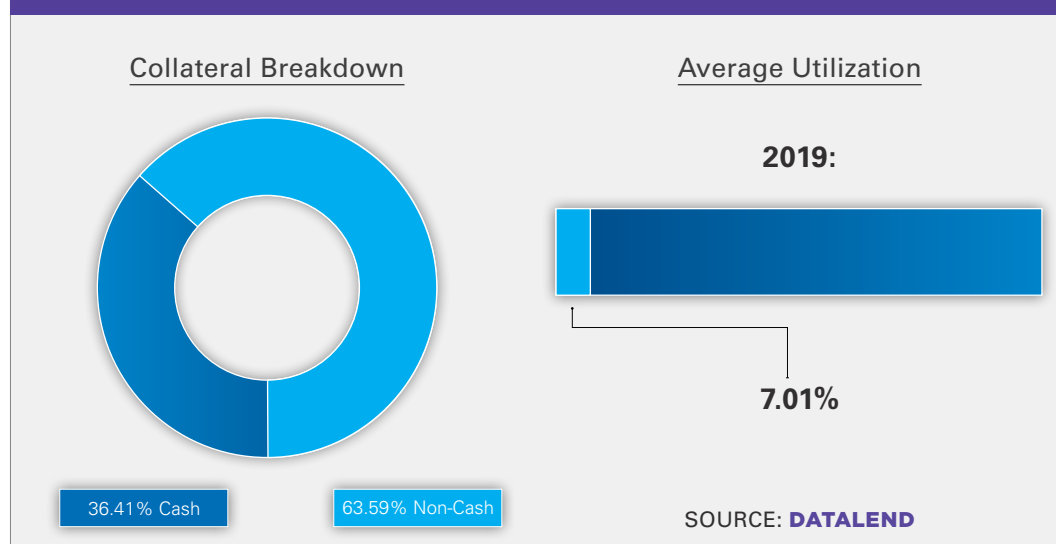
## **SECURITIES BORROWING AND LENDING (SBL) MARKET SIZE**

Regulations enacted through the Capital Markets Law of 2012 removed the definition of securities loan transactions, effectively discontinuing lending activity. In 2017, however, the definition of and conditions for operating a

securities lending program were reintroduced, and in April 2018 BYMA became the first and, so far, only exchange to launch a lending program under the new provisions.

Among other things, securities lending may be used to cover clients' transitory settlement shortfalls to a local clearing house, in addition to covering short sale transactions arranged through BYMA. Transactions that are arranged during the Time Price Priority Segment of a trading session will be guaranteed by BYMA acting as a central counterparty and settled immediately (T+0).

### DATALEND Market Data (Equity Lending Market) 2019 Averages



### Equities

In June 2020, the daily average SBL volume on exchange was 54.91 million pesos for equities. During the accumulated 6 month period, the ADTV was 75.17 million pesos. For 2019, it was 43.62 million pesos, and for Q1 2020 it was 61.62 million pesos.

### Fixed Income

In June 2020, the daily average SBL volume on exchange was 335.3 million pesos for fixed income. During the first half of 2020, ADTV was 294.7 billion pesos. For 2019, it was 174.0 million pesos, and for Q1 2020 it was 253.3 million pesos.

### REPO MARKET SIZE

In general, financial repos are traded on the MAE exchange with the central bank or other financial institutions acting as counterparties. While repos are used infrequently in Argentina due to tax implications, Cauciones—essentially repos with a haircut that use equities or fixed income securities as collateral—are not impacted by stamp tax duties and are therefore regarded more favorably.

### Equities

Nearly 40% of positions held as Cauciones are secured by the most liquid equities on the Argentinian exchange, with the top 10 securities covering nearly

80% of total positions.

### **Fixed Income**

Highly liquid sovereign bonds account for about 60% of total positions held as Cauciones, with the top 10 securities covering nearly 80% of total positions.

## **GENERAL SECURITIES LENDING MARKET STRUCTURE**

### **Securities Lending Model**

Argentina operates on a CCP model, with all SBL transactions guaranteed by BYMA acting as a central counterparty, and arranged in the Time Price Priority Segment (PPT). Borrowers must meet margin requirements established by the exchange based on securities shorted. To date, BYMA remains the only exchange to offer a lending program.

### **Market Participants**

Securities Finance Market – Cauciones continue to play a significant role in securities finance, having the second-largest total trading volume on the BYMA (ex-fixed income)

Number of Local Players – Agents/Brokers – As of June 2020 there were 245 total registered agents (or brokers)

Biggest Players - Allaria Ledesma & Cía. S.A., Balanz Capital Valores S.A., Banco de Galicia y Buenos Aires S.A., Banco Mariva S.A. and SBS Trading S.A.

### **Roles & Responsibilities:**

- Brokers/agents: Responsible for execution/settlement of client trades
- Local suppliers: Beneficial owners serve as registered brokers' main clients
- Exchange: BYMA acts as CCP and CSD through its wholly owned company, Caja de Valores
- Central bank: BCRA (Central Bank of Argentina) is a liquidity regulator for the fixed income and repo markets and also issuer of LELIQs (or central bank bills)
- Regulators: The Comisión Nacional de Valores (CNV) ( is the sole regulator for the Argentinean stock exchange. Following the new capital market law of 2012, CNV has worked to develop the country's equities market while simultaneously promoting local compliance with global legal standards
- Hedge funds: Currently there are no hedge funds registered in Argentina. Implementation of an investor-friendly Capital Market Law of 2018 may eventually change that
- Vendors: Charged with the distribution of market data

### **Securities Eligible for Shorting/Borrowing**

Stocks: GGAL (Grupo Galicia), PAMP (Pampa Energía), BYMA (Bolsas y Mercados Argentinos), BMA (Banco Macro), YPF, CEPU (Central Puerto), FRAN (Banco Frances), SUPV (Grupo Supervielle) and TS (Tenaris)

Government bonds issued/payable in USD: AA37, AY24, AO20, AC17, DICA, DICY



Additionally, BYMA is considering expanding the securities eligible for shorting or borrowing to include equities with ADRs, as well as most liquid public debt instruments.

### **Collateral Requirements**

Margins must be integrated in currency or eligible public bonds on the same day of trading. During the term of the loan, BYMA establishes a margin guarantee determined by the negotiated securities over the value of the loan (102% for fixed income, 103% for stocks), calculated daily as the amount of negotiable securities received on the loan multiplied by the final closing price. Agents must comply with guarantee requirements for all positions held.

Note: Although the minimum collateral requirement is 102% for fixed income and 103% for stocks, there is a range of 102-105% for fixed income and 103-110% for stocks according to the risk of the securities pledged as collateral (all securities are classified in different lists, and a particular percentage is set for each).

Additionally, BYMA may require intraday supplementary guarantees and may suspend the operation in the event that, in the opinion of the board, circumstances affect the normal development of the same.

### **Short Seller Market Access**

Short seller transactions are arranged in the normal settlement cash period (T+2). Short positions must be covered in the same trading session, and transactions settled in the Time Price Priority Segment (PPT). The term of the loan is fixed and coincides with the same expiration dates for equities and fixed income options.

### **Fails Management Program**

The CCP will allocate loans to parties that are failing delivery of securities of guaranteed trades at the close of the BYMA trading day. The participants of the Fails Management Program are only those who have expressly signed up and are therefore authorized. The conditions are the same, except that all loans are only overnight and automatically recalled at the beginning of the next trading day. Rates are set 50% above those for the same or similar securities during the session.

## **SECURITIES LENDING LEGAL STRUCTURE**

The CNV approved Resolution 720 in January 2008, which authorized exchanges to introduce both short selling as well as securities lending programs. Based on this resolution, BYMA issued a short selling program described in its Circular BYMA Nr 3575, and a securities lending program described in its Circular BYMA Nr 3574.

## **OPERATIONAL AND POST-TRADE STRUCTURE**

### **General**

Loans obtained under the securities lending program must be arranged for a period of one day and may be renewed up to three business days prior to the settlement date. In the event that the deficit of negotiable securities originates

from operations to be settled by BYMA, member agents must issue a request for the negotiable securities necessary to cover the demand of the collective deposit agent, and BYMA must authorize the request.

Should demand for negotiable securities originate from the settlement of operations carried out in another market, the clearing house attached to the market where the transaction was arranged, in its capacity as jointly and severally liable for the member agent, shall authorize the application filed with BYMA. BYMA reserves the right to reject the loan application. The negotiable securities will be allocated to the agents according to when the application request was sent and entered in BYMA.

If at the closing of the Securities Loan Program there are agents that still have to cover operations to be settled by this clearing house, and they have not yet submitted an application, BYMA Settlement Department may register an application for those agents in order to satisfy the totality of the demand for negotiable securities.

During the term of the loan operation, the lender will be entitled to receive from the borrower economic rights generated by the negotiable securities delivered, according to the terms and conditions required in each situation. In the case of transferable securities, this may include dividends in cash and/or shares, redemptions, subscription coupons, swaps and acquisition offers, among others. In the case of negotiable fixed income securities, the lender will be entitled to receive the amounts corresponding to the interest and amortization coupons or any anticipated redemptions by the issuer.

The borrower has the obligation to reimburse relevant amounts to the lender within the required deadlines, depending on each case, and BYMA reserves the right to decide and regulate the procedures to be followed regarding unforeseen circumstances.

BYMA acts as CCP for all securities lending transactions and performs all securities transfers through its CSD, Caja de Valores.

### **Position and Settlement Control**

The CSD confirms that the beneficial owner has marked the account as lendable and monitors the availability of securities throughout. When debit transfers are pending on the account, the position is reduced (even if the transaction is pending). Credit transfers do not add to availability, and incoming securities are only accounted for at the close of the trading day using a batch process.

### **Settlement Process**

On a real-time basis, the CCP determines that there are sufficient guarantees available before securities are loaned. The CSD automatically debits the lender's account, and credits on-loan amounts in order to keep track of corporate actions and securities to be returned. At the same time, the CSD system automatically credits the borrower's account.

## **CHALLENGES WITH THE CURRENT SECURITIES LENDING MODEL**

### **Supply Constraints**

As it is still early days for the program, supply levels are currently low, with retail and some institutional investors accounting for the ARS 18 billion in availability. To help boost supply, BYMA has petitioned the local regulator to allow insurance company participation, although this has not effected any change to date.

## **SYNTHETICS**

Synthetic short access for offshore participants is generally limited to MSCI constituents; however, a proposed framework that would enable onshore-to-offshore borrow liquidity would likely boost securities lending turnover.

## **FUTURE DEVELOPMENTS**

With respect to securities lending, future operational plans include adding to the list of eligible stocks and bonds, granting discounts on lending fees, as well as providing broker training on SBL operational and legal structure.

The growth of equities recently is mainly due to the negotiation of CEDEARs, which is the Argentine equivalent of ADRs. In other words, an investor may buy American stocks in Argentina in ARS. In 2019, CEDEARs represented 17% of total equities volume, and during the first half of 2020, they represented 37% of total equities volume.



# BRAZIL

1 BRL=0.187 USD

as of June 25, 2020

## Exchange Highlights

<b>NUMBER OF COMPANIES LISTED</b>	<b>390</b>
<b>BRAZILIAN COMPANIES WITH LISTED ADRS</b>	<b>33</b>
<b>MARKET CAP (US\$ BILLION)</b>	<b>1,148.66</b>

## Equities

B3 is currently the only venue providing trading and clearing services for Brazil's equities market, and offers a wide array of products including cash, options, futures, forward contracts and securities lending services. B3 uses a vertically integrated infrastructure and performs all trade and post-trade activities. The table below shows the evolution of the various markets over the years. Average daily trading volume was BRL23.52 billion as of May 2020, a significant increase from prior years.

## Equities Market

<b>CASH MARKET</b>	<b>18,912</b>
<b>FORWARD MARKET</b>	<b>207</b>
<b>OPTIONS MARKET</b>	<b>427</b>
<b>TOTAL</b>	<b>19,546</b>

AS OF NOVEMBER 2019

## Fixed Income

Brazil's fixed income market includes cash instruments such as government bonds, corporate securities as well as bank CDs, in addition to various products traded through B3's derivatives markets.

-  ARGENTINA
- BRAZIL
- CHILE
- COLOMBIA
- MEXICO
- PERU

## Fixed Income and Currency Derivatives

<b>INTEREST RATES IN BRL</b>	3,961,296
<b>FX RATES</b>	805,699
<b>INTEREST RATES IN USD</b>	248,739
<b>ADTV TOTAL/ TOTAL DERIVATIVES VOLUMES</b>	5,033,846

AS OF NOVEMBER 2019

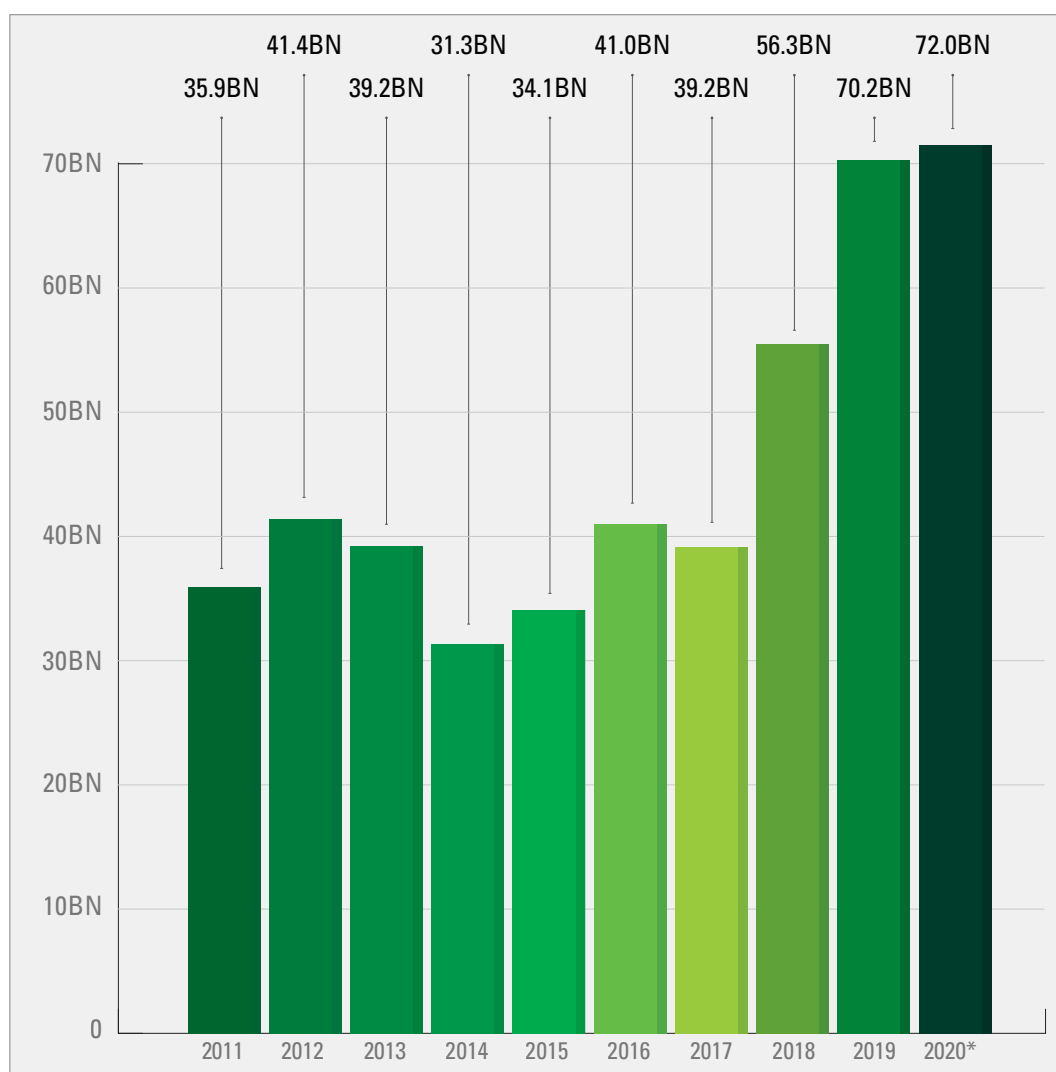
## Exchange Growth Expectations

One of the main goals of B3 in the securities lending market is to attract new local and international investors, mainly on the lender side.

## **Securities Borrowing and Lending (SBL) Market Size**

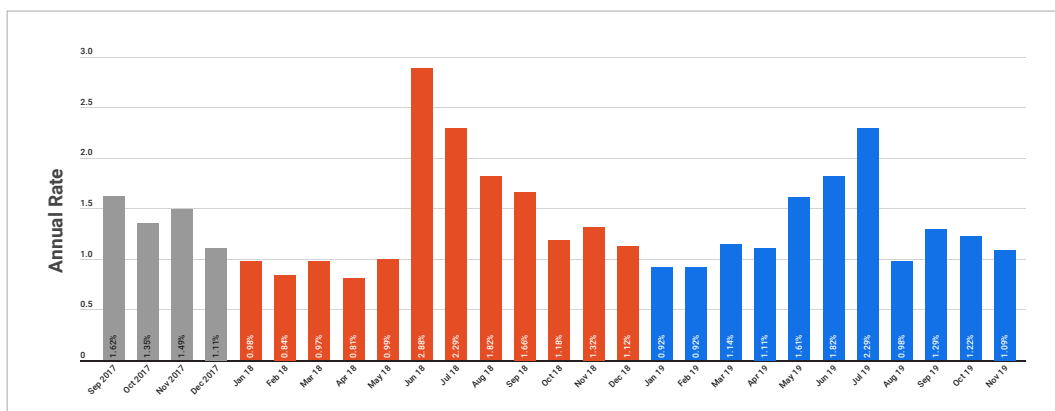
### SBL – Equities

#### **OPEN INTEREST (BRL)**



\* MAY 2020

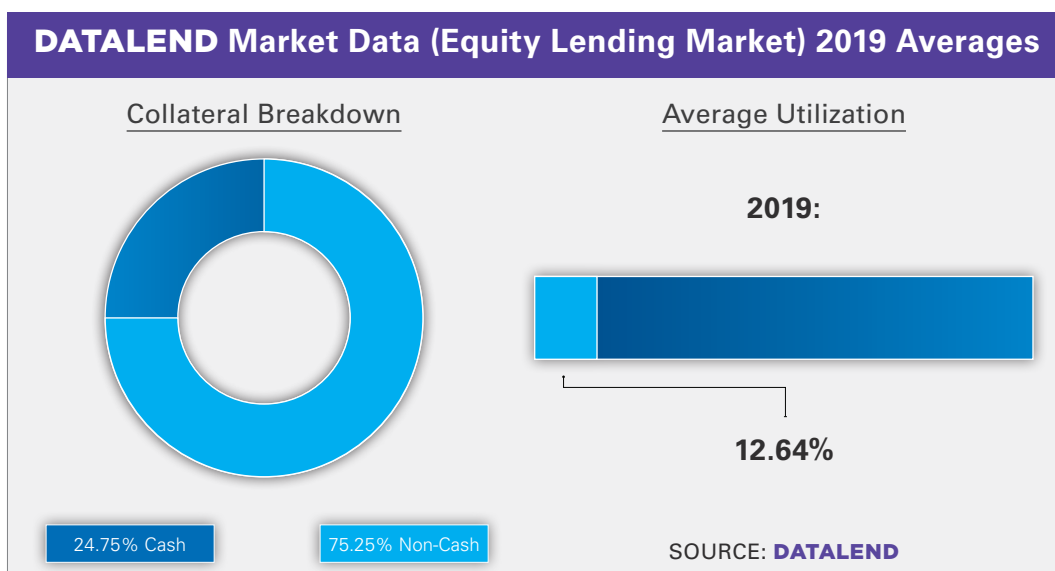
## Average Lender Fees (annual rate)



## SBL - Fixed Income

The Central Bank of Brazil (BCB) and the country’s securities and exchange commission (CVM) require a CCP for the clearing of both equities and fixed income securities loans.

### DATALEND Market Data (Equity Lending Market) 2019 Averages



## Repo Market Size

### Fixed Income

Central bank open-market operations total around US\$1.3 trillion and dealers are net buyers of securities in this market; the bilateral, dealer-to-dealer and dealer-to-client segment is also valued around US\$1.3 trillion. At present, all treasury repo volume is bilateral and uncleared; however, B3 is gearing up to launch its own cleared securities lending and repo program (see “Future Developments”).

### General Securities Lending Market Structure

### Securities Lending Model

As the only venue providing securities lending services, B3 requires borrowers to post collateral in favor of the CCP, prior to borrowing any positions, in order to mitigate risk. Brazilian regulations require that all securities lending transactions be cleared by a CCP, meaning that B3 receives their registration from local brokers and is responsible for making the lender whole in case of a default.

To guarantee settlement of these transactions, the CCP collects collateral on

a pre-margin basis, and also relies on a safeguard structure that has proven effective in the event of default.

### **Market Participants and Their Roles and Responsibilities**

Number of Local Players – Agent – Not applicable

Number of Local Players – Brokers – 87

Largest Players (as of November 2019) – Based on trading volume: UBS, Morgan Stanley, XP, Bradesco, Merrill Lynch, Itaú

- Brokers: Intermediate lender and borrower transactions and register them with the CCP
- Agent(s): Manage inventories of lenders and borrowers and are typically brokers or custodian banks
- Local suppliers: i.e., pension funds, investment funds in general, individuals
- Exchange: B3 acts as both service provider and central counterparty for securities lending transactions
- Central Bank: Conducts oversight of the CCP activities
- Regulators: Provide laws and rules that comprise the Brazilian regulatory framework for securities lending services
- Hedge funds: Execute long and short strategies, representing an important group of borrowers in the local market
- Vendors: Distribute market data and provide infrastructure for agreements to be registered with the exchange

### **Securities Eligible for Shorting/Borrowing**

- All listed stocks (admitted for trading in the stock market)
- Units (assets composed of more than one type or class of securities)
- Exchange-traded index funds (ETFs)
- Sponsored Brazilian Depositary Receipts (BDRs)
- Un-sponsored Brazilian Depositary Receipts
- Collateral Requirements
- Before the inception of any new loan, the borrower is required to post 100% of the principal loan amount as collateral (the value of the loaned securities), plus additional margin to cover:
  - Potential future exposure to fluctuations in the market price of the securities (market risk)
  - Liquidity issues, involving both securities and derivatives, faced during the closeout process (liquidity risk)
  - Credit and debit cash flow mismatches (debits before credits) during the closeout process (cash flow risk)

From a risk management perspective, the risk of each investor is calculated on a portfolio basis (which includes securities lending positions)

Clearing members and brokerage houses bear co-responsibility with borrowers for all loan settlements. At their discretion, clearing members may require additional collateral from the brokerage house, and in turn from the borrower.

Before entering into a loan agreement, lenders must place their securities in



specific accounts within B3's central depository. During the loan lifecycle, on the borrower side, daily margin calls might occur as a result of mark-to-market adjustments to the value of the loaned securities or changes to the market risk scenarios and liquidity parameters of B3's risk model. The list of eligible collateral encompasses federal government bonds traded in Brazil, shares of stock listed on the exchange, bank CDs and international instruments such as U.S. dollars, ADRs and U.S. and German Treasury bonds.

### **Short Seller Market Access**

- Investors must maintain a relationship with a local broker
- Brokers act as intermediary between lender and borrower
- Brokers register the agreement with B3
- B3 transfers the lender's assets to the borrower, and the latter must pay the lender, on the maturity date, the remuneration previously defined in their agreement
- To collateralize a securities lending transaction, borrowers must post securities and assets accepted as collateral by the clearinghouse on a pre-margin basis, at a value sufficient to ensure the settlement of the transaction

### **Securities Lending Legal Structure**

Specific laws and rules governing the provision of securities lending services are as follows:

#### **Laws**

- Law No. 4595/1964 – sets forth the structure and organization of the Brazilian financial system and the roles of its agents, including the Central Bank of Brazil (BCB)
- Law No. 6385/1976 (“Brazilian Securities Law”) – sets forth the structure and organization of the Brazilian securities markets and the role of its agents, including the Brazilian Securities and Exchange Commission (CVM)
- Law No. 10214/2001 – provides for the activities of the clearinghouses and netting and settlement service providers within the scope of the Brazilian payment system, among other provisions
- Law No. 13043/2014 – sets forth the taxation applicable to securities lending, among other provisions

#### **Rules**

- CVM Instruction No. 283/1998 – sets forth the provisions regarding the markets that stipulate the future delivery of assets
- Brazilian National Monetary Council (CMN) Resolution No. 2882/2001 – deals with the provisions concerning the payment system and the clearinghouses and netting and settlement service providers that integrate it
- BCB Circular No. 3057/2001 – regulates the systems operated by the clearinghouses and netting and settlement service providers that integrate the payment system
- CVM Instruction No. 441/2006 – provides for the rules regarding the securities lending services rendered by clearinghouses
- CMN Resolution No. 3539/2008 – redefines the rules applicable to securities lending by clearinghouses and clearing and settlement service providers

- Brazilian Revenue Service (RFB) Normative Instruction No. 1585/2015 – sets forth the income tax applicable to income and net gains generated in the financial and capital markets

All transactions must be conducted by a CVM/BCB-licensed institution, duly authorized to operate both a central counterparty clearinghouse (CCP) and a central securities depository (CSD) for the custody of the securities. Currently, B3 is the only institution permitted to operate a securities lending facility in Brazil.

## **Operational and Post-Trade Structure**

### **General**

B3 has connections in place with various local and international vendors that distribute securities lending data to different market players. An increase in international investor participation would likely attract more global service providers to the region.

Traditionally, recall and cash-equities sale settlement cycles have not been matched. However, within recent years B3 has implemented changes to its post-trade environment, and now allows those cycles to be fully matched in certain instances, specifically when a recall is made prior to 9:30 a.m. (local time).

### **Position and Settlement Control**

Securities lending orders must be registered by either the broker, when derived from orders placed by borrowing or lending customers, or by settlement participants, when derived from orders placed by lenders.

The administration of the securities lending trade and post-trade processes are performed using two distinct systems within B3's clearinghouse environment: the Securities Lending Contracting System (BTB) for order entry and selection, and the Position & Settlement Control System (RTC) for position maintenance.

In total, the securities lending control system offers the following functionalities: agreement modification; renewal and cancellation (for handling exceptional cases involving operational errors); coverage and position transfers; corporate action processing; early settlement; and multilateral net settlement. After a pre-agreement is received through the RTC system, it undergoes assessment and position-limit approval before the system identifies it as a contract. This stage of the process also includes an assessment to verify whether the transaction violates the borrower's market risk.

### **Settlement Process**

The settlement of transactions is performed on a real-time gross settlement basis. For lenders, early settlement requests submitted by the lender before 9:30 a.m. (local time) will be scheduled for T+2, or T+3 for those submitted after the market opens. Borrowers' early settlement requests are scheduled for the T+1 settlement window.

## **Challenges With the Current Securities Lending Model**

### **External Rules and Regulations**

As previously described, all securities lending transactions must be cleared

by an authorized CCP in Brazil. Despite the many benefits, the CCP model differs from bilateral models adopted by lending markets around the world. For instance, certain features of B3's model (e.g., collateral management performed by the CCP) prevent asset owners such as 1940 Act funds, UCITS and ERISA pension plans from participating in lending due to current regulatory requirements that apply to these types of entities. As such, unless some relief is granted by the relevant regulators, the growth of the securities lending market in Brazil could be hindered.

### Collateral Challenges

Brazil's CCP model has specific rules pertaining to acceptable forms of collateral, collateral management as well as transparency/reporting of collateral, which have impacted foreign investor participation.

### Supply Constraints

On the lender side, some types of Brazilian investors, such as municipal and state pension funds, are also not allowed to participate in the SBL market.

### Miscellaneous Challenges

- There is a penalty charge applied to fails, according to the table below:

Day After Failure	Minimum Fine	Additional Fine (applied in cases of non-operational failures)
<b>T+0</b>	<b>0.5%</b> Limited to BRL 50,000	<b>0.5%</b>
<b>T+1</b>	<b>0.5%</b> Limited to BRL 50,000	<b>4.5%</b>

- Failing sales might be covered by a compulsory securities lending process for which B3 charges the failing counterparty

### Synthetics

Synthetic short access is generally liquid for offshore participants due to the available onshore-to-offshore securities lending framework. The predominant borrower access is for non-MSCI listings. Synthetic access is possible for single stocks and indices, and can be overnight or longer-term dated.

### Future Developments

As part of its ongoing quest to develop the SBL market, B3 has planned various improvements to facilitate matching between lenders and borrowers, including a new trading screen to be made available for both buy-side and sell-side participants. Other operational and product-specification enhancements, such as automatic renewal for agreements, have also been implemented.

Additionally, B3 has plans to implement securities lending and repo capabilities for federal public bonds. This is an extension of the current program at Selic, the CSD for government bonds in Brazil. Securities are still held in custody in Selic; however, the transactions will clear on B3's CCP. This will ensure on-time settlements and equalize credit risk among participants, since all parties involved will face the CCP. Benefits include eliminating the need to open credit limits for different counterparties, credit risk reduction and netting.



# CHILE

1 CLP=0.001 USD  
as of June 25, 2020

103	<b>NUMBER OF COMPANIES LISTED</b>
33	<b>BRAZILIAN COMPANIES WITH LISTED ADRS</b>
1,148.66	<b>MARKET CAP (US\$ BILLION)</b>

## Note

Securities lending has evolved over the past year. The implementation of blockchain technology has allowed parties involved to be in full control of their information. In addition, as of this year, the ability to short sell fixed income securities has been introduced. Overall activity continues to grow each year.

## **General Market Overview**

### Exchange Highlights

<b>NUMBER OF COMPANIES LISTED</b>	369
<b>% WITH ADRS / GDRS (30% OF SPCLXIPSA)</b>	2.71%
<b>MARKET CAP (SPCLXIPSA CONSTITUTENTS)</b>	US\$143BN
<b>MARKET CAP FREE FLOAT (SPCLXIPSA CONSTITUENTS)</b>	US\$59BN

AS OF NOVEMBER 2019

## Equities

The Chilean equity market is one of the most deeply rooted in Latin America, thanks largely to the participation of numerous offshore players. The country's foremost exchange is the Santiago Exchange, whose main index is the SPCLXIPSA, which consists of the 30 stocks with the highest traded volume. Ten of these 30 stocks have ADRs, which can now be traded thanks to the

-  ARGENTINA
- BRAZIL
- CHILE**
- COLOMBIA
- MEXICO
- PERU

MILA (an agreement between México, Peru, Colombia and Chile).

### **Fixed Income**

The country's fixed income market consists mainly of government debt (central bank and treasury) and corporate debt. Institutional investors are the main players in this asset class, predominantly pension funds, also known as AFPs (AUM US\$214bn), mutual funds (AUM US\$59bn), life insurance companies (AUM US\$121bn), family offices and local brokerages that provide liquidity (market-making activity). Currencies include Chilean Pesos (CLP), Chilean Unidad de Fomento (CLF) and to some degree, USD.

2019	Tipo	Des	BN USD
Government	BB	Bono de bancos e instituciones financieras	132.872
	BCP	Bonos banco central de chile, en pesos	51.240
	BCU	Bonos banco central de chile, en uf	75.476
	BE	Bonos de empresas	64.931
	LH	Bonos hipotecarios	522
	BR	Bono reconocimiento	98
	BTP	Bono de la tesorería general de la república de chile, en pesos	410.728
	BTU	Bono de la tesorería general de la república de chile, en uf	313.268
Corporate	CERO	PAGARÉ AL PORTADOR EXPRESADO Y REAJUSTADO EN UF SIN INTERÉS	917
Total			1.050.052

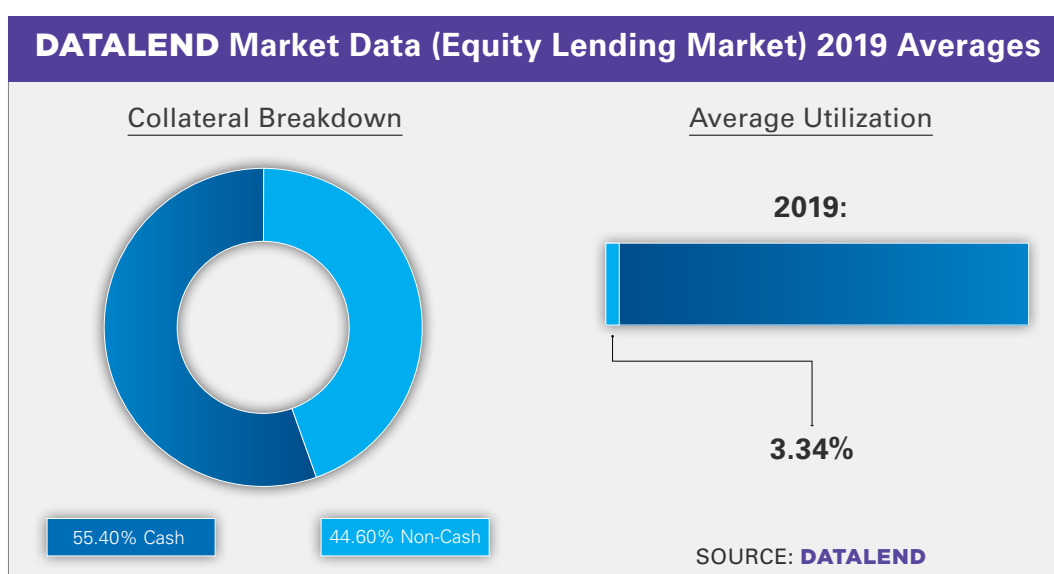
2018	Tipo	Des	BN USD
Government	BB	Bono de bancos e instituciones financieras	76.082
	BCP	Bonos banco central de chile, en pesos	30.206
	BCU	Bonos banco central de chile, en uf	51.902
	BE	Bonos de empresas	37.007
	LH	Bonos hipotecarios	249
	BR	Bono reconocimiento	98
	BTP	Bono de la tesorería general de la república de chile, en pesos	242.120
	BTU	Bono de la tesorería general de la república de chile, en uf	205.368
Corporate	CERO	PAGARÉ AL PORTADOR EXPRESADO Y REAJUSTADO EN UF SIN INTERÉS	615
Total			643.646

## Exchange Growth Expectations

Consensus EPS revisions for the IPSA index are down 14% and 11% YTD for 2019 and 2020, respectively. The consensus is forecasting a 2% IPSA EPS growth in 2019 and 13% for 2020. EPS contraction of 6% is expected in 2019 and an expansion of 17% is expected in 2020, resulting in 7% and 3% below consensus for 2019 and 2020, respectively. The target for the IPSA is 5,730 points, which has been established through various methodologies and estimates of Chile's fair P/E. For better equity performance, there is a need for a weaker dollar value, as well as reduced trade tensions between the U.S. and China.

## **Securities Borrowing and Lending (SBL) Market Size**

### Equities



Equity lending is permitted for both short selling and other general purposes (obligations in the clearing house). Trading volume was US\$4.5bn as of 2018 and US\$2.5bn as of October 2019. Fees are between 0.015 bps and 0.025 bps for local institutional clients, 0.15 bps for cash trading, 0.1 bps for family offices and 0.3 bps and 0.4 bps for retail and private banking, respectively.

### Fixed Income

SBL for fixed income securities was recently announced; the market is expecting to see activity soon.

## **Repo Market Size**

### Equities

US\$850 million

### Fixed Income

US\$1.05bn

## **General Securities Lending Market Structure**

### Securities Lending Model

Chilean securities lending operates on a CCP model. The central counterparty is CCLV, a subsidiary of the Santiago Exchange.

## Market Participants and Their Roles and Responsibilities

Chile remains an attractive country for foreign direct investment, as a result of a stable political and economic environment. Equity repo has been particularly attractive for financing by local players for IPO, leverage, etc.

- Number of Local Players – Agents – N/A
- Number of Local Players – Brokers – 27: Banchile, Larrain Vial and BTG for equities; Banchile, BBVA, Santander and Banco Estado for fixed income.

## Securities Eligible for Shorting/Borrowing

All of the listed stocks have a 5% bursatility presence.

## Collateral Requirements

The requirements for collateral are now based on a haircut level depending on the VaR price of the security. These prices (haircut and VaR) are delivered by Risk America. This is only valid for Santiago Exchange and not available in the Electronic Exchange, as it still uses a list-based system.

Electronic Exchange: 1, 2, 3

	VALUE	COLLATERAL VALUE	LAVERAGE
LISTA 1	80%	25%	4
LISTA 2	60%	50%	2
LISTA 3	50%	100%	1

The next table contains the securities lending details of ADRs:

TICKET	COMPANY	SANTIAGO EXCHANGE				ELECTRONIC EXCHANGE		
		LAST PRICE USD <sup>^</sup>	VaR PRICE %	HAIRCUT <sup>1</sup>	LAVERAGE (X)*	VALUE	REQUIREMENT	LAVERAGE (X)*
AKO/A US	EMBOTELLADORA ANDINA S.A. SERIE A	2,77	77%	27,6%	7,24	80%	25%	4
AKO/B US	EMBOTELLADORA ANDINA S.A. SERIE B	3,17	90%	9,9%	9,01	80%	25%	4
BSAC US	BANCO SANTANDER CHILE	0,07	92%	8,4%	9,16	80%	25%	4
CCU US	COMPANIA CERVECERIAS UNIDAS S.A.	11,33	87%	12,5%	8,75	80%	25%	4
BCH US	BANCO DE CHILE	0,15	92%	8,3%	9,17	80%	25%	4
ENIA US	ENEL AMERICAS	0,18	87%	13,1%	8,69	80%	25%	4
ENIC US	ENEL CHILE S.A.	0,09	90%	9,8%	9,02	80%	25%	4
ITCB US	ITAU CORPBANCA	US	89%	11,5%	8,84	80%	25%	4
LTM US	LATAM AIRLINES GROUP S.A.	LTM US	80%	19,7%	8,03	80%	25%	4
SQM US	SOCIEDAD QUIMICA MINERA CHILE S.A. SERIE B	SQM US	81%	19,4%	8,06	80%	25%	4



## **Short Seller Market Access**

- Must be a qualified investor based on Chilean regulations
- Must sign specific contract “Contrato de Condiciones Generales para Prestamo de Acciones (Venta Corta)”
- Credit risk line (this should apply for all brokers)

## **Settlement Process**

Chile operates on a T+2, T+1 and T0 settlement cycle.

## **Challenges With the Current Securities Lending Model**

### **Collateral Issues**

Margin call (below the haircut level on the Santiago Exchange) must be covered earlier than 14:00 Chilean time the day the margin call occurred. To close the short position, the client must buy back shares and disclose that the purpose of the purchase is to close the position.

### **Supply Constraints**

While SPCLXIPSA inventory is readily available, inventory outside the SPCLXIPSA index is limited.. The vast majority of securities outstanding is held by local brokers such as Banchile and AFPs (the only two to lend securities), family offices and mutual funds.

### **Miscellaneous Challenges**

- Collateral must remain in the name of the exchange, and as such the lender cannot exercise the collateral.
- The lender retains economic rights but loses political rights (voting).

## **Synthetics**

Synthetic short access for offshore participants is generally limited to MSCI-included names. A framework to enable onshore-to-offshore borrow liquidity would see an increase in securities lending turnover. Synthetic access is possible for single stocks and indices and can be overnight or longer term.

## **Developments**

Since 2018, blockchain technology has been used to manage contracts.



# COLOMBIA



1 COP=0.0002 USD

as of June 25, 2020



ARGENTINA

BRAZIL

CHILE

COLOMBIA

MEXICO

PERU

<b>68</b>	<b>NUMBER OF COMPANIES LISTED</b>
<b>8</b>	<b>COLOMBIAN COMPANIES WITH LISTED ADRS</b>
<b>\$81</b>	<b>MARKET CAP (US\$ BILLION)</b>

## General Market Overview

Colombia is a beneficial owner market. Beneficial owners, known locally as foreign portfolio investors (FPI), must maintain segregated accounts at the depositories under the master accounts that belong to their local custodian. The FPI must contract with a global custodian of choice, which in turn must appoint a local custodian to represent them in the local market.

Custodians as local administrators will represent their clients before local authorities, and in case regulators require any further information regarding the FPI, it will be done through the local administrator/local custodian and the global custodian. The local custodian is responsible for requesting the creation of the local tax number (NIT) to the local tax authority. Once the local custodian has the tax number for the FPI, it proceeds with the account opening and registration in the CSDs (DCV for the government securities and DECEVAL for equities and corporate debt). The securities account at the local custodian must also be opened in the name of the beneficial owner.

All foreign exchange transactions performed by an FPI must be for the exclusive purpose of investing in the Colombian securities market. Currency speculation by foreign investors is prohibited. There are no repatriation restrictions in the Colombian market; funds can be freely repatriated.

### Equities

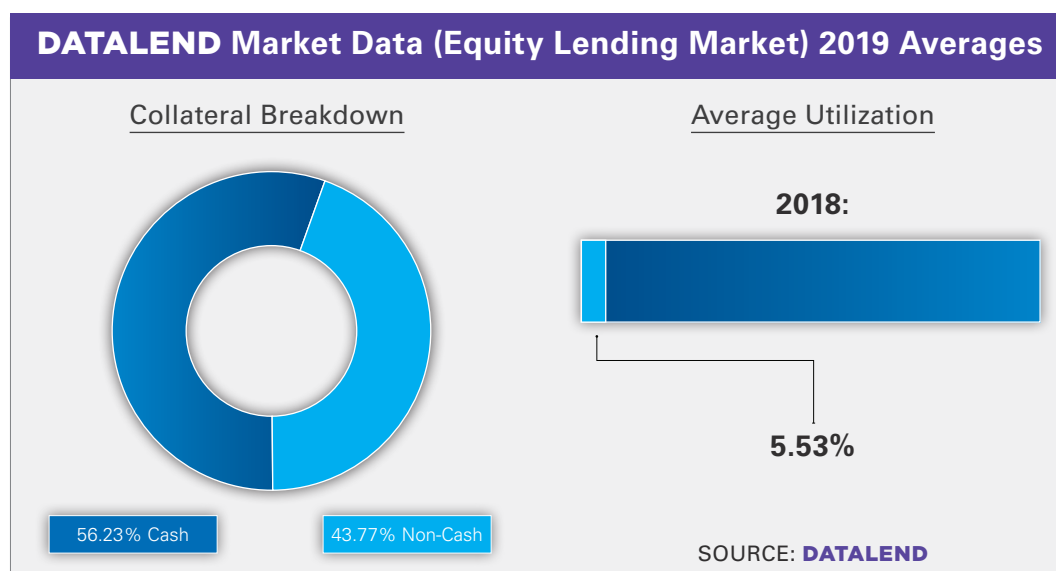
The current market cap of the Colombian equities market is US\$123 billion as of December 5, 2019. Equities transactions must be executed through the Colombia Stock Exchange (Bolsa de Valores de Colombia, BVC). Nasdaq OMX provides the trading system platform for the equities market. Starting on August 18, 2020, it is expected that all settlements will be processed via the central counterparty (CRCC). Repo and securities lending transactions will be available on-exchange, and upon a recent regulatory decree, OTC securities lending transaction will be executable as well.

Currently, the cash market represents around 76% of the total daily volume, with an ADTV close to US\$40 million. The repo market represents 21% of the total daily volumes, and on-exchange securities lending, 3%. Given that OTC securities lending was recently allowed by regulation, little data is available on volumes. The main equity index in the market is COLEQTY, from which the stock exchange, BVC, creates additional equity market indexes such as COLCAP (market capitalization), COLLR (investor relations) and ColSC (small cap companies).

### Fixed Income

Corporate debt transactions must be executed through BVC, whereas for government debt, 35% of the transactions must be executed through the exchange, and the remaining 65% through the central bank system (SEN).

### **Securities Borrowing and Lending (SBL) Market Size**



Currently, all listed shares are eligible for securities lending transactions.

### Equities

2018: US\$452,937,880

2019 (through July): US\$249,491,324

## Fixed Income

2018: US\$1,171,914,858

2019 (through July): US\$597,776,959

## **Repo Market Size**

Repo transactions are allowed for equities and fixed income instruments. For equities, the stock exchange indicates which securities are available for repo depending on liquidity (high liquid).

## Equities

2018: US\$2,444,708,019

2019 (through July): US\$1,732,753,669

## Fixed Income

2018: US\$1,603,639,074

2019 (through July): US\$908,717,293

## **Current Volumes & Fees**

### Equity

Transaction Costs

Buyers (Borrower): 0.167% E.A.

Sellers (Lender): 0.084% E.A.

The rate corresponds to an annual effective rate (AER) that will take into account the amount and term of the transaction.

## Fixed Income

FEE GROUP	CONSUMABLE FIXED MONTHLY CHARGE	TRANSACTION FEE		REGISTRATION FEE	
		Fixed Charge	Variable Charge per million	Fixed Charge	Variable Charge per million
Basic Plann	COP 4.989.00	COP 2.200	COP 7,50	COP 2.920	COP 7.5
promotional plan 1	COP 4.618.00	COP 2.200	COP 7,50	COP 7.440	COP 0
promotional plan 1b	COP 8.739.000	COP 2.200	COP 7,50	COP 7.130	COP 0
promotional plan 2	COP 18.728.00	COP 2.200	COP 7,50	COP 6.080	COP 0

## **General Securities Lending Market**

### Securities Lending Model

For securities, lending transactions that are executed on-exchange and OTC can be settled through the CCP or CSD.

A foreign portfolio investor (FPI) that wants to execute securities lending transactions in the Colombia market must complete the following steps:

Firstly, the FPI must have a custody account open and active in the market. Once an account has been opened, the FPI can engage in securities borrowing and lending transactions through any authorized agent; this can be a broker or a custodial agent lender.

If the FPI desires, it can sign a Securities Lending Agency Agreement with its custodian. In this agreement, the FPI indicates the main conditions for lending or borrowing securities in the local market, such as the types of securities, time, collateral, counterparties, recall, rollover, among others.

The securities lending instruction must be placed through the global securities lending system if the custodian can support this service.

The custodian previously signed the Master Securities Lending Agreement with different counterparties in the local market. These counterparties must comply with high standards and counterparty risk for these types of transactions.

Once the custodian receives the securities lending instruction through the global securities lending system, the custodian will register the transaction in the OTC system

The custodian delivers the securities to the borrower, and receives the collateral assigned in each account of the FPI.

While the transaction is open, the custodian can execute the mark-to-market of the collateral, and if the client chooses, they can make a request on behalf of the FPI the margin call to the lender.

### **Securities Eligible for Shorting/Borrowing**

All stocks listed on the Colombian Securities Stock Exchange are available for lending. Only highly liquid stocks are available for shorting, limited to securities on the main stock index, COLCAP.

### **Collateral Requirements**

In the Colombian market, securities lending transactions must be collateralized. Cash or securities (non-cash option) can be posted as collateral, depending on the terms agreed upon by both parties. Most of the securities lending transactions executed in 2018 (around 90%) were collateralized with cash. In some cases, when securities were used as collateral, the most common type used was a government bond; stocks are not commonly used and are limited to only those highly liquid stocks determined by the stock exchange.

### **Market Participants**

## Securities Lending Trades - Buyers (Borrowers) 2018

Sector	Traded Value (USD)	% Part.
Brokerage Firms Company	207.347.116	45,78%
Real Sector	130.281.997	28,76%
Foreigners	71.451.589	15,78%
Retail Investors	29.713.887	6,56%
ADR Programs	14.128.675	3,12%
Pension Funds	11.335	0,00%
Investment Funds	3.281	0,00%
<b>Total</b>	<b>452.937.880</b>	<b>100%</b>

## Securities Lending Trades - Sellers (Lenders) 2018

Sector	Traded Value (USD)	% Part.
Investment Funds	147.241.722	32,51%
Pension Funds	104.546.445	23,08%
Real Sector	87.855.932	19,40%
Brokerage Firms Company	40.921.448	9,03%
Retail Investors	31.739.013	7,01%
Foreigners	26.132.524	5,77%
Mutual Funds	8.548.547	1,89%
Funds	5.952.250	1,31%
<b>Total</b>	<b>452.937.880</b>	<b>100%</b>

## Securities Lending - Brokers

Member	Traded Value (USD)	Number Transactions	% Part.
ULTRASERFINCO S.A	345.023.211	4.010	38,1%
CREDICORP CAPITAL COLOMBIA S.A	247.621.312	2.554	27,3%
BTG PACTUAL COLOMBIA SA	131.160.355	1.144	14,5%
LARRAIN VIAL COLOMBIA S.A	92.572.083	1.834	10,2%
ALIANZA VALORES S.A.	32.914.600	486	3,6%
CASA DE BOLSA S.A.	22.885.472	406	2,5%
VALORES BANCOLOMBIA S.A.	20.794.178	82	2,3%
ACCIONES Y VALORES S.A.	9.216.605	216	1,0%
GLOBAL SECURITIES COLOMBIA S.A	3.687.759	116	0,4%
CORREDORES DAVIVIENDA S.A	187	4	0,0%
<b>Total</b>	<b>452.937.880</b>	<b>10.852</b>	<b>100%</b>

## **Roles & Responsibilities of Market Participants**

Broker(s): In the equity spot market, all investors can be buyers and sellers; they must use direct market participants (local broker-dealers) to buy and sell securities in the market.

Agency lenders: Historically, before the legal framework was changed, all the equity securities lending activity was performed on-exchange, which required local broker-dealers to be part of the securities lending transaction and to act as agents. The new legal framework, established by Decree 1351 in 2019, allows local custodians to have a key role in the securities lending market and act as agents in a role called “Custodial Agency Lending.”

Local suppliers, i.e. beneficial owners: On the local supplier’s side, the following participants can be found on the equities market:

- Suppliers: ETFs, local pension funds, collective investment funds and foreign portfolio investors are the top stock holders of stocks in the local market.
- FPIs represent around 37% of the total traded daily volume on the stock exchange; in addition, in assets under custody, they hold close to 35% of total outstanding public bonds.
- ETF administrators: The Colombian market has two local equity ETFs. The assets under management of these ETFs are around US\$1.6 billion.
- Local pension funds: Currently, the assets under management of private pension funds are around US\$55 billion.
- Collective investment funds.

In the fixed income market, the main participants are:

- Local banks
- Fiduciaries
- FPIs
- Infrastructure providers: These are the entities in charge of providing the technological structure for carrying out SBL, as well as their clearing and settlement
- Colombian Stock Exchange
- Central Securities Depository of Colombia (DECEVAL)
- Vendors

## **Short Seller Market Access**

Short selling is available in the Colombian market. There are two scenarios where it can be executed: The first is through the CCP, where in case of a short position, the investor must indicate in the transaction order that it is short, and once the order is matched, the broker acting on behalf of the seller must comply with the CCP collateral requirements. The second scenario is through the OTC market. Once the lender and borrower agree with the transaction conditions, a registration at the stock exchange must follow, and the transfer of principal and collateral must be performed.

To access the market, short sellers must meet the requirements from the regulation for short sales that entered into validity on September 14, 2015. According to Article 2.9.13.1.1 from the legislative decree 2555, “A short sell is a sale of an asset in which the seller does not have the property [ownership]



of the asset object of the trade at the moment of this one. Later on, the seller must undertake all the trades to leave cover the short sale and to secure the settlement of this one." *[sic]*

The legislative decree also establishes that "they are not considered as short sell, the sales where the sellers have the property [ownership] of the assets, either because previously they have done a reversal trade (purchase) or because they have done a trade through which the asset object of the short sale will be acquired, even when it is pending of settlement." *[sic]*

In addition to the regulation, the short sellers have to identify the orders as "short sell" when they are on the trading system X-Stream. Furthermore, the price entered into the system must be at least equal to the last price that was marked on the trading system of the Colombian Stock Exchange (uptick rule).

Finally, on the day of the transaction, short sellers need to undertake all necessary operations to leave the short sale covered. The short sale can be netted with any trade authorized in the regulation. For example, the short sellers can use securities lending (TTV), purchase the securities involved in the short sale or perform any transaction over securities in an ADR program, securities listed simultaneously on the local market or in trading systems recognized by the Financial Superintendence of Colombia.

In the intraday, a short sale can be covered via a purchase of the underlying security in the market. In this case, it is not necessary to perform a securities lending transaction.

### **Supply Constraints**

Currently, in the local stock market, there are no restrictions to supply. Institutional investors are the main participants with enough equities portfolios to participate in a lending program. For example, pension funds, ETF administrators and foreign portfolio investors concentrate at least US\$10 billion in stocks. It is important to take into consideration the legal restrictions and conditions that these institutional participants face at the moment, to decide whether or not to participate in a lending program and whether the quality of assets under custody can be used for this purpose.

Decree 1351 of 2019 allows securities lending to be traded OTC and registered in local systems. No major developments are needed to start supporting this new trading model in the Colombian market, which is understood to be aligned with international standards.

### **Securities Lending Legal Structure**

The Colombia market allows two structures for securities lending transactions. Decree 2555 of 2010 allows securities lending on-exchange; in this case, all transactions must be performed through a local broker dealer, while the settlement process and collateral management are executed with the stock exchange. The Ministry of Finance released Decree 1351 in 2019, which allows OTC securities lending for equities; in this case, transactions can be performed through a custodial agency lender in the OTC system, where the settlement and collateral management processes are executed at the CSD and where the borrower and lender have control over the positions.

This legal framework allows SLB to be traded OTC or on-exchange. This

change is meant to stimulate the securities lending market. Within this legal structure, FPIs, pension funds and collective investment funds, as the major equity holders in the market, can access securities lending activities and lend positions, increasing liquidity in the market while providing extra revenue to investors.

### **Operational and Post-Trade Structure**

In post-trade execution, the Colombian market offers strong infrastructure and legal frameworks comparable with other Latin American markets. The stock exchange and CSD connect with custodians on a real-time basis.

### **Future Developments**

The Colombian Stock Exchange is developing a project to carry out the clearing and settlement of these trades through the CCP (currently scheduled for August 18, 2020). This change implies that securities lending transactions performed through the exchange will be guaranteed and settled through the risk model used by the CCP; this will generate operational and legal changes in both infrastructures. The OTC securities lending transactions will be bilaterally settled in the market and the transactions registered in the CSD registry system. This settlement process through the agent facilitates the transfer of principal and collateral to the borrower and the lender, more control in the positions and lower costs for both parties.

### **Currency Market and FX Controls**

The Colombian Peso (COP) is a freely convertible currency. All foreign exchange transactions done by a Foreign Portfolio Investment (FPI) must be for the exclusive purpose of investing in securities and must be registered with the Central Bank, by the FPIs local administrator. Currency speculation by foreign investors is not allowed. All foreign exchange transactions performed by a FPI with respect to capital investment, net profits, sale proceeds and dividends must be registered in the Central Bank separately on a trade-by-trade basis.

The Foreign Investment General Statute, Decree 119, states that foreign capital investments can only be executed through direct investment or FPI, through a local administrator in order to access the Colombian capital market. The Decree and Resolution 8 of 2000 issued by the Central Bank establish that all foreign exchange transactions relating to FPI must be for the exclusive purpose of investing in securities and must be registered with the Central Bank, by the FPI's local administrator. According to Colombian law, all securities transactions executed by FPI in the Colombian market must settle on a versus payment basis. There are no free settlements in the market, with the exception of asset transfers in which there is no change in beneficial owner or in order to constitute guarantees or collateral for a derivatives transaction.

The financial intermediaries eligible to participate in the foreign exchange market in Colombia are banks, financial corporations, credit unions, brokerage firms, financial cooperatives and money exchange houses.

The Foreign Exchange market for spot transactions opens at 8:00, and closes at 13:00. COP amounts resulting from FX transactions are paid through the electronic payment system managed by the Central Bank known as SEBRA.

FPI can freely repatriate their capital, profits and income (dividends and interests) without any restrictions.





# MEXICO

1 MXN=0.043 USD

as of June 25, 2020

## GENERAL MARKET OVERVIEW

In 2020, the Mexican economy is estimated to drop dramatically by 10%, facing an adverse global environment as a result of the COVID-19 pandemic. Mexico also has been significantly impacted by COVID-19 infections, leading to health system pressures. Moreover, the government is facing considerable declines in public revenue, both oil and non-oil, and is expecting diminished performance for consumption and private investment.

However, the Minister of Finance is expecting a gradual recovery beginning in mid-2020, boosted by social government programs for low-income families and important projects like a new airport system for the Mexico City urban area, a new oil refinery and a new train in the southeast of the country, among other infrastructure works. Finally, the government is confident in the momentum that will come from the new trade agreement for North America (USMCA) and the U.S. economic recovery.

## Exchange Highlights

The Mexican market has two stock exchanges (BMV & BIVA), one derivatives exchange (MexDer) and two securities lending platforms (ValPre and MEI PresVal). Local securities lending market transactions take place mostly via the two latter platforms.

The Mexican Stock Exchange (BMV) is the largest stock exchange in Mexico and the second largest in Latin America. The second exchange, Bolsa Institucional de Valores (BIVA), was launched in 2018, and now holds 6.66% of the market share in 2019. The total average daily trading volume between both exchanges is US\$754 million with \$413 million USD in domestic equities and US\$341 million in global market securities.

MexDer, the Mexican Derivatives Exchange, along with its clearing house (ASIGNA), were founded in 1998, and currently hold an open interest of over

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**355** NUMBER OF COMPANIES LISTED (EQUITY)

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**275** NUMBER OF COMPANIES LISTED (DEBT)

---

**2,110** NUMBER OF COMPANIES LISTED (GLOBAL – INTERNATIONAL QUOTATION SYSTEM)

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US\$2 billion, including futures, options and interest rate swap contracts.

## **Equities**

The most important regulator of the equity market is The National Banking and Securities Commission (CNBV). Additionally, the BMV has issued its own regulations. The legislative framework is composed of various laws and provisions issued by the authorities:

### **Laws**

- Securities Exchange Act
- Investment Funds Act

### **General Provisions**

- Provisions applicable to issuers
- Provisions applicable to brokerage houses
- Provisions applicable to investment funds
- Provisions of external auditors
- Provisions applicable to the international quotes systems

### **Other Provisions**

- Best Corporate Practices Code

The S&P/BMV IPC is the Mexican market's main indicator; it expresses stock market returns according to the price variations of a balanced, weighted constituent list that includes the 35 listed equities with the highest market capitalization.

## **Fixed Income**

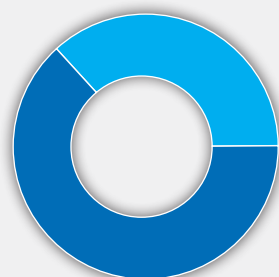
Another notable market in Mexico is the fixed income market, where, as of June 18, 2020, sovereign debt was valued at US\$346.5bn, 23.4% of which was in the possession of foreign investors, while 41.2% of the fixed rate bonds (M Bonos) were held by non-residents.

Within fixed income, the repo market is generally used by treasuries and financial institutions to allocate cash surpluses. According to the Central Bank, this market is valued at more than US\$60 billion on a daily basis (mainly in overnight deals).

## **Securities Borrowing and Lending (SBL) Market Size**

### **DATALEND Market Data (Equity Lending Market) 2019 Averages**

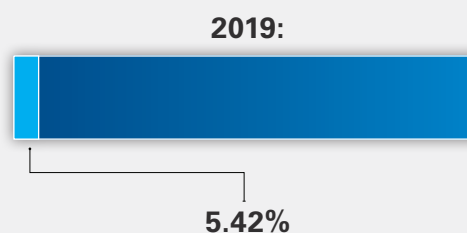
#### Collateral Breakdown



63.20% Cash

36.80% Non-Cash

#### Average Utilization



5.42%

SOURCE: DATALEND

## **Equities**

The average daily operational value in ValPre is US\$22.78 million. Although MEI PreVal is mainly used for fixed income securities lending, it is seeking to increase its market participation in the equity lending market.

## **Fixed Income**

In 2000, the Ministry of Finance created the role of market maker, resulting in a very specific submarket. Among the rights granted to market makers is a securities lending program with the Central Bank (Banxico) as the lender. These operations have one day of maturity and account for almost 90% of the securities lending market related to fixed income securities (sovereign debt). This represents on average about US\$3.34 billion daily for 2019.

## **General Securities Lending Market Structure**

### **Securities Lending Model**

As previously mentioned, almost all securities lending operations are executed on one of the platforms (ValPre or MEI PresVal), according to local regulations. These are the only regulated and approved platforms by the Central Bank (Banxico) and CNBV. However, some participants such as banks and broker-dealers may have a bilateral contract equivalent to the GMSLA.

### **Market Participants and Their Roles and Responsibilities**

- Brokers: Brokers facilitate securities lending transactions by acting as intermediaries with individuals and/or institutional investors.
- Agents: Most broker-dealers act as agents of their financial groups.
- Local Suppliers: Mandatory pension funds are the biggest lenders. Mutual funds, insurance companies and individuals also participate as securities lenders.
- Platforms: MEI Presval and ValPre-FV are the two authorized trading platforms where deals are confirmed.
- Regulators: The Central Bank (Banco de México) and the National Banking and Securities Commission (CNBV) are the main regulatory authorities.
- Indeval: Custody, clearing and settlement agent.
- Vendors: Valmer and PIP are the two market information providers.

### **Securities Eligible for Shorting/Borrowing**

Regarding equity lending, all securities subject to securities lending operations must be registered in The National Securities Register (RNV) and deposited in the central securities depository, Indeval.

BMV classifies the listed shares as high, medium, low, minimum and no liquidity. Participants in the securities lending market can engage in operations of equities classified as high, medium or low. In order to engage in operations of stocks with minimum or no liquidity, participants must be previously authorized by the CNBV.

### **Collateral Requirements**

With respect to collateral requirement, stocks classified as high or medium liquidity can be used as collateral as well as cash, fixed income securities and

mutual funds. Each platform has its own collateral valuation model. ValPre-FV applies a margin to the price of the securities on loan and a haircut to the price of the collateral. These margins depend on the correlation between the securities and the collateral and have a specific methodology to determine the margin and haircut of each security. MEI PresVal only applies a haircut to the price of the collateral, depending on the maturity of the securities, the correlation between the securities and collateral, and the counterparty profile, which can be defined by the lender as aggressive, moderate or conservative.

In both platforms, securities and collateral are valued on a daily basis, and margin calls may be requested to the borrower if the collateral value falls below the minimum maintenance margin level.

An important characteristic of the Mexican securities lending market is eligibility. In both platforms the lender has the possibility to parameterize accepted counterparties and collateral.

### **Securities Lending Legal Structure**

The regulatory framework for securities lending is defined by the Central Bank in the document, "Rules for credit institutions, brokerage houses, mutual funds, pension funds and the rural financial institution when engaging in securities lending operations." Other laws and provisions that regulate securities lending operations for specific participants are the Insurance Companies Act, the Retirement Savings System Act, Provisions Applicable to Brokerage Houses and Provisions Applicable to Investment Funds.

### **Operational and Post-Trade Structure**

#### **General**

Indeval acts as the central depository for all securities traded on the BMV, and it also provides clearing and settlement services for governmental and banking securities. Securities lending transactions can be settled in T+0, T+1 and T+2.

#### **Position and Settlement Control**

Securities lending transactions effected through Indeval are settled using a delivery versus payment model (DVP). Once instructions have been uploaded and accepted in the system, securities and cash accounts are verified for sufficient availability prior to settlement.

Each platform has its own system for orders registration and collateral management. Both support functionalities such as renewal, cancellation (requires both counterparties' approval), margin calls, collateral substitution and early settlement.

### **Challenges With the Current Securities Lending Model**

Mexico's securities lending market has growth potential due to the considerable size of its largest participants in terms of assets under management (AUM).

#### **BROKER-DEALER**

Number of broker-dealers	34
Assets under custody	349.72



Mutual funds, mandatory pension funds and insurance companies have AUM that represent almost 30% of the national GDP. At the same time, some of these potential suppliers have regulatory constraints regarding securities lending. Pension funds may serve only as lenders and are restricted to fixed income securities.

YEAR	MUTUAL FUNDS		MANDATORY PENSION FUNDS		INSURANCE COMPANIES		TOTAL	
	AUM	GDP%	AUM	GDP%	AUM	GDP%	AUM	GDP%
2018	\$115.81	9.70%	\$168.58	14.10%	\$56.29	4.70%	\$340.68	28.50%
2019 MAY	\$123.81	10.00%	\$185.95	15.00%	\$59.34	4.80%	\$369.10	29.80%

There are currently 10 mandatory pension funds, four of which manage more than 70% of the market.

NAME	MANDATORY PENSION FUNDS	
	AUM	GDP%
XXI - Banorte	\$41.63	22.39%
Citibanamex	\$33.64	18.09%
Profuturo	\$27.53	14.81%
SURA	\$27.52	14.80%
Others	\$55.63	29.92%
<b>Total</b>	<b>\$185.95</b>	<b>100.00%</b>

Further information regarding mandatory pension funds, their AUM and their allocations can be found on the CONSAR's website.

It is expected that regulation changes in 2020 will allow mutual funds, mandatory pension funds and insurance companies to engage in equity lending transactions.

Other regulatory changes expected in 2020 include the elimination of the requirement for requesting CNBV authorization in order to engage in securities lending transactions related to low or no liquidity stocks. Changes in the fiscal law regarding a tax rate reduction are expected as well.

Although high-liquidity stocks and government debt are the most borrowed securities, there is high demand for medium and low liquidity stocks as well as for corporate bonds, international equities listed in the International Quotes System, bank securities and ETFs.

Fostering foreign investors' participation in the Mexican securities lending market is a challenge, but would certainly increase supply for these types of securities.



# PERU

1 PEN=0.285 USD

as of June 25, 2020



## Exchange Highlights

261 **NUMBER OF COMPANIES LISTED**

US\$157BN **MARKET VALUE OUTSTANDING**

5 **COMPANIES WITH ADRS/GDRS REPRESENTING  
NEARLY 1/4 OF TOTAL MARKET CAP**



ARGENTINA

BRAZIL

CHILE

COLOMBIA

MEXICO

PERU

## **General Market Overview**

### Equities

A small emerging market with a US\$232 billion economy, Peru is nonetheless among the fastest-growing countries in Latin America, with a long record of low inflation, a stable exchange rate and manageable public debt. A commodity producer with some 60% of exports derived from mining, Peru enjoys a growing middle class and has one of the strongest demographics in the region. Commerce is open, and there is free movement in both the USD and the local currency, the Peruvian sol (PEN). Robust external demand, for both traditional and nontraditional exports, has provided a stimulus to growth prospects in Peru.

Trading at the Lima Stock Exchange (BVL) reached US\$6.2 billion in 2018, while local mutual funds currently manage some US\$8 billion and pension funds about US\$50 billion. Through June 2019, equity trades reached US\$1.8 billion, government debt US\$20 billion and FX US\$45 billion.

Most trading at BVL is cash equities, with materials and financials accounting for the exchange-leading sectors. Most of the 261 listed companies have a small free float, as only around 14 stocks are traded regularly on the exchange, according to the S&P/BVL Peru Select Index. Total market capitalization is US\$158 billion, and the free float of the S&P/BVL Peru Select is US\$30 billion, per BVL estimates.

Over the past five years the country's key index, the S&P/BVL Peru Select,

has delivered a total annualized return of 8.96% with a 19.12% annual volatility rating (largely due to metal mining exposures).

Investors can trade in PEN or USD, and most regularly traded BVL stocks are exempt from capital gains tax. While Peru uses a T+2, delivery versus payment (DVP) settlement system, transaction costs may be higher relative to other markets due to smaller float size. However, newer facilities such as market making have helped to provide better price discovery to some degree, although deeper liquidity is still in the works. As an incentive, the exchange recently slashed transaction fees by 90% for those stocks with the highest corporate-governance standards on the S&P/BVL Good Corporate Governance Index (which includes 10 important stocks). In addition, the exchange worked on the implementation of a new stock lending mechanism for international investors that wish to short local stocks and is working with issuers on the listing of local REITs (“Fibras”).

### **Fixed Income**

As of June 2019, Peruvian fixed income totaled US\$44 billion, with government debt accounting for 83% and nearly all outstanding fixed income debt bearing maturities in excess of one year. The most popular instruments are Peru government bonds in both PEN (“bonos soberanos”) and USD (“bonos globales”). Peru’s Central Bank has been prohibited from participating in government debt following the economic crisis of the 1980s.

The main platform for OTC and FX is Datatec, of which BVL is a major shareholder. As of June 2019, FX and “bonos soberanos” trading averaged US\$445 million and US\$204 million per day, respectively.

As of June 2019, the issuance of corporate debt in Peru reached US\$737 million, which implied an increase of 20% compared to the same period in 2018. Issuances of 144a/RegS totaled US\$1.09 billion. In the case of the local market, there were 42 issues as of June 2019, 58% of the resources were collected by banks and financial institutions, 23% by industrial companies, 12% by public services, 3% by diverse institutions, 2.3% by insurance companies and 1.2% by the agricultural sector. Of the issues made during 2019, 60% corresponded to corporate bonds and 40% were short-term instruments. Finally, 64% was placed in soles, while 36% was in dollars.

The public corporate bond market is small, with average monthly trading volume around US\$37 million. Most of the current 72 debt issuers utilize bonds, with all but 19% trading OTC.

### **Exchange Growth Expectations**

Since 2015, annual trading volumes at the exchange has grown slightly. In the coming years, it is forecasted to grow between 5-10% annually. The number of shares traded is expected to increase over the near term as more local companies hire market makers, new IPOs occur, retail participation increases due to expanding direct market access (DMA) platforms and short selling is adopted. At the same time, Millennium, the trading platform rolled out in 2015, has been key to helping local broker-dealers adopt new solutions.

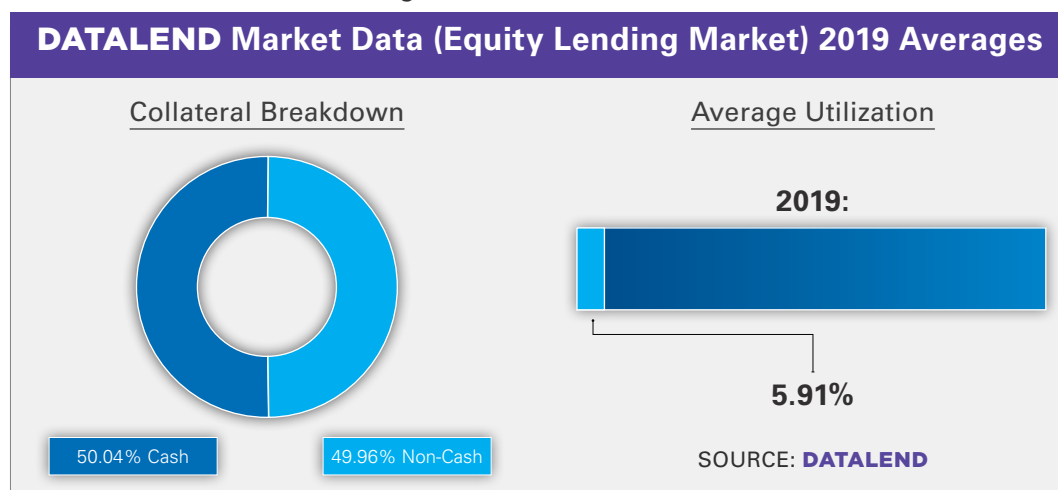
			Stock Information		Short Sales Information		
Peruvian Mnemonic	Foreign Mnemonic	Company Name	ATVR 12m - May 2018 (%)	ATVR 12m (US\$ M)	Short Interest	Valor Short Interest (US\$ M)	Short Interest Ratio
<b>ALICORC1</b>	—	Alicorp S.A.	10.9%	0.8	—	—	—
<b>BAP</b>	BAP US EQUITY	Credicorp Limited	1.3%	0.46	322,992	72,201,632	1.3
<b>BVN</b>	BVN US EQUITY	Compania de Minas Buenaventura S.A.A.	N, A	0.19	1,169,691	17,206,155	0.9
<b>CAPACASC1</b>	CPAC US EQUITY	Cementos Pacasmayo S.A.A.	10.9%	0.58	120	1,444	0.0
<b>FERREYC1</b>	—	Ferreycorp S.A.A.	17.1%	0.59	—	—	—
<b>IFS</b>	—	Intercorp Financial Services Inc	7.8%	0.53	—	—	—
<b>VOLCABC1</b>	—	Volcan Compañía Minera S.A.A.	19.3%	0.56	—	—	—
<b>MINSURI1</b>	—	Minsur S.A. Inv	2.7%	0.07	—	—	—
<b>CONTINC1</b>	—	BBVA Banco Continental	3.9%	0.29	—	—	—
<b>CVERDEC1</b>	—	Sociedad Minera Cerro Verde S.A.	2.6%	0.04	—	—	—
<b>ENGIEC1</b>	—	Engie Energia Peru S.A.	0.6%	0.22	—	—	—
<b>GRAMONC1</b>	GRAM	Grana y Montero S.A.A.	10.3%	0.27	—	—	—
<b>INRETC1</b>	—	InRetail Peru Corp.	12.6%	0.78	—	—	—
<b>LUSURC1</b>	—	Compania Minera Milpo S.A.A.	12.6%	0.78	—	—	—
<b>MILPOC1</b>	—	Luz Del Sur S.A.	3.3%	0.06	—	—	—
<b>SCCO</b>	SCCO	Union Andina de Cementos S.A.A.	0.5%	0.11	—	—	—
<b>UNACEMC1</b>	—	Southern Copper Corp	9.2%	0.09	—	—	—
<b>BACKUSI1</b>	—	UCP Backus & Johnston S.A.A. Inv	2.2%	0.55	—	—	—

## Securities Borrowing and Lending (SBL) Market Size

### Equities

Since the launch of Peru's SBL mechanism in 2016, short-selling transactions have totaled US\$1.94 million, along with US\$645,000 in stock lending transactions using pension fund assets. To address the paucity of SBL activity, BVL and CAVALI have developed improvements aimed at providing better information to international custodians as well as making the SBL model more accessible to foreign short sellers. Additionally, efforts have been made to promote a Peruvian Appendix within the GMSLA framework, which is available on the BVL website ([www.bvl.com.pe](http://www.bvl.com.pe)). As Peruvian inventory from pension funds is now

widely available, the key objective going forward is to attract new participants to the market on the short-selling side.



**Fixed Income**

Lending of corporate debt is permitted, but there has been little development as the government has been developing the cash public debt market in recent years.

**CURRENT VOLUMES AND FEES**

Equity – At present there are no loans with pending settlement. All fees were waived until December 2019, except for broker-agent fees, which are independently determined by each entity.

Fixed Income – Peru’s exchange does not currently have an SBL market for fixed income securities.

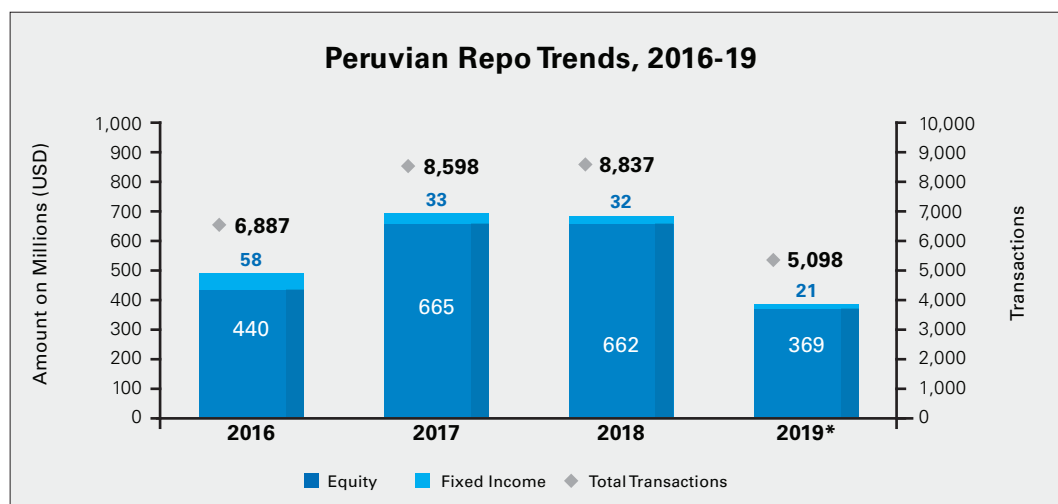
**Repo Market Size**

**Equities**

As of June 2019, there were 4,723 equity repo transactions, totaling US\$368.52 million.

**Fixed Income**

Through June 2019, there were 375 fixed income repo transactions, totaling US\$20.91 million.



## General Securities Lending Market

### Securities Lending Model

BVL and CAVALI are currently working to create a CCP model, which is expected to launch in 2021. The CCP will take into consideration the potential benefits and limitations regarding foreign participation.

The opportunities for the Peruvian market with this initiative include:

- Align Peru in the fulfillment of international standards, close gaps in regional competitiveness and encourage access to new markets and types of investors.
- A central counterparty entity that guarantees compliance with the settlement of operations carried out in the centralized negotiation mechanisms and is still under evaluation other segments or markets to be considered (forwards OTC).
- The CCP will allow fulfillment of IOSCO principles regarding clearing and settlement processes, in areas such as stress testing, “skin in the game” in the risk management model and requirements in collateral methodology.
- A risk model, collateral scheme and management system according to international standards.
- Contributing to increased trade liquidity and attractiveness in the market, as some foreign institutional investors acting as investment funds have established investment limits in markets without a CCP.

### Market Participants and Their Roles and Responsibilities

The Peruvian securities market could benefit from the growth of securities finance. At present, some 65% of stock market free float is within low-turnover players like Peruvian pension funds; lending those shares could lead to higher turnover in the future, while also providing pension fund participants with incremental revenue.

Although the local market is small with relatively low liquidity and high volatility, opportunities nonetheless exist for new entrants. Supply is ample, transaction fee waivers are available for market making, proprietary trading, short selling and stock lending, and there are a number of tax efficiencies as well. Going forward, further growth in the lending market could lead to better price formation, reduced volatility and higher liquidity for the overall market.

Number of Local Players – Agents/Brokers – 22 local broker agents

### Roles & Responsibilities of Market Participants:

**Broker(s):** Peruvian broker agents are the counterparties of the transaction, acting on behalf of their final clients (lenders and borrowers) or for their own portfolios. They are responsible for keeping clients informed about daily stock loan and collateral positions and may request additional funds or securities as needed. In the case of a broker default, they are required to continue with all pending transactions but are forbidden from engaging in new transactions.

**Agent(s):** In the Peruvian market, the only agents allowed as counterparties are local brokers, as previously described.

**Local suppliers, i.e. beneficial owners:** A supplier can be any legal or

natural person with lendable Peruvian stocks in a CAVALI portfolio. Pension funds and insurance companies are among the largest suppliers, and must work with a Peruvian broker-agent in order to establish transactions.

**Exchange:** Bolsa de Valores de Lima (BVL) facilitates the trading of registered securities, and provides services, systems and mechanisms suitable for the fair, competitive, continuous and transparent intermediation of market securities.

**Regulators:** The Superintendence of the Securities Market (SMV) is responsible for ensuring the protection of investors, the efficiency and transparency of the markets under its supervision, the correct formation of prices and the dissemination of all the necessary information for such purposes. The Superintendence of Banking, Insurance and Pension Funds oversees the regulation and supervision of financial systems, insurance companies as well as private pension plans, and is also responsible for the prevention and detection of money laundering and financing of terrorism. Its primary objective is to preserve the interests of depositors, insured persons and members of the private pension system.

**CAVALI:** Acts as an administrative third party in charge of the registration, transfer and custody of securities, as well as the compensation and settlement of transactions. In the stock loan model, CAVALI is in charge of the daily valuation of the stock loan and the collateral, as well as margin call requests if needed.

**Investment Funds:** As key actors, they can be part of the mechanism in both sides, creating value for assets that are not liquid at the moment.

### Securities Eligible for Shorting/Borrowing

The BVL maintains four special lists of approved equities, two each for shorting and borrowing, which are revised quarterly based on market liquidity indicators. (The lists are available at <http://www.bvl.com.pe/empresas/alertas/NuevaTVR%20200318.pdf>)

Further information is available at:

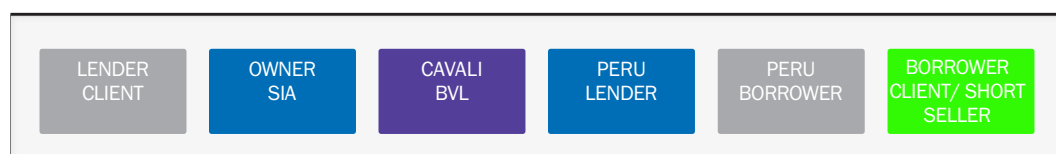
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### Collateral Requirements

Under CAVALI, 100% of collateral is registered with the lender, with an additional 20% guarantee on behalf of the borrower. If the terms of the operation are interrupted for any reason, the lender may (i) abandon the operation or (ii) request a forced execution.

CAVALI requires margin calls to the borrower agent when a) there is a mismatch of 2% or more between the updated amount of coverage and the assets given as collateral, or b) the updated valuation of the additional guarantee falls below the maximum coverage amount.





## Short Seller Market Access

Short sales and stock loans are instructed through the Centralized Trading Mechanism of the Lima Stock Exchange, in the schedules indicated in Article 3 of the BVL Rules of Operations:

**Short sale strategy:** The investor who is betting on a decrease in the price of a certain stock can instruct a short sale, which is going to settle on T+2. Since the investor (“short seller”) does not own the shares to be sold, the seller has to request to borrow those shares through a broker agent.

**Stock loan (first transaction):** In order to borrow stocks from the Peruvian stock market, the short seller (“borrower” in the stock loan) has to post sufficient and acceptable collateral, as set out in the Peruvian GMSLA Appendix, at CAVALI through the Peruvian borrower. The collateral remains blocked at CAVALI, under its administration. The lender is not permitted to use the collateral under any circumstances. Then, the borrower can settle the short sale transaction with the loaned securities and only the stock loan will be a pending transaction.

**Stock loan (second transaction):** On the settlement date of the stock loan, the borrower client must return the loaned securities plus the loan interest to the lender, through the Peruvian borrower. If the borrower fails to do so, a default procedure may be initiated for the aforementioned transaction.

## Securities Lending Legal Structure

Operations rules and supplementary provisions:

### 4.1 Operations rules and supplementary provisions

Resolution CONASEV N° 021-1999-EF/94.10 (last modification with Resolution SMV N° 025-2015-SMV/01)

- Article 27: Selection of the assets allowed in the operations
- Article 28: Guarantee or margin
- Article 42: Securities lending operations
- Article 43: Benefits of a securities lending operation
- Article 46: Early settlement of securities lending operation
- Article 47: Extraordinary situations
- Article 49: Defaults
- Article 50: Defaults in the repo or securities lending operation
- Article 51: Application of the margin and collateral

Source: <http://www.elperuano.com.pe/Normas/Elperuano/2015/05/02/1231628-1.html>

4.2 Law N° 30052 – Repo Transactions Law All, with the exception of Article 4 and Article 5.

Source: <http://www.bcrp.gob.pe/transparencia/normas-legales/ley-de-las-operaciones-de-reporte.html>

These articles are published on the website of the Stock Exchange.

Source: [https://www.bvl.com.pe/disp\\_complementarias.html](https://www.bvl.com.pe/disp_complementarias.html)

## **Operational and Post-Trade Structure**

### **General**

CAVALI verifies the availability of securities to be loaned in the lender's account, as well as collateral in the borrower's account, prior to transferring ownership of the securities between the counterparties to settle the first transaction. To settle the second transaction, CAVALI first verifies that the borrowed securities, as well as any interests and economic rights, are available in the borrower's account prior to being returned. During the life of the transaction, CAVALI is responsible for performing daily marks-to-market of the stock loan and the collateral, as well as collecting additional margin, if applicable.

### **Position and Settlement Control**

There is a risk of noncompliance in returning the securities to the lender, which is mitigated by the borrower's collateral. To offset risk due to collateral devaluation or loan value appreciation, borrower broker agents must comply with CAVALI's margin call requirement, which serves as an additional guarantee under the Peruvian Rules of Operations.

### **Settlement Process**

Both the main guarantee (100%) and additional guarantee (20%) given as cash are managed by CAVALI in a bank account, which generates a minimum rate of interest on behalf of the borrower. CAVALI recognizes that the main guarantee is in the name of the lender, while the additional guarantee is in the name of the borrower.

### **Challenges With the Current Securities Lending Model**

#### **Supply Constraints**



There are no constraints on supply; the only requirement for short transactions is compliance with the uptick (or at-tick) rule, which requires that a short sale be executed no lower than the current market price.

### **Miscellaneous Challenges**

- Lack of demand for borrowing (both local and foreign): With the addition of foreign investors to the model, BVL expects to have the means to boost short-sale activity, which is key to a healthy lending environment.
- Lack of supply from pension funds: Despite having portfolios that are attractive from a lending standpoint, pension funds require better operational controls and understanding of the market in order to increase participation.
- Lack of knowledge: Because the Peruvian market is less familiar with sophisticated strategies such as securities finance, further education will be required over the near term.

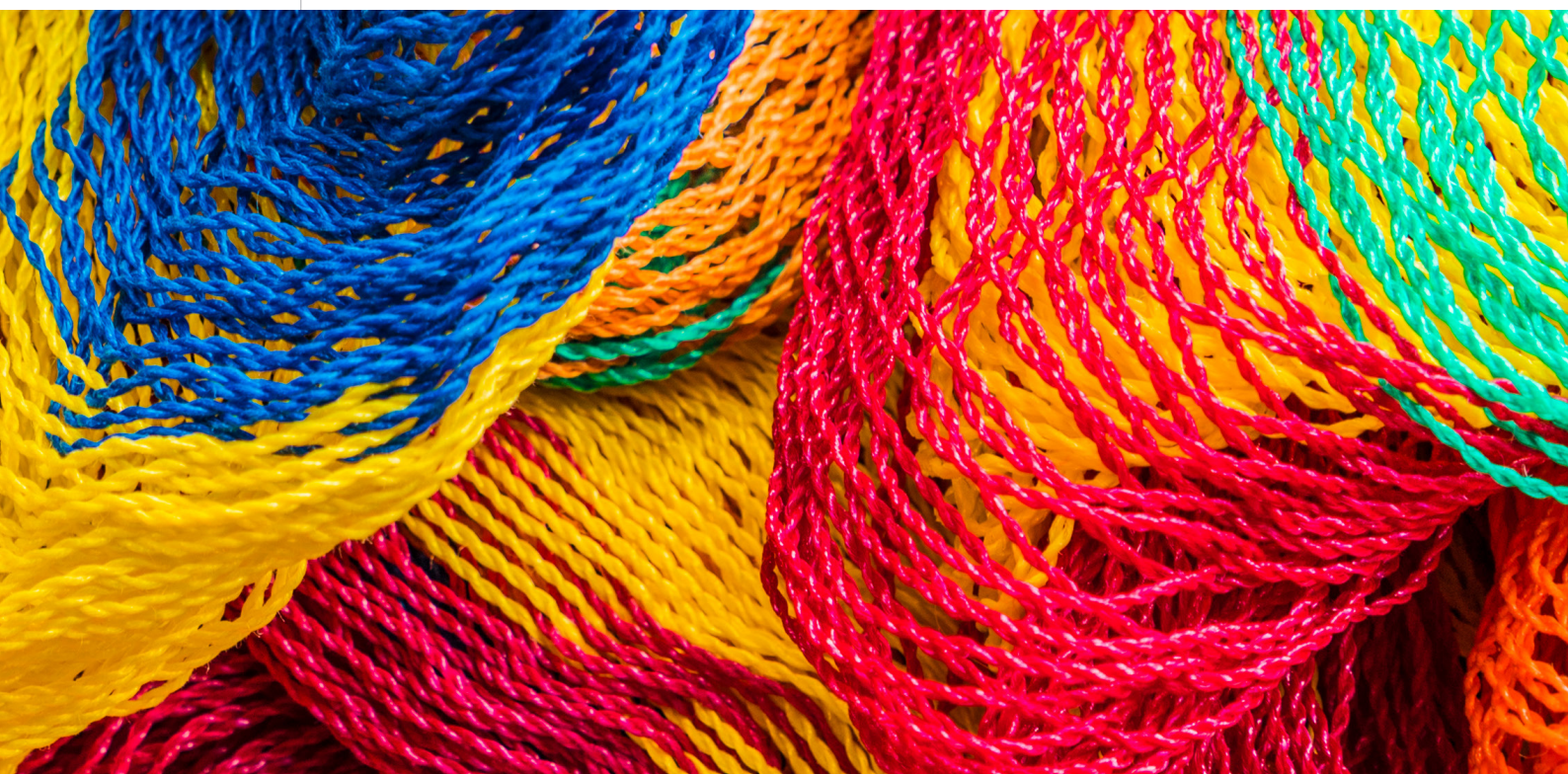
### **Synthetics**

Synthetic short access for offshore participants is generally limited to MSCI constituents. A framework to enable onshore-to-offshore borrow liquidity could lead to an increase in securities lending turnover.

### **Future Developments**

Seeking to further encourage local market liquidity, BVL, CAVALI and SMV extended the exoneration period covering remuneration of spot, day trade and short-sale operations for brokers as well as all securities lending investors, through Dec. 31, 2018.

In addition, future operational plans with respect to securities lending include possible fee discounts, as well as training sessions for brokers covering SBL operational and legal structure.



## ABOUT RMA

RMA's Committee on Securities Lending was formed in 1983. In its early years, it embarked on a series of educational programs designed to enhance the professionalism of bankers engaged in securities lending. The Committee maintains an active dialogue with other associations, including the International Securities Lending Association (ISLA), the Pan Asian Securities Lending Association (PASLA) and, through its Securities Lending Division, the Securities Industry Financial Markets Association (SIFMA).

The Committee also discusses various issues with the regulators in the U.S. and in other countries. As a professional association with extensive contacts in the industry, RMA has been able to facilitate meetings with senior-level officials of regulatory agencies.



## ABOUT EQUILEND

EquiLend's services are designed for efficiency, automation and innovation in the global securities finance marketplace. EquiLend's solutions cover everything a firm needs to power their securities lending, collateral or swaps business, including Books & Records (EquiLend Spire), Trading (NGT, Collateral Trading, Swaptimization), Post Trade (Post-Trade Suite), Market Data & Performance Measurement (DataLend), Clearing (EquiLend Clearing Services) and Regulatory Services (SFTR, CSDR, ALD). Our products, offered to agent lenders, broker-dealers and beneficial owners worldwide, deliver global access to liquidity, scalability and reduced risk.

EquiLend has offices in New York, Boston, Toronto, London, Dublin, Hong Kong and Tokyo.

[www.equilend.com](http://www.equilend.com)



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